



### **Members of Review Team:**

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### **Background**

1. The budgets for the provision of school meals were fully delegated to schools in April 2000. Head teachers and Governing bodies are able to independently procure a school meals service to meet the needs of their school. However the majority of primary and special schools have joined together in a consortium arrangement. It is therefore important to note that while the review can make recommendations to improve the service and devise a vision for the service, head teachers and Governing Bodies do not have to be bound by the findings of the review and may continue to make their own arrangements for the service at their schools.
2. The services under review are the **In house catering service**, which is managed within the Regeneration portfolio and the **Procurement and Service Monitoring Team**, which is located in the Education and Lifelong Learning portfolio.

### **The in house catering service**

3. The in house catering service employs 865 staff, providing in excess of 6 million meals per year, to 165 education establishments and lunch clubs, day centres, a housing hostel, supported living day nurseries on an ad hoc basis and the New Hall campus. A staffing structure is attached at appendix 1. 125 Schools have elected to enter service level agreements up to 31<sup>st</sup> July 2003 and 28 until July 2002. The service also has agreements with 12 Secondary Schools. The workforce is predominately comprised of female staff, working part time, with significant numbers having caring responsibilities. This does have a significant relevance to the local labour market. The budget for the service (2000/01) is £11.96m and the service generated a surplus of £284k in 2000/ 2001. A budget statement for the service for 2001/2 is attached at appendix 2.

### **The Procurement and Service Monitoring Team**

4. The Procurement and Monitoring Service is part of Business Development, Management Services within ELLS. The main functions of the service are:
  - Provision of the procurement and monitoring of school meals service level agreements (SLA)

- Project management of the Education & Lifelong Learning Service (ELLS) SLA function via the traded services group
  - Provide procurement advice to schools
  - Co-ordination of ELLS Have Your Say Scheme
  - PFI administration for school meals School Meals Consortium
  - Contractual payments for school meals
  - Capital replacement / repair of kitchen equipment
  - Kitchen design function
  - Office services, ELLS
  - 1/3 pint milk administration
5. The Team employs 5 staff and offers an in house comprehensive advice and practical support service to schools to assist them in procuring their school meals provision and monitoring service delivery. A staffing structure is attached at appendix 3. Schools can elect to enter in to a service level agreement (SLA) with the team, at a cost of £990.88 per annum for this service. The SLAs are agreed on an annual basis and current SLAs will terminate on 31 March 2002. The service costs £212k of which 75% (£159k) is delegated to schools. The remaining 25% covers the strategic role involving data collection and analysis, management of the capital budget for kitchen refurbishment, design and replacement. The service currently manages a net budget of £3.9m on behalf of schools who are members of the consortium. The consortium schools did not utilise their entire budget last year. Head teachers requested that this be reinvested in the service, but it was used by ELLS to offset overspending in other areas. It has now been agreed that this is a delegated budget and any under/over spend is now the responsibility of individual schools.
6. Currently the SLAs are reviewed on an annual basis and head teachers can choose not to purchase the SLA if they are unhappy with the service provided. There are regular meetings with the Schools Meals Consortium Management Board, which is made up of head teachers and governors. Officers chair this meeting at the request of head teachers and the incumbent catering contractor (in house catering service) is also invited to attend to discuss topical issues.

### **Reason for Review**

7. The service is being reviewed as a result of a recommendation made in a 1999 OfSTED report. The report stated that a best value review should take place as soon as possible to:
- Increase the transparency of delegation of funds
  - Promote greater autonomy by schools
  - Test the effectiveness of the service

- Review the arrangements for the delegation of school meals to primary and special schools

### **Scope of the Review**

8. The review has paid particular attention to the following areas:
  - Establishing the full costs of the services and cost effectiveness
  - Examining the arrangements for delegation of funds to primary and special schools, in particular to demonstrate that governors had real opportunities for choice, rather than simply handing funding back to the consortium
  - Establishing the performance of the services with regard to national performance indicators and benchmarking with other local authorities
  - Establishing the views of service users and also other reasons for non usage of the service by pupils
  - Examining the issue of meal quality, including nutritional value, taste, presentation and healthy eating options, including the impact of alternative arrangements, for example packed lunches, on children's health
  - Establishing the competitiveness of the inhouse contractor and Procurement and Service Monitoring Team against the market and considering the procurement options available to schools
  - Examining the issue of under investment in school kitchens and dining facilities and exploring options to address these issues
  - Identifying any issues in relation to the take up of free school meals and examining how this can be improved
  - Establishing any issues in relation to cash collection and school administrative functions relating to the provision of school meals
  - Preparing a five-year service improvement plan for continuous improvement of the services reviewed.
9. The improvement objectives identified are to provide a school meals service that ensures:
  - value for money for customer – measured against alternative providers
  - choice – a range of meals to meet all cultural/ religious requirements
  - nutritious meals – quality of ingredients
  - pleasant environment conducive to a healthy attitude towards eating

### **Does all the service, or part of it, need to continue?**

#### **In house catering service**

10. There is statutory requirement upon the local authority, to provide paid meals on request and a free meal to those pupils who are eligible. There is no requirement that this should be a hot meal but it is policy in Liverpool to offer hot food. The choice of meals offered to pupils must comply with statutory national nutritional regulations. An outline of the regulations is attached at Appendix 4. However there is no requirement that the local authority must directly provide a catering service in house and there is a well-developed private sector market.

## **Procurement and Monitoring Service Team**

11. There is no legislative requirement to provide any of the services offered by Procurement and Monitoring Service Team. ELLS agreed to provide this service after consultation with Headteachers during the Fair Funding negotiations.

## **Challenge**

### **In house catering service**

12. In challenging how the service should be delivered there are a number of key issues that the council must consider:

- The contribution the service makes to children's health
- The contribution the service makes to Liverpool City Council's vision and values
- If the service is out sourced whether private sector providers will wish to bid for smaller contracts, potentially leaving some schools/establishments without a provider
- The impact on the local economy and employment of any decisions to vary the provider of this service
- Future changes to demand for the in house service as schools apply for PFI
- The needs and priorities of the community
- Implementation of single status
- Measures to combat social exclusion
- Service level agreements with individual schools and their Governing Bodies are currently in place up until July 2003
- The links between this service and anti-poverty initiatives as the level of unemployment has an impact on the number of free school meals.

13. The in house catering service is already operating in the open market and has never failed to deliver. The service is provided to many establishments in Education and Supported Living and a housing hostel. It is provided regardless of the size of the contract. Consultation with private sector contractors has revealed that the smaller establishments may not be considered cost effective by the private sector. The service also prepares food contracts for other portfolios in the council.

14. Until this year the service has always achieved a surplus which was reallocated to central funds. However this year the service is currently forecast to have an out turn deficit of £73.4k. The deficit is due to the service being asked to make budget savings after the contract price for school meals had been agreed in August 2001. The final financial situation has still not been clarified and at the time of writing this report.

15. It is a cause for concern for the review team that the in-house catering service did not have access to accurate service cost information before it entered into new Service Level Agreements on 1 August 2001. Managers cannot manage a business without this important information.

16. Several times during the review financial information was drastically revised giving cause for concern on the quality and robustness of any of the information being provided. The reasons for this will only be revealed by a fundamental review of financial services.
17. The service is subject to central recharges and support costs that equate to approximately 8% of overall service costs.<sup>1</sup> The service has little control over these costs and the impact increases may have on its business and competitiveness with the private sector is not taken into account by the support services. The review has attempted to establish:
- a) if the central recharges and support costs are apportioned correctly; and
  - b) if support services are giving the in house catering service a value for money service.
18. The review has made some limited comparisons with support service providers in the private sector. For example in 2000/01 the service was charged £112k per annum for the council's personnel function. A private company of a similar size as the in house catering service could purchase a personnel service from an independent provider, for example Nord Anglia, for £62k. Nord Anglia could also provide payroll services from December 2001 when all 865 employees move to monthly pay for £2.50 per payslip, a total of £25k. The council average cost for payroll and pension services per employee is £71 per year, a total of £61k. This cost is expected to reduce as part of the Liverpool City Council's new joint venture. Purchasing payroll services independently is not an option for the service, but is used to illustrate the difference between the cost of support services levied on this service and the cost to a private company. This may indicate that financial services would be less expensive if purchased independently.
19. The in house catering service currently provides Primary/ Special school meals at a contract/ SLA charge of £1.39. Schools currently choose to sell meals at a price of £1.20 however individual governing bodies may change meal tariffs if they so wish. Therefore the subsidy schools have to pay per paid meal is 0.19 pence. The level of subsidy is set by individual governing bodies who are responsible for procurement and meal tariffs.
20. Schools are delegated sufficient funds to cover the full cost of a meal. This cost is for both adult and children's meals and is based on an overall price per meal, evening out any cost fluctuations across the city. However there is a timetabling issue that needs to be addressed. Schools were advised of the contract price for meals in September 2001 but had already set a selling price in March 2001 for implementation in June 2001.
21. There are a number of options for achieving a lower selling price:

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<sup>1</sup> This figure may not be accurate due to current lack of financial information

- Reduce cost of purchasing food - longer term contracts with schools would enable the contractor to purchase supplies at a lower cost
- Lower food specification to reduce food quality
- Introduce a reduced portion size and / or a more limited choice<sup>2</sup>
- Staffing – review the staffing of the service to ensure that this is in line with the staffing structures of private sector providers, which may achieve lower staffing costs
- Reduce terms and conditions of employees, for example remove retainer paid to staff in holidays, which will reduce the level of training given to employees
- Merge client monitoring and contractor function
- Central recharge / support costs reduction (currently 8% of price of each meal) – could be achieved by outsourcing support services
- Charge parents the full cost price – rather than provide the subsidy as present

22. The Audit Commission PI for the average selling price per school meal for England and Wales in 1999/2000 was £1.22. At this time the cost in Liverpool was £1.11. The only Best Value Inspection report available in relation to school meals is for Pembrokeshire, where the school meal charge was £1.35. The report states that this service is good and does not conclude that the cost is excessive, despite being higher than Liverpool.

23. The catering contractors, both in house and private sector, have to deliver a school meals service in Liverpool despite the fact that the infrastructure of some school kitchens is extremely poor. It is estimated that the average cost of refurbishing a kitchen serving 350 – 400 meals a day would be £320k. Other than new build schemes there has been little capital investment in school kitchens for many years and any catering contractor would face the same difficulties in providing a service in these conditions. The council has recently completed a PFI deal with a private sector company to refurbish 20 schools and this includes improving/rebuilding kitchens and pupil dining areas.

24. The in house catering service provides food and portion sizes that meet national nutritional standards and also caters for children who require special diets for health or religious or cultural reasons. However the review team found that choices for vegetarians were limited both in the in house catering service kitchens and private sector kitchens visited by the team.

#### Free School Meals

25. The review scope stated that the review would identify any issues in relation to the take up of free school meals and examine how this could be improved. The Education Awards team receives 24,000 applications per year and approximately 90% qualify. 39% of pupils in Liverpool qualify for a free school meal and in February 2001 the take up rate was 77% .

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<sup>2</sup> Recommended portion sizes are stated in the national nutritional guidelines.

26. The Awards service underwent a best value review last year and is currently undergoing a re-organisation pending integration into Welfare Benefits. The KPI identified as part of this review is to assess school meal award applications by 30 September or within 2 weeks of receipt, whichever is the later. Performance for September 2001 was 88%. Customer contact has been improved and is now via Liverpool Direct and One Stop Shops
27. The current level of take up of free school meals is 77%. As part of the review, reasons for non-take up of entitlement were considered. Pupils who qualify for free school meals in primary schools cannot be identified by catering staff as cash is not collected in the dining room. However in some secondary schools which have a cash cafeteria system, a 'tally' system is in operation and young people do have to queue up first to receive their 'tally'. The review did not find any direct evidence in talking to young people that the tally system discourages young people having a free school meal. However the review acknowledges that pupils may not wish to openly discuss feeling stigmatised during the review team visits.

#### Business Processes

28. There are more modern alternatives that could be explored. The Business Process Re-engineering Team in the council is currently evaluating service areas where it would be beneficial to trial the introduction of 'Smart Cards' for payment or accessing services. The in house catering service and the procurement and monitoring service have attended presentations on 'Smart Card' technology, but a decision on which council service will be chosen to trial the scheme has not yet been made.
29. There is potential to implement ICR systems to process stock information generating £25k savings per annum. This task is currently the responsibility of 3 staff and the investment in equipment would be self financing. This system is successfully operated by Leeds and Hull Councils

#### **Procurement and Monitoring Service team**

30. Schools, if they so wish, choose to purchase the services provided by the Procurement and Monitoring Service team, to assist them in procuring an alternative provider, or can use private companies who will also provide the routine maintenance and catering monitoring functions. The Framework for the Inspection of Local Education Authorities, effective from September 1999, support for school improvement no.9, states that OfSTED inspections will cover the extent to which the LEA informs schools of the choice of service available to purchase and raises awareness of quality service issues, particularly in relation to personnel, ICT, property and facilities management. Schools are informed of the services available to them for school meals procurement by sending out packs, with details of prospective providers. The pack also includes details of organisations that provide procurement services.

31. Part of the team's current role is to act as 'client' to monitor the in house catering service. Since the demise of CCT some authorities have asked the contractor to undertake this role or schools have introduced self monitoring systems such as outcome based performance indicators to assist performance monitoring.
32. The procurement and service monitoring team also visits schools and offers information and advice on food hygiene and food storage. All catering contractors are bound by law to carry out inspections to comply with food hygiene regulations. There are statutory monitoring functions performed by Environmental Health Officers (EHOs), who have a duty to visit and inspect school food premises every 12 months minimum for category B risk and 18 months minimum for category C risk. EHOs would look at cleanliness and conditions as covered by the Food Hygiene Regulations. EHOs also look at health and safety issues and offer informal comment, but the statutory enforcing body in this area is the Health and Safety Executive. Schools have hazard analysis procedures in place and a private catering contractor would be legally required to comply with this. Feedback from EHOs states that in house catering staff are well trained in this area and have reasonable systems, but the poor physical infrastructure often causes problems. The monitoring provided by the procurement and monitoring team relates to portion sizes, cooking standards, production methods and other aspects as agreed with Governing Bodies/ head teachers. This is in excess of what is required by legislation and is a service that the local authority does not need to provide in addition to the statutory Environmental Health inspections.
33. The budget for the repair and replacement of condemned or obsolete equipment was reduced from £150k to £55k in September 2001. However £98k is already committed to replace equipment which will lead to a £43k overspend. This is a further example of managers not having the correct budget information at the start of the financial year to enable them to manage their services. This budget reduction is significant and, as it is one of a number of functions the procurement and service monitoring team undertakes, there should be a review of the team's duties.
34. The review found that schools had varying levels of procurement skills and few had the resources to undertake these tasks to the degree of expertise that is often required. The procurement and service monitoring team is part of the School Improvement Team and offers specialist advice to head teachers and governing bodies at a cost. However this advice is currently limited to school meals procurement and there is scope for this to be widened to cover other services.
35. There is however a specialist procurement team within the Resources Portfolio. The future procurement requirements for schools could be provided by closer working arrangements with this team enabling the council to offer schools a wider specialist advice.

36. Schools are inspected by Internal Audit Services to ensure they comply with Standing Orders, Financial Regulations and Procurement regulations.

## **Consult**

### **Customers**

#### **Schools**

37. Head teachers can elect not to purchase the services of both the inhouse catering contractor and the Procurement and Service Monitoring Team. Therefore the current uptake of contracts and SLAs with both services indicates that the level of satisfaction with the current services is good.

#### **In house catering service**

38. From 1 August 2001 the in house contractor provides a service to 23 less schools than last year, with 20 of these schools transferring to another contractor under PFI arrangements<sup>3</sup> and one school closed. 125 schools have chosen the in house contractor until July 2003 and 28 schools have selected the in house contractor until July 2002. Another 12 Secondary schools have individual agreements with the in house contractor. The various termination dates need to be rationalised if a future service is to be provided, in order to assist with the planning of the service and its contract with suppliers, so discounts can be negotiated for longer contracts.

#### **The Procurement and Service Monitoring Team**

39. 154 schools purchase an SLA from the Procurement and Service Monitoring Team. Two Primary schools, six Secondary schools and the 20 schools in the PFI scheme who purchased an SLA last year no longer purchase this service, although the team do continue to provide a small strategic role for meals and milk administration.

40. Primary school head teachers expressed dissatisfaction with the condition of dining facilities in their schools. However, the budgets to maintain and refurbish dining areas have been held by head teachers for several years.

41. Collecting payment in advance of provision of meals will continue to be a necessity for primary and special schools even if the service is delivered by a private contractor. Cash collection is an expensive and time consuming option for collecting payments and the possibility of parents paying by direct debit or debit cards needs to be investigated.

42. Some Secondary school head teachers are interested in pupil choice and improving dining facilities to encourage young people to stay in school at lunchtime. This not only impacts on the safety of young people but also benefits relations with the local community who prefer not to have young people eating/drinking on the street at lunchtime and reduces litter problems. One school visited by the review team had obtained funding

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<sup>3</sup> The lead building companies in the PFI had already selected their partners for a variety of services

from the Home Office for Crime Reduction for an initiative to improve lunchtime supervision. The procurement and service monitoring team could also take on the role of researching alternative funding options and communicating good practice to schools.

### **Pupils**

43. Pupil feedback has been obtained via face to face discussions in schools conducted by review team members, an electronic survey and focus groups conducted by MIS. Users and non-users of the service were consulted.
44. Pupils views about the in house service were generally positive and there are no marked differences between the views of pupils on the quality of the food in schools where the in house contractor provides a service and schools where an external contractor has been appointed to provide school meals.
45. Pupils have however expressed concern about higher prices in schools where an external contractor had been appointed and also reported a reduction in portion size, choice and stated that the meals had deteriorated since the external contractor had been appointed.
46. Interviews were undertaken by the review team when they visited various sites and it was noted that pupils do have strong views about the type of food they like and this is often different to the menu choices which can be offered under the nutritional regulations. Pupils were most satisfied in schools where they were able to make suggestions about the choice of food on offer and these suggestions were actioned.
47. Pupils who do not use the service mainly gave two reasons why they did not purchase school lunch either (i) they did not like the food or (ii) their parent(s) could not afford it if they had other siblings at school. (For example in some families the children have to take turns staying for school lunch or bringing a packed lunch).

### **Citizens**

48. The views of citizens of Liverpool were sought using Focus Groups conducted by MIS. This group also included non-users of the service and parents of pupils at schools where the school meals service is provided by an external contractor.

The key findings of this session are:

- Social aspect of packed lunches/ peer group issues – if children who bring a packed lunch and children who have school meals are separated this will result in children choosing an option to fit in with what their friends do
- Pupil choice/ cost an issue in choosing service
- Parents lack of information about menu options – suggestion to provide at beginning of term
- Presentation of meals

- Vegetarian/ Dietary requirements – more choice
- Shortfall in free meals allowance at schools where the service is provided externally
- Stigma attached to free meals – the introduction of ‘smart cards’ to address visibility of entitlement was discussed but panel members raised concerns about security issues in relation to this
- Variable standards across schools due to different providers and differences between primary and secondary school provision.
- Internal catering preferred – dissatisfaction in school changed from internal to external catering
- Views about internal/ external catering expressed by parents was mixed – external = greater choice v internal = greater food quality. However, this differs from the views of pupils.
- Training for Supervisory Assistants required (employed by school) – lack of skills dealing with children and young people

### **Suppliers Used by Inhouse Contractor**

49. The main suppliers were interviewed by the Review Team Leader and provided feedback on a number of key areas including:
- How the service deals with the supplier compared with other companies/ organisations
  - Strengths and weaknesses in business dealings
  - How well the service makes use of new technology
  - How well the service responds to new developments
50. These interviews revealed that the City Council has a poor payment record. By not paying invoices promptly, the inhouse service loses up to £20k per annum in prompt payment discounts on some contracts.
51. Suppliers also admitted that the prices they offered to the City Council were adversely affected by the council’s poor payment record - “the Liverpool premium”.
52. The council’s performance for payment of invoices within 30 days was 63.5% in 2000/1. A substantial improvement in performance is required to meet government targets of 97.5% in 2001/2. The current level of performance for 1/10/01 – 31/12/01 for payment of catering service invoices is 95%.
53. The catering service suppliers are among the top five City Council creditors in terms of volume of invoices. Outsourcing of the school meals service would have a significant effect on the workload of teams processing these invoices.
54. The in house contractor also loses up to £20k per annum in discounts on contracts, (5 – 10% with one supplier), as a result of negotiating shorter term contracts. This situation has arisen as a result of schools entering into SLAs with the in house contractor for short periods of time. Suppliers have

indicated they will offer greater savings or provide investment for schools in return for a five-year contract.

55. However the service does benefit from large discounts as a result of purchasing in bulk. It should be noted that if schools decided to purchase independently from suppliers they would be charged at prices 5 –10% higher than the in house contractor.
56. There is also potential for the in house contractor to further access free services and sponsorship from certain companies, which could be used to develop the service e.g. Design and production of picture menus, milk bars etc.

### **Staff**

57. Focus groups have been conducted with managers and staff at all levels of the service. Key issues which affect the service have been identified and include:
- Different perspectives of headteachers when procuring a service and variation in their levels of procurement skills
  - Poor standard of kitchen and dining facilities
  - Curriculum requirements – compressed day
  - Peer pressure in relation to packed lunches/ social aspect
  - Difficulties in matching demand – popular items/ nutritional guidelines/ new food
  - Staff retention issues linked to employment arrangements
  - Flexibility in relation to staying for lunch on a daily basis – weekly/ termly booking of lunches in schools

The sessions also identified a number of improvement ideas which are included in the improvements for the service.

### **Compare**

#### **The in house catering service**

58. Benchmarking data undertaken by APSE is attached at Appendix 5. The in house contractor scores 100% against 4 of the key performance indicators, scores above target against 3 and below target against 3. However, it must be noted that the information used to measure the service against these indicators was not reliable, as Liverpool does not record some of the information in the required format.
59. The in house service has been independently endorsed, via external accreditation, as providing a quality service. They have won a number of awards in recent years including Quality Assurance BS EN ISO 9002: 1994, Service Improvement Awards for Marketing (Highly Commended 1998), Breakfast Club St John Almond (High Commended 1999) and Staff Suggestion Scheme (Commended 1999). The Catering Service has submitted four proposals for this years awards and has been short-listed for the Cleaner, Greener, Healthier City category. The Catering Service

was also awarded 6 Heart of Liverpool Gold Awards at a presentation in June, along with other large private sector organisations.

60. The review team has undertaken a number of 'mystery shopping' exercises, visiting schools where the inhouse contractor delivers the school meals service and schools where a private contractor is providing the service. The findings were that there is no great difference in service quality between the internal and external contractor, although in some cases external contractors have invested in front of house facilities in return for longer term contracts. The best example of well presented food and children eating a good range of healthy options, was at one of the schools serviced by the in house contractor. The in house contractor adheres more strictly to the nutritional guidelines and the children were eating healthier options in schools where the in house contractor provides the school meals service. There is however, a difference in the opinions and observations of mystery shoppers about catering standards across sites serviced by the in house contractor and the private sector sites visited.
61. Staffing levels across the in house service appear to be in line with the private sector, although employment conditions for staff are less favourable in the private sector providers reviewed. At the two private sector sites visited, fewer staff were on duty than at in house contractor sites due to sickness absence and this had been the case for some time
62. The review team has also visited other local authorities. There are different approaches to the delivery of this service, each one with strengths and weaknesses. One Merseyside local authority has secured £350k Neighbourhood Renewal Funding to invest in the front of house facilities at Secondary Schools. However, there was no evidence that the food quality was any better at these schools and there was evidence of less healthy eating selections being made by young people at these schools, with pupils eating mainly fast food options.
63. Other local authorities have stated that they provide a school meal for £1.10 (*selling price*) but this often means that portion sizes are smaller, food quality is inferior and children have less choice.
64. Some local authorities offer schools a school meals service at nil subsidy. However comparison is difficult because the definition of 'nil subsidy' needs clarification. Definitions range from recouping the full cost of providing a paid meal, to including recovery of the cost of providing free school meals. There are also many other differences including for example the quality of food, range of options and portion size.
65. The in house catering service undertakes regular customer feedback meetings and has records indicating a high level of customer satisfaction.
66. The review team compared prices for a list of key items in secondary school cash cafeterias provided by both the private sector and the in

house catering service. Overall the in house service provided the lowest cost for all items. This is particularly important for children receiving a free school meal allowance, as their choice is limited to the price allocated to the free school meals 'tally'. The results of the cost comparisons are attached at Appendix 6.

### **The Procurement and Service Monitoring Team**

67. There are no performance indicators in relation to the Procurement and Service Monitoring Team. This method of providing support and advice to schools varies from authority to authority. The team can only measure effectiveness by the annual review of SLAs and satisfaction surveys with users of the service. In a survey conducted in February 2001 the head teacher satisfaction rating for the service was 88%. The catering service received a satisfaction rating of 85%.
68. In December 1999 the team received a service improvement award for improvements in administrative work linked to school meals.
69. Schools can purchase a catering procurement service from private contractors. The review found an example where the cost for a large school was £6k. This cost can be incorporated in to the contract with the chosen provider. This is inevitably passed on to pupils in the prices charged for meals, vending items etc.

### **Compete**

70. Both the in house contractor and the Procurement and Service Monitoring team are already in competition with the external market, as customers are able to choose whether or not to purchase both services. Both these services have retained the majority of their customers, despite direct competition from the market.

### **In house catering service**

71. The in house service faces a number of issues when competing with the private sector. A major issue for schools is the standard of kitchen facilities, dining and serving areas. The in house service does not generate sufficient income to make a substantial difference to these areas and any surplus income has traditionally been used to offset overspending in other council services.
72. Private contractors are sometimes able to reinvest in kitchen and dining facilities to improve the quality of their service, but this is offset by longer term contracts, higher prices and smaller portions in some cases. However, schools hold the budgets for maintenance and are responsible for all structural building repair work, including internal work within kitchens. Head teachers have expressed dissatisfaction with the standard of these facilities. It should be noted that outstanding issues are highlighted in the annual General and Workplace risk assessment, which

encompass all responsible services and is undertaken by the in house contractor at their sites.

73. The in house contractor pays staff a retainer payment during schools holidays, which is not paid by private contractors, and offers better terms and conditions. Private sector employers are bound only by the minimum pay guidelines. Under TUPE, staff have to be transferred to a new service provider on their existing terms and conditions. More recently pension protection has been improved and private contractors are expected to offer a “comparable” pension scheme to transferred staff. However, TUPE provides transitional relief only and nationally there are examples of the terms and conditions of staff being cut over time. New employees are employed on different terms and conditions - invariably creating a two-tier workforce. This issue is currently the focus for the Government’s review of Best Value.
74. The in-house service is also subjected to central recharges and support costs which equate to approximately 8% of the overall service costs. The service has little control over these costs and the impact that they have on the overall surplus generated by the service. This adversely affects the ability of the service to compete with private sector providers.
75. There have been significant concerns in relation to the accuracy of benchmarking data, used to measure the performance of the service. However, key performance indicator data in relation to the service, has recently been produced by the Association for Public Service Excellence Networks (APSE) for use by public service providers across the UK. This is based on 1999/2000 financial year data and is the most up to date and accurate benchmarking data available. Liverpool’s performance has been measured against 7 other local authorities including Stockport, Trafford and Enfield London.
76. The figures provided were based upon the best information available at the time, which is recognised to be flawed and any inference based upon this data should be treated with caution
77. A table of the options for delivery of this service, showing the strengths and weaknesses of each option considered is attached at appendix 7.

#### **Procurement and Monitoring Service Team**

78. A table of the options for delivery of this service, showing the strengths and weaknesses of each option considered is attached at appendix 8.

#### **The Best Value Option proposed by the review team**

##### **School Meals catering service**

79. Although the in house school meals service compares well with the private sector in providing nutritious, value for money meals, it is projected to run at a deficit this year. This service cannot continue to lose money and for

the future an in house service should only be provided if it can cover its full costs. Moreover the loss of 20 schools in the PFI contract, and the likelihood of future PFI deals, will affect the long term viability of the in house service – losing economies of scale, purchasing power etc. The preferred option for the future delivery of this service is to move to a partnership arrangement with either a public or private partner.

80. However in going forward in this way the review team outline a number of concerns that need to be addressed through any new procurement route:
81. The review team recognises the quality of food delivered by the in-house contractor and adherence to nutritional guidelines, which compares favourably with private sector providers. Private sector providers are in business to maximise profit. The review is particularly concerned that private contractors install sweets and soft drinks machines in dining rooms. This does not contribute to a healthy diet for young people. It is however a matter for individual head teachers and governing bodies to monitor the commercial activities of their chosen provider within their schools.
82. Another key factor in selecting a private or public sector partner, is to secure investment in front of house facilities, which are generally not of a good standard. However, in some schools, for example New Heys and Archbishop Beck, a compressed school working day is in operation. This means that dining facilities which were designed to accommodate staggered lunch breaks, are required to accommodate all 2000 pupils for lunch in a 35 – 40 minute period. The space available is not sufficient. At other schools there are different issues but the size and location of some existing dining facilities would only be improved by new-build facilities.
83. Smaller schools need to secure a provider through any new arrangements. Private sector providers have indicated that they would be willing to provide a service to smaller schools if these schools were packaged with larger more profitable schools. However it is not evident what incentives exist for the larger schools to agree to be packaged with a smaller school.
84. The scope of this review did not directly include the Supported Living and Housing establishments where meals are currently provided by the in house contractor. The outcome of the review has clear implications for these services so needs to be shared with them, and the procurement exercise would need to incorporate these establishments

#### **Procurement and Monitoring Service Team**

85. The preferred option for this service is to separate the key functions of procurement from capital replacement / repairs of kitchen equipment and offer them as separate SLAs. The service must be self-funding and should only exist if there is sufficient buy back from schools to fund the team.
86. ELLS are currently offering a procurement function for schools within Business Development Management services. Corporately procurement expertise is being developed and consolidated within the Resources

Portfolio. Therefore an option for this team is to be incorporated within the Procurement Unit in the Resources Portfolio. The service to schools could continue to be offered as a SLA and be self funding.

87. In addition to school meals, schools require advice and support in other areas such as financial support, school meals, security, grounds maintenance, building cleaning, building repairs and maintenance, governors support and training, employment advice and ICT. This wider scope could also be offered to schools as a SLA, through the broader range of skills and experience available within the authority.

## **Recommendations**

### **Catering service**

1. The long term viability of the service is through a partnership arrangement with either the public or private sectors. The authority needs to explore such options through a formal procurement exercise, alongside which the in-house team (incorporating elements of the catering 'client role' currently carried out within the procurement and service monitoring team) will determine if they wish to put in a competitive tender. The LEA may wish to nominate more than two providers across the City to ensure that competitive pressure is maintained on providers for the future.
2. Work on this should start now to ensure that a contractor(s) is agreed in time to deliver a service for the new academic year (starting in September 2002). The output specification for such a service needs to be determined as a priority and formal procurement via the placing of an OJEC notice etc commence in earnest. The procurement and service monitoring team, in consultation with the schools consortium, should lead on this, but drawing upon the in-house DSO for technical information as appropriate.
3. ELLS need to convene an urgent meeting with the schools consortium, as well as those who trade directly with catering services, to determine the output spec that they will use in the procurement exercise, including nutritional value etc. Amongst other matters such a meeting will need to determine the degree to which the schools wish to retain a "client-side role" from ELLS, and if so its cost and the schools commitment to pay. The schools need to recognise that any service provided by the LEA needs to be paid for.
4. The outcome from such a procurement exercise should be a contract awarded for not less than 3 years. The contract may continue to be monitored by an ELLS team on behalf of the schools (for which they will pay the appropriate fee to cover costs)
5. In the event that the service is out-sourced to the private sector the existing 865 staff should be considered for TUPE transfer - (already reduced from 1000 since 1 August 2001). This equates to approximately 5% of the council's workforce, and as such the central support services will need to be reduced proportionately. This will particularly have an impact

on the number of financial services staff who process payroll and the payment of invoices.

6. Notwithstanding the future of the service it will need to work closely with ELLS and Financial Management Services to review all costs and make explicit in a timely manner what the budget for the service is for 2002/03.
7. Additionally the in-house catering service assists other portfolios in the drafting and procurement of food contracts. It is beneficial to the City Council that the in house catering service performs this function. It is the largest purchaser of food in the City Council and can achieve greater discounts from suppliers. However, this function is outside the 'core' business of providing schools meals, requires detailed work and is currently provided without cost to other portfolios. This cannot continue as a free service and should therefore be provided in future either by the purchase of a Service Level Agreement, or departmental recharge, to fully reflect the staffing/ admin costs associated with this task. Accordingly the service, if it is to continue, should fully cost the staffing/admin costs associated with drafting and procuring food contracts for other portfolios and negotiate Service Level Agreements/ recharges to cover these costs.

#### **Procurement and service monitoring team**

8. The budget delegated to schools for this service should be made explicit, e.g. allocated to one budget line, to ensure that head teachers are clear about the amount of money delegated.
9. Notwithstanding whether the current procurement team is incorporated within a corporate procurement unit, the LEA needs to instigate negotiations with schools to determine:
  - their need and willingness to pay for procurement advice
  - the degree to which this role should be developed to encompass advice and support in other areas beyond school meals such as: financial support, security, grounds maintenance, building cleaning, building repairs and maintenance, governors support and training, Employment Advice and ICT.

The service needs to be self-financing, so requiring sufficient buy back from schools to ensure that a viable service can be provided.

10. The future home of the procurement function needs to be determined ie deciding where the most cost effective and comprehensive service can be delivered. The working assumption, unless proven otherwise, is that this should be within the consolidated procurement unit to be established within the Resources portfolio.
11. If the service is to continue, a formal written and costed agreement needs to be established.

12. ELLS and the Business Process Re-engineering team should also work with schools to identify if it is feasible to:
- introduce direct debit and/or debit card payment for parents to pay for primary and special school meals
  - introduce smart cards in secondary schools for young people to purchase meals and eliminate the tally system of free school meals

### **Financial services**

13. A review of financial services to managers should be undertaken as soon as possible.

### **In-house service to lodge a competitive bid?**

**Should the In house service would wish to lodge a bid in competition with others then the following are recommended to improve its competitiveness:**

14. Staffing - a fundamental review staffing needs to be undertaken, to ensure that staffing in this service is in line with private sector providers, including an assessment of the potential to develop the role of the cook, to encompass similar duties to those undertaken by cooks in the private sector.
15. The main suppliers for this service are 4 of the council's top 5 creditors. The service will need to re-engineer invoice payment procedures to ensure the Council meets Government targets for BVPI 8 and to obtain greater discounts.
16. The service needs to consider employing staff in a different way, to encourage staff to remain in the service e.g. expanding their roles to increase hours worked. This will have the added impact on improving the local economy, through upskilling particularly low paid women staff.
17. The principal aspects of the in-house catering service's business to be assessed using a business process reengineering process, to streamline processes and reduce costs.
18. In consultation with suppliers the review has identified that a 'quick win' for the service, to reduce costs, would be to ensure that potential discounts for prompt payment are gained, by improving the payment process using IT where appropriate.
19. Investigate the potential to implement information technology solutions to improve record keeping in kitchens, to monitor stock and improve invoice payments.

**Matters which the BV review team believe should inform aspects of the output specification against which tenderers are selected**

To ensure the future service provider is chosen on BV principles (not just price) the review team would suggest the following matters to be taken into account in defining the output specification or criteria for selecting preferred partners, as appropriate:

20. Food to meet national nutritional standards and guidelines for portion sizes.
21. Ensure that menu choices are clearly communicated to children in an appropriate format, using picture menus and IT where appropriate.
22. Conduct regular events to promote new menu items/ healthy choices etc, to encourage children to eat a good range of food and seek feedback on the range of food offered. The work on the low fat chicken teddy is an example of good practice which should continue, on an ongoing basis through the period of the contract.
23. Defined quality control mechanisms and training to ensure that standards across the service are consistent. The high standard of food presentation, choice and pupil satisfaction noted at New Heys Comprehensive school, achieved by the in-house catering service despite the fact that this is a school which operates a compressed working day and has inadequate dining facilities, should be used to inform the output specification for the procurement exercise.
24. The catering service does undertake regular consultation with its customers but needs to ensure that actions identified as a result of the consultation are fed back to the customers within one month. This should include head teachers, governing bodies, parents and children where appropriate.
25. Regular information should be provided about menu choices, using information technology wherever possible e.g. on web sites,.
26. Institute an independent assessment mechanism such as a board, comprised of interested parties for example a local chef, head teacher, parent and elected member, to ensure on a regular basis, a fresh and independent perspective on the service.
27. The potential to access grant funding to improve kitchen and dining facilities to provide further healthy eating options e.g. Baked potato ovens, must be fully explored. Additionally ELLS will need to define the priority for school improvements (including kitchens and dining rooms) and continue to seek DfES and mainstream capital resources, including PFI credits to execute necessary improvement works.
28. The local PI's defined below should be expanded to inform the monitoring of the contract provided by the service provider. The contractor will be obliged to provide the monitoring data for which they are responsible not

less than every term and there should be an annual performance review meeting between the LEA, the contractor and the schools consortium. The contract should allow for penalty and break clauses for under-performance, and should where possible have incentives for improved performance beyond the minimum set. The contract should be set up to allow for positive developments in the market whilst making clear the minimum service levels which are acceptable. A contract beyond 3 years will be considered if this can be constructed in a way to deliver continuous improvement, with improved outcomes for pupils.

**Performance indicators  
Procurement & Service Monitoring Team**

<b>Key Performance Measure/ Indicators</b>	<b>Current Performance (2001/02) (estimate out-turn)</b>	<b>Target Year 1 (2002/03)</b>	<b>Target Year 2 (2003/04)</b>	<b>Target Year 3 (2004/05)</b>
Percentage Buy Back (Could also be separated into sectors)	79%	74%	76%	78%
Customer Survey Satisfaction	88%	90%	92%	94%
<b>NEW</b>  Ratio of various services Procured  Staff Cost Ratio Per Client (School)  Income performance as a percentage of business				

**In House Catering service**

<b>Key Performance</b>	<b>Current Performance</b>	<b>Target Year 1</b>	<b>Target Year 2</b>	<b>Target Year 3</b>
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Measure/ Indicators	(2001/02) (estimate out- turn)	(2002/03)	(2003/04)	(2004/05)
BVPI None applicable				
Selling Price Primary Pupil Meal	£1.20 Set by School	£1.20		
Selling Price Adult Meal	£1.98 excluding VAT	£1.98 excluding VAT		
Primary and Day Special Free meal uptake				
Secondary Free meal uptake				
Total Cost per meal Excluding CEC Primary and Day Special	£1.275			
Total Cost per Meal including CEC Primary and Day Special	£1.39			
Meals served per staff hour Primary	10.99			
Meals served per staff hour Special	4.77			
Management Staff costs % of total staff costs	6%			
% of review meetings completed in one term				

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