

Manchester City Council Report for Resolution

Report to: Resources and Governance Scrutiny Committee – 1 December 2020
Executive – 9 December 2020

Subject: Withdrawal from school catering provider market

Report of: Strategic Director - Neighbourhoods

Summary

The purpose of this report is to inform the Executive of the current financial and operating position of Manchester Fayre, which provides catering services to 80 sites across the City. The report outlines the forecast cost of the service in the current year and the additional budget requirement that will be needed to continue operating the service.

The Council is not required to provide a school meals service and the subsidy now required to continue to operate the service to a minority of Manchester schools is significant. This subsidy would have a consequential impact on other service reductions that would be required.

The market for school meal providers in Manchester is competitive and alternative providers can service the demand without the subsidy that would be required for Manchester Fayre.

Recommendations

It is recommended that Resource and Governance Scrutiny endorse the following recommendations to the Executive.

It is recommended that the Executive:-

- (1) approve the withdrawal of Manchester Fayre from the school meal provider market by no later than September 2021.
 - (2) agree that the potential to assign the current Service Level Agreements held by Manchester Fayre to an independent provider can be progressed.
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Wards Affected - All

Environmental Impact Assessment - the impact of the decisions proposed in this report on achieving the zero-carbon target for the city
There are no tangible changes anticipated as the current services will continue to be provided by alternative operators in future.

Our Manchester Strategy outcomes	Contribution to the strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities.
A highly skilled city: world class and home grown talent sustaining the city's economic success	
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

Full details are in the body of the report, along with any implications for

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The withdrawal from the school catering provider market will negate the requirement to subsidise Manchester Fayre to enable it to continue operating. It is projected to cost an additional £600k in 2021/22 to continue operating the service. This is projected to increase in every future year of operation, as economies of scale continue to decrease.

Financial Consequences – Capital

None.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

1.0 Introduction

- 1.1 The provision of school lunches to pupils eligible for Free School Meals (FSM) is the responsibility of each individual school. The Department of Education guidance states that a school lunch must be provided for pupils where a meal is requested and either the pupil is eligible for free school lunches, or it would not be unreasonable for lunches to be provided.
- 1.2 Manchester Fayre is the in-house school catering function that historically provided school meals across the majority of Manchester schools. Manchester Fayre is a traded service and is expected to operate without any subsidy from the Council.
- 1.3 As budgets and responsibilities have been delegated to schools many have taken the opportunity to either provide the service themselves or to commission a third-party provider as an alternative to Manchester Fayre.
- 1.4 This has led to a diminishing market share for Manchester Fayre, it currently provides a service to 80 establishments, including 76 schools which represents approximately 37% of the total schools in Manchester. There has been a constant decline in the number of schools purchasing the service with an average reduction of 1 school every two months over the last two years.
- 1.5 The service can no longer provide meals at a cost-effective price without a subsidy from the City Council. Continuing to operate would effectively result in the City Council subsidising the meal provision within the 76 schools currently buying the service from Manchester Fayre.

2.0 Background

- 2.1 Schools commission a meals service provider to provide a free and paid offer for pupils. They have the duty to ensure nutritional standards are followed by their chosen service provider and they are responsible for ensuring that the staff employed by the provider are subject to reasonable terms and conditions of employment.
- 2.2 Manchester delegated the free school meals funding to schools many years ago, which ensured that the schools had full control over the decision making in relation to school meals. This also meant that any financial savings as a result of the non-attendance or take up of free school meals accrues directly to each individual school.
- 2.3 Schools therefore have both the budget and freedom to subsidise the price charged to them by any provider, including Manchester Fayre, as a result of these arrangements.
- 2.4 There are several established independent providers of school meals operating in Manchester who have demonstrated that they are able to provide the service at a lower cost than Manchester Fayre. There are also a number of schools who have successfully taken over the provision themselves. As

Academies are becoming more common it is likely that we will see provision being procured by Trusts for a number of schools over broader geographic areas. This may require operators to function across Local Authority borders which also places Manchester Fayre at a comparative disadvantage.

3.0 Current Operating Position

3.1 The Manchester Fayre offer was reviewed in 2018 and has subsequently been focussed on the additional social value that it provides. It guarantees nutritional meals and, through the use of specialised staff, can ensure that all dietary needs can be accommodated. However, the service remains comparatively expensive and is facing constant reductions in the economies of scale as schools opt for alternative providers.

3.2 Manchester Fayre currently employs approximately 430 staff and operates across 80 separate sites, 69 primary schools, 4 high schools, 3 special schools, 2 Pupil Referral Units and 2 adult day centres. The number of schools served by Manchester Fayre has continued to decline over time as schools increasingly choose alternative providers. Over the past two years an average of around one school every two months has opted to make alternative provision. The table below summarises the changes since April 2018.

Year	Meals per annum¹	Schools
18/19	3,848,000	90
19/20	3,602,000 (-6.4%)	85 (-5.6%)
20/21	3,286,000 (-14.6%)	74 (-17.8%)

3.3 The reduction of 16 schools since 18/19 is despite the meal price having been held at £2.25 through the utilisation of reserves that had been built up within the service in previous years. These reserves have been used to offset inflationary increases in supplies and services whilst the staff pay awards have been funded corporately. Some of the schools that recently left provided feedback on issues ranging from variety and choice, to wanting more control (moved the service in-house).

3.4 Costs within the service were further reduced following the last review in 2018 through streamlining management and administration arrangements, reducing them to a minimal level, and through reintegrating the management of the service with Facilities Management. No further savings are achievable within the service.

4.0 Budget Position

4.1 The expected income from the service has reduced considerably since the last

¹ Excludes high schools and day centres

review in 2018. The net budget for the service at that point was income of £620k with provision being made to 90 schools. The budgeted net income has reduced to £4k in 2020/21. However, this net surplus includes a budgeted contribution from reserves of £64k, which means the service was budgeted to cost the Council £60k to operate in 2020/21.

- 4.2 However, due to the impact of Covid on meal numbers since September the forecast outturn position for 2020/21 is an overspend of £293k after the full utilisation of all remaining reserves (£605k). Therefore, a total in year cost of £898k.
- 4.3 The meal price was increased (by 2.2%) to £2.30 from September 2020 to cover the inflationary costs of supplies and contribute towards other cost increases.
- 4.4 The balance remaining in reserves is now forecast to be nil at 31/03/2021. Therefore, an increase in the Manchester Fayre budget of **c£600k** will be required to balance the budget in 2021/22 assuming a return to normal meal levels.
- 4.5 Inflationary costs can be met in part through an annual increase in the meal price. However, a 5p increase (c.2%) in the meal price, based on approximately 3.3m meals, equates to additional income of only £165k per annum.
- 4.6 The cost pressures in relation to the main areas of inflation for the current year total £281k, split between:-
 - 2.75% pay inflation (budget c£6.3m) = £173k
 - 3% supplies inflation (budget c£3.6m) = £108k
- 4.7 This results in a deficit within the service of at least £116k per annum plus the increased costs from other ancillary services such as waste disposal and transport.
- 4.8 Therefore a further, minimum, **£230k** of additional funding is likely to be required in 2022/23 assuming there are no further losses in the number of schools choosing the service. The data from the last 3 years would indicate that this is unrealistic and that further allowances will need to be made for further losses in economies of scale.
- 4.9 The alternative would be to significantly increase the meal price. For 2021/22 an increase of around 18p per meal will be required to address the forecast deficit, plus a further increase of at least 9p per meal to address the in-year inflationary pressures.
- 4.10 It is therefore realistic to assume that a meal price of at least £2.57 per meal would be required from September 2021. An increase of this magnitude will almost certainly lead to a large number of schools reviewing their options and choosing an alternative, cheaper, provider. This will further increase the

financial pressures on the service and result in an in-year deficit for 2021/22.

5.0 Staffing Implications

- 5.1 In the event that Manchester Fayre ceases to operate the vast majority of staff would be subject to TUPE, as the requirement for school meals would continue to exist. Therefore, the current staff would transfer to either the school, if they took the service in house, or to the new operator appointed by the school. Staff would transfer with their current terms and conditions and the new provider would be required to gain admitted body status to the GMPF to enable their current pension arrangements to continue.
- 5.2 A number of independent operators within Manchester already have admitted body status into the GMPF due to the dispersed nature of the service provision that already exists.
- 5.3 There are 5 staff where TUPE may not apply as they work proportionately across the service. These staff would be subject to the mpeople process.
- 5.4 In the event that the majority of schools moved to a single provider, there is the potential that all current staff would be subject to TUPE.

6.0 Transition

- 6.1 The transition arrangements would be managed by a project team to ensure that the information required by schools is provided in a timely manner.
- 6.2 As part of this process a document will be produced and circulated to school setting out the potential options available to them for their future arrangements. These would include:-
 - Operate the service in-house as a single entity and transfer the staff to the school.
 - Operate the service in-house as a group and transfer the staff to a 'lead' school.
 - Commission the service from an external provider.
- 6.3 A list of resources will also be provided including details of the current suppliers used by Manchester Fayre to enable them to make contact quickly and setup contracts where they choose to take the service in house.
- 6.4 Procurement can potentially be undertaken through the Schools Buying Hub (North West)– a DfE funded resource. There are also a number of independent consultants operating in this market that can either fully manage or support / advise on the procurement process for a school. The contact details for those known to the service will be provided.
- 6.5 The alternative to this, to ensure continuity of provision and provide greater assurances for staff, would be to explore the potential to assign the current service level agreements held by Manchester Fayre to an independent

provider.

- 6.6 There has been a degree of interest from providers and it is considered feasible from a legal and procurement perspective. This option is potentially attractive to current competitors within the school meals market as it would add to their existing portfolio of schools and contracts in the area.
- 6.7 Any assignment of the service level agreement would require assurances from the provider in relation to existing terms and conditions for staff, fulfilment of the existing SLAs with schools and their social value offer. All schools would still have the option to provide 3 months notice, as per the existing SLA, and make alternative arrangements. It would however provide assurance to all the current customers of Manchester Fayre that the provision could continue with the same staff group as they have presently and negate the need for them to either undertake a procurement exercise or take the service in-house. In these circumstances the Council would have no involvement in the overall contract management other than for the two adult day care sites that could potentially transfer.
- 6.8 Consideration has been given to the service being provided in conjunction with one or more other Local Authorities. However, the position within Manchester is more closely aligned to that of private providers given that all the funding has been delegated directly to the schools. Other Local Authorities have retained the free school meal funding which is used to part fund their provider services.

7.0 Summary

- 7.1 The provision of school meals is the responsibility of each individual school. The majority of Manchester schools have already chosen an alternative provider to Manchester Fayre.
- 7.2 Manchester Fayre is a traded service which operates in a competitive market as a school meals provider. It is expected to recover all costs of service provision from the income it generates. The service has reached the point where it is no longer sustainable on this basis due to the reduced economies of scale that have resulted from a majority of schools choosing alternative providers.
- 7.3 The service is in a position of continuous decline, losing an average of 6 schools per year. This leads to increased unit costs resulting in either unsustainable price increases or an increasing subsidy from the Council which will impact on other service provision.
- 7.4 Manchester Fayre can withdraw from the provider market and allow schools to make their own alternative arrangements. Manchester Fayre can also explore the potential to identify a suitable independent operator to adopt the existing Service Level Agreements as an alternative for all existing sites. The focus on any agreement with an independent provider would be around the continuity of service for staff and the social value offer.

8.0 Contributing to a Zero-Carbon City

- 8.1 There are no changes to the strategy or contribution as a result of this decision. Meals are likely to continue to be provided on-site using similar supply chains to those that are currently in place. There may be opportunities for schools to explore opportunities with smaller, more local produce providers which could reduce the carbon impact of the service.

9.0 Key Policies and Considerations

(a) Equal Opportunities

- 9.1 An Equality Impact initial assessment has been undertaken and has found no impact on equal opportunities as a result of this decision. Any equalities issues related to the provision of any future service will be considered by the individual schools, as the commissioners.

(b) Risk Management

- 9.2 There is a potential risk that schools will be unable to commission an appropriate service provider by the time the service is withdrawn. However, as the majority of school in Manchester already utilise alternative providers there is both a mature market of providers and a number of independent consultants who will undertake the procurement process for the schools.
- 9.3 The Council will provide advice around alternative providers, the current supply chain, independent consultants, pension and TUPE advice to all affected schools as part of the withdrawal programme.

(c) Legal Considerations

- 9.4 There are no specific legal considerations, the Council has no duty to directly provide meals.