



Barnet UNISON

Catering Services

“Jewel in the Crown”

Privatisation of Education & Skills and Catering in Barnet



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The **European Services Strategy Unit** is committed to social justice, by the provision of good quality public services by democratically accountable public bodies. The Unit continues the work of the Centre for Public Services, which began in 1973. Research and strategic advice for public bodies, trade unions and community organisations includes analysis of regional/city economies and public sector provision, jobs and employment strategies, impact assessment and the effects of marketisation, privatisation, public private partnerships and transformation.

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Executive summary

The proposed Education and Skills contract award is a result of non-competitive outsourcing because there was only a single bidder for the majority of the competitive dialogue; the Council did not select ISS as the catering subcontractor; it is common knowledge in the media and outsourcing market that Barnet Council has branded itself as a Commissioning Council which is seeking to outsource or transfer virtually all its services, this inevitably weakens its negotiating position particularly when there is only one bidder.

The Council is proposing to outsource Education & Skills and Catering services **despite the Catering Service being a successful and profitable in-house service.**

The Full Business Case makes a political case for outsourcing, but **it lacks any credible financial information and analysis that would enable the Council to conclude that it provides value for money.**

Budget cuts, improved efficiency and productivity and increased income will inevitably focus on the Council's net funding element and traded services that account for about £17.2m of total expenditure. However, all local authority education services are confronted with similar financial constraints; Cambridge Education and ISS annual profit of £1.0m (£670,000 and £363,000 respectively assuming a modest 5% profit rate) will have to be extracted from the budget; the demand for education support services from schools could exceed forecasts as a result of changing economic and social conditions; limited UK and EU economic growth prospects and the lingering threat of further recessionary conditions.

The Council is recommending a strategic partnership instead of a Joint Venture Company (JVC) primarily for financial reasons. The **failure rate of Strategic Partnerships is 26.2% in 65 contracts** consisting of 9 contract terminations, 5 contracts where many services had to be returned in-house, and 3 contracts with significant performance problems. **Seven of the nine contract terminations were partnership contracts and the remaining two were Joint Venture Companies.**

Key risks Although the subcontractor has agreed to pay all catering staff the London Living Wage for the lifetime of the contract, there remains a critical risk in the event of the Business Case fails to deliver the income generation targets, it is likely they would look to reduce the terms and conditions of Catering staff.

'Commercial advisers' account for £250,000 of the project costs, a staggering sum considering this would provide 250 days of consultancy at a daily rate of £1,000.

Barnet UNISON strongly recommends:

1. The Council should retain the Catering Service in-house and place it within Family Services Delivery Unit in order that **all the profits** can support frontline services, which are threatened by budget cuts. It should draw up a Public Service Innovation and Improvement Plan for the future of the Catering Service jointly with schools and staff.
2. Elected members should require a detailed breakdown of the £1.5m cost of the Education and Skills outsourcing, in particular the £250,000 expenditure on 'commercial advisers' cited in the Full Business Case (p35).

Context

The lead up to the start of the procurement process for the Education & Skills and Catering services in the London Borough of Barnet followed a similar pattern to other services. The options appraisal was flawed because it did not develop an in-house option, joint venture or schools-led social enterprise models as genuine alternatives to outsourcing (Barnet UNISON, 2015a). The in-house option was thus reflected 'doing nothing' approach and unacceptable to schools, parents and staff, despite the submission of an outline of service improvement plan (Barnet UNISON, 2014). We recommended the Council abandon the planned procurement process and instead **allocate the £1.3m** from the Transformation Fund earmarked for procurement costs be used to prepare a **three-year Service Innovation and Improvement Plan** for the in-house service in conjunction with schools and the engagement of staff and trade unions.

The consultation process resulted in **support for the in-house**, social enterprise and JVC models being virtually the same at 30%, 31% and 31% respectively. "In summary, the schools survey does not provide a clear finding about the favoured model" (London Borough of Barnet, 2015a, para 1.16).

The Council proceeded to produce an outline business case based almost entirely on assumptions, estimates, possibilities and potential and other vagaries. In-house option was **constructively dismissed** by loading it with an excessive £1.3m additional cost for a marketing team, crude and biased efficiency cost reductions, service reductions and forecasts of increased trading for the joint venture model based on little more than guesswork (Barnet UNISON, 2015a).

In June 2015 we again recommended that the Catering Service be excluded from the proposed contract and the Competitive Dialogue be postponed to revise the financial modelling for a Joint Venture Company option (Barnet UNISON, 2015b and 2015c).

Privatising successful trading and profitable catering service

The Council is proposing to outsource Education & Skills and Catering services. Catering, yet **the Catering Service is a good example of a successful in-house service** that has made efficiency improvements and competed with the private sector outside Barnet to **win** contracts. The Education & Skills and Catering Full Business Case reports an increase in the Catering service annual traded surplus of £241,770, a 3.33% profit, an increase from the 2.67% annual surplus in the Outline Business Case. **Furthermore, there is a strong case for all the Education & Skills services to be retained in-house.**

Exclusion of in-house option or retaining catering service

The failure to develop a comprehensive forward-looking improvement plan for Education and Skills and Catering services jointly with schools and staff is an example of ideology taking precedence over the public interest and the long-term future of these important services.

Despite the assertions about the benefit of a Commissioning Council model, the Full Business Case makes a political case for outsourcing, but it lacks **financial information and analysis that would enable the Council to conclude that it provides value for money.**

The Full Business Case only contains the current financial position of Education & Skills and Catering services (p5/6), the Medium Term Financial Savings (MTFS)

(p10/11 and 35) and the cost of the project or transaction costs (p35). This level of financial information is inadequate for the Council to make a decision to change the delivery of key services from the public sector to private contractors.

Non-Competitive outsourcing

The proposed Education and Skills contract award is a result of **non-competitive** outsourcing for four reasons:

- Two of the three bidders withdrew either before or shortly after the start of the procurement process leaving a **single bidder for competitive dialogue**. Only four pre-qualifications were received by the Council from the private sector, one of which was non-compliant. Three organisations were invited to participate in dialogue, but one withdrew prior to the start of this process. The two remaining bidders participated in the first phase of dialogue, but only Mott MacDonald submitted an outline solution as the other remaining bidder withdrew. Therefore **the market had spoken** - there was no genuine competition.
- The Local Partnerships Health Check refers to “...a detailed exercise has been completed that examines in detail the risks associated with having a single bidder. A report on these risks and presenting a number of different scenarios for moving the project forward has been presented to, and considered by, the SCB” (p39, Full Business Case). **Elected members should consider this report before making a decision on outsourcing.**
- The **Council did not select ISS** as the catering subcontractor – this was a de-facto decision by Mott MacDonald.
- It is common knowledge in the media and outsourcing market that Barnet Council is seeking to become a Commissioning Council by outsourcing or transferring virtually all its services. This inevitably **weakens the negotiating position of the Council in the procurement process, even more so when there is only one bidder.**

The Committee report seeks to reassure elected members, residents and staff that “...the key risk of proceeding with a single bidder was the ability to test Best Value from any subsequent bid” (London Borough of Barnet, 2015b, para 1.31). The **Best Value** test consisted of meeting the project objectives; gain share and open book accounting; scoring a minimum 60% in bid evaluation; achieving savings greater than those expected from the in-house and social enterprise options; and the “...proposals put forward by Cambridge Education represent the best offer the market has to offer” (para 1.31).

This definition of **Best Value is not credible**, particularly when there was no substantive and improved in-house option and the statement that this is the “best offer the market has to offer” exposes the failure of the market and empowers the monopoly bidder.

The engagement of **Local Partnerships to provide a Health Check** was intended to give assurance that best value will be obtained. The Full Business Case includes a copy of the Health Check undertaken on 29/30 July 2015 and suggests a further review “...at the conclusion of the dialogue process prior to contract award” (London Borough of Barnet, 2015c, p45). The final tender was not submitted until 12 October 2015.

This raises the question of whether the further review was carried out by Local Partnerships? If so, why is it not included in the Full Business Case. If it was not carried out, what were the reasons?

We **recommend** the Council retain the Catering Service in-house and place it in Family Services in order that all the profits can support frontline services, which are threatened by budget cuts. It should draw up a Public Service Innovation and Improvement Plan for the future of the Catering Service jointly with schools and staff.

The Committee report fails to describe Mott MacDonald as a global engineering management and development consultancy in which education services have a relatively minor role, and school meals catering even more so.

Trading, income generation and meeting the savings target

The total MTFS saving for Education & Skills and Catering services is £1,885k for the 2015-16 to 2019-20 period and *"...are guaranteed, as they are incorporated within the tendered price for delivering the core services to the Council"* (Committee report, para 5.20). Total expenditure for the services is currently £20.7m per annum including a Direct Schools grant of £3.5m. The remaining expenditure consists of £7.85m net Council funding, £9.32m traded income and £58,630 non-traded income. Catering accounts for 78% of the £9.3m total traded income in Education & Skills and Catering services in 2015-16 (p5/6, Full Business Case).

Budget cuts, improved efficiency and productivity and increased income will inevitably focus on the Council's net funding element and traded services that account for about £17.2m of total expenditure. However, the financial situation is complicated by:

- all local authority education services are confronted with similar financial constraints;
- Cambridge Education and ISS annual profit of £1.0m (£670,000 and £363,000 respectively assuming a modest 5% profit rate) will have to be extracted from the budget;
- The demand for education support services from schools could exceed forecasts as a result of changing economic and social conditions;
- Limited UK and EU economic growth prospects and the lingering threat of further recessionary conditions.

Democratic accountability and transparency of Partnership arrangement

The Council is recommending a strategic partnership instead of a Joint Venture Company (JVC) primarily for financial reasons based on two bids from Mott MacDonald. The Council should have made a positive decision on the JVC model before commencing the procurement process. The JVC scored **9.0%** in the original legal/contract part of the evaluation compared to **6%** for the Partnering model. The latter score was later increased to **9%** following advice from the Council's legal advisers, but no rationale for this change is provided in the Committee.

The failure rate of Strategic Partnerships is 26.2% in 65 contracts consisting of 9 contract terminations, 5 contracts where many services had to be returned in-

house, and 3 contracts with significant performance problems (Whitfield, 2014 and updated). The termination of further contract is the subject of a High Court case in December 2015.

Seven of the nine contract terminations were partnership contracts and the remaining two were Joint Venture Companies.

Both partnership and JVC models raise important issues of democratic accountability. The partnership model usually has two or three tiers with the Council Leader and Chief Executive together with a director and senior manager being members of a Strategic Policy Board with both public and private managers at operational board level. Experience in other local authorities indicates that minutes of meetings are rarely accessible and elected members feel excluded and lack knowledge of performance and operational issues other than general public relations statements.

Key risks

The risk assessment (p32-34 of Full Business Case) excludes a number of potential risks:

- The possibility that the growth strategy is not as successful as planned and in order to meet the Council's budget savings the contractors fail to maintain the London Living Wage and/or reduce other terms and conditions. This is likely to have a knock-on effect on the quality of the catering service for schools.
- A risk that the Catering service continues to generate increased income, but Education and Skills services do not do so or on a much smaller and/or slower pace. This could lead to further financial pressures on the education services to schools such as school improvement, newly qualified teachers support, education welfare and education psychology.
- A risk that Cambridge Education lacks the experience to adequately and effectively monitor its subcontractor ISS, which is a large catering and cleaning contractor.

High transaction costs

The **cost of the Education and Skills outsourcing is forecast to £1.5m**, consisting of £1,150,000 in 2015-2016 plus £350,000 from previous financial years. 'Commercial advisers' will account for £250,000 of the total cost, staggering sum considering this would provide 250 days of consultancy at a daily rate of £1,000. We recommend elected members seek a detailed breakdown of the costs cited in the Full Business Case (p35).

Barnet's privatisation programme has been costly with over £20m spent on consultants since 2008-09, which could have been used for a programme of in-house service improvement and innovation. This would have made services significantly more effective and sustainable in addressing financial pressures.

The Local Partnerships Health Check recognised that *"...the council has used a number of external consultants to help plan and deliver this project. The project documents will be extensive and complex and we consider it essential that user guides are written that explain the structure and content of these documents and*

how, in practice, they will work” (p42, Full Business Case). It is essential that these user guides are produced so that knowledge is not lost.

Equalities and terms and conditions

The key equality issues arise from the Equalities Impact Assessment (Table 1) (London Borough of Barnet, 2015d):

- 93% of the total Education & Skills and Catering workforce is female with the Catering Service accounting for an even higher proportion at 96%.
- 85% of non-catering staff are female.
- 49% of the Catering workforce are Asian and Asian British, Black or Black British or Chinese or other ethnic group compared to 34% white employees based on the available data.
- 76% of Catering staff are in the 40-64 age group compared to 63% for non-Catering staff and 66% for the Council as a whole. This indicates there could be a significant turnover of staff, as many will reach the retirement age.

Table 1: **Education & Skills and Catering Employee Profile, October 2015**

	Catering Service		Non Catering Staff		Total Education & Skills	
	No.	% of service	No.	% of service	No.	% of service
Gender						
Female	329	96%	115	85%	444	93%
Male	12	4%	20	15%	32	7%
Unknown	0	0	0	0	0	0
No of Employees	341	100%	135	100%	476	100%
Ethnic Group						
White	115	34%	92	68%	207	43%
Mixed	x	x	x	x	x	x
Asian and Asian British	34	10%	12	9%	46	10%
Black or Black British	121	35%	x	x	127	27%
Chinese or other Ethnic Group	12	4%	x	x	13	3%
Disability	x	x	x	x	x	x
Age						
18-21	0	0	0	0	0	0
22-29	10	3%	18	13%	28	6%
30-39	59	17%	23	17%	82	17%
40-49	106	31%	34	25%	140	29%
50-64	155	45%	51	38%	206	43%
65-74	11	3%	x	x	20	4%

Source: London Borough of Barnet, 2015d. Note: All data below 10 individuals has been aggregated and replaced by an 'X' to protect personal identification. All agency and contract staff have been removed from the data.

The privatisation of Education & Skills and Catering services will reduce the London Borough of Barnet staffing level from 2,066 to 1,590 employees (London Borough of Barnet, 2015c). This will reduce the Council's female/male employee ratio from 67%/33% to 59.5%/40.5%.

Recommendations

Barnet UNISON strongly recommends:

1. The Council should retain the Catering Service in-house and place it in Family Services in order that all the profits can support frontline services, which are threatened by budget cuts. It should draw up a Public Service Innovation and Improvement Plan for the future of the Catering Service jointly with schools and staff.
2. Elected members should require a detailed breakdown of the £1.5m cost of the Education and Skills outsourcing, in particular the £250,000 expenditure on 'commercial advisers' cited in the Full Business Case (p35).

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