

BIRMINGHAM CITY COUNCIL

PUBLIC REPORT

Report to: **CABINET**

Report of: **Corporate Director Children & Young People**

Date of Decision: **14th November 2017**

SUBJECT: **CITYSERVE CLEANING SERVICE OPTIONS APPRAISAL**

Key Decision: **Yes** **Relevant Forward Plan Ref: 004336/2017**

If not in the Forward Plan: **Chief Executive approved** ☐
(please "X" box) **O&S Chair approved** ☐

Relevant Cabinet Member(s) or Relevant Executive Member: **Cllr Brigid Jones, Deputy Leader**
Cllr Majid Mahmood , Cabinet Member for Value for Money and Efficiency

Relevant O&S Chair: **Cllr Susan Barnett – Schools, Children and Families**
Cllr Mohammed Aikhlaq – Corporate Resources and Governance

Wards affected: **All**

1. Purpose of report:

- 1.1 This report provides details of the proposed future direction for Cityserve's cleaning service to schools and children's centres.
- 1.2 The report on the private agenda contains confidential information in relation to the options appraisal. The two reports - public and private - must be read together, as this public report does not repeat information contained in the private report.

2. Decision(s) recommended:

- 2.1 That Cabinet notes the contents of this report.

Lead Contact Officer(s): Julie Young, Assistant Director Education Safeguarding
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3. Consultation:

3.1 Internal

- 3.1.1 The Commercialism Board were consulted on the future direction of Cityserve's business in March 2017. The board supported the recommendation that Cityserve should "improve and grow" and also explore options to focus its business on the most advantageous areas. As part of this approved direction of travel, an options appraisal was commissioned to begin June 2017 to explore the future direction of the cleaning service.
- 3.1.2 Unions and all staff were informed of the decision to undertake an options appraisal in May 2017 and informal discussions with client managers over the future direction of the service have since taken place. Following approval from Cabinet formal consultation will be undertaken with staff and unions, after which a decision will be taken via delegated approval as to whether to implement the proposals.
- 3.1.3 In addition, consultation with Trade Unions on the range of options was undertaken in October 2017. The consultation indicated that the preferred option best met the priority to protect jobs and terms and conditions. Unions also recommended the following implementation suggestions;
- A 'two model' approach to the migration of staff and communication with existing clients; one process to manage transition into schools, this would simply involve staff payroll information transferring from Cityserve's payroll to school's payroll, and another into academies, where TUPE applies (paragraph 4.3.2)
 - Effective forward planning is undertaken to mitigate the impact on those in client management roles of any reduction in posts by, for example utilising temporary staff to cover vacancies during the period that the proposal is being developed.
 - The impact on existing schools roles are understood (e.g. caretakers) and that actions are taken to quantify and minimise impact on these roles.
- 3.1.4 The Assistant Director for Education Safeguarding, Head of Commercialism and officers from Commissioning, Corporate Human Resources, Legal and Governance and City Finance have been involved in the preparation of this report.

3.2 External

- 3.2.1 Primary schools, as the largest business customer, were consulted on Wednesday 12th July 2017 at the Primary Schools Forum, to ascertain their future priorities. In addition, the presentation and questions were put onto the schools notice board on 13th July 2017 to gain wider feedback from both primary and secondary schools. A limited response was received from schools to this feedback, but views provided have been noted and incorporated into the options appraisal.
- 3.2.2. Following these responses further informal consultation was undertaken with Primary Schools forum in September 2017 by the Head of Cityserve, which indicated overall support for the proposal but highlighted concerns on the impact on schools, which are being addressed as part of the process. Further details are contained in the private report. Informal feedback from schools following these discussions has been supportive of the recommendations within this report.

- 3.2.3 Following approval of the full business case by Cabinet formal 45 day consultation with staff, and other stakeholders will take place.

4. Compliance Issues:

4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?

- 4.1.1 **Council Vision and Forward Plan;** The recommendations within this report will contribute to the council's vision of being a **city of growth** where every child, citizen and place matters, in particular priority 3 – Jobs and Skills.

- 4.1.2 **Priority 3 - Jobs and Skills;** Cityserve has a competitive strength in the schools catering market. The implementation of the recommendations proposed within will help Cityserve build upon their assets, talents and capacity in catering to shape the schools education market and harness opportunities across related markets.

- 4.1.3 **Council's Financial Plan 2017+ –** Cityserve currently has a savings target contribution of over £2.1m; these contributions are generated through a trading surplus. The recommendations in this report will help ensure these contributions are protected and support Cityserve in delivering further financial contributions as part of future budget processes.

- 4.1.4 **Commercialism –** the Council is embarking on a Commercialism approach that seeks to maximise the financial value of assets that the Council holds with the aim of creating a surplus to protect and invest in services. The recommendations in the private report will support the Commercialism approach by enabling Cityserve to focus on more advantageous areas of business, which will maximise the ability for the business to make a surplus that can be reinvested in other core Council services

4.2 Financial Implications
(How will decisions be carried out within existing finances and Resources?)

- 4.2.1 Financial projections indicate that the cleaning service's deficit will continue to worsen over the coming years and factors in a reducing client base based on current trends. Further details are contained within the private report.

- 4.2.2 The projected deficit is after taking into account planned remedial actions such as yearly reductions in head office expenditure, reductions in head office staff and increasing the charging rates in line with the Council's current assumptions on inflation.

- 4.2.3 It is projected that Cityserve would actually have to increase cleaning charges by a considerable margin over the next 3 years to avoid a deficit. Given the current financial constraints and pressures facing school funding it is highly unlikely this would be accepted by schools and indeed will encourage them to opt out at a greater rate than is currently the case.

- 4.2.4 If no action is taken to address the issues highlighted the service will not only place additional financial pressures on schools but also increase the financial risk of Cityserve not meeting its approved budget.

4.2.5 The bulk of the project and activity required to undertake consultation and implement the recommendations (subject to the outcome of the consultation) will be carried out within existing resources. However there is a requirement to fund additional resource for internal specialists, including Project Management, Human Resources and Legal expertise, which is estimated at £0.1m. This will be funded from existing surpluses within Cityserve.

4.2.6 There will not be any impact in relation to VAT for schools arising from this proposal, however there will be a marginal impact in relation to non-staffing costs associated with Children's Centres. This will be confirmed and addressed, subject to the outcome of consultation, as part of the implementation phase.

4.3 Legal Implications

4.3.1 The Council has no legal duty, although does have the power, to offer cleaning services to schools, under section 16 of the Education Act 1996 for example.

4.3.2 There are approximately 551 (out of a total 809) cleaning service employees working in establishments where the City Council is not the employer of staff i.e. Academies, Foundation and Voluntary Aided Schools. The proposed option would involve the migration of these employees into the establishments where they are currently based. The Council will ensure compliance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) when making the migration. The Council is experienced at undertaking TUPE transfers and will ensure that any activity is undertaken in line with the Councils best practice processes.

4.3.3 The Fair Deal for Staff Pensions guidance issued by HM Treasury in 2013 requires that where staff who are members of a public sector pension scheme move from the public sector to an independent contractor by way of transfer under TUPE, such staff should continue to be members of the public service pension scheme they were in immediately prior to the transfer. The guidance explicitly states that it applies to local authority maintained schools. All schools and academies have admitted body status (ABS) and the receiving organisations for the children's centres are currently going through the process to gain ABS.

4.3.4 The remaining employees currently work within Local Authority community schools where the Council is the employer and Birmingham City Council will remain the employer in this instance therefore staff would move from Cityserve's payroll to school's payroll – no TUPE would be required.

4.4 Public Sector Equality Duty (see separate guidance note)

4.4.1 A relevance test to decide whether the planned procurement for the contract has any relevance to the equality duty contained in Section 149 of the Equality Act 2010 of eliminating unfair/unlawful discrimination and to promoting equality was conducted on 27 September 2017. The initial screening identified no impact on any group of employees.

5. Relevant background/chronology of key events:

- 5.1.1 During the financial year 2013/14 Cityserve posted a trading loss of £610k. To address the situation, a service redesign was implemented between April and September 2014, consisting of a new client facing management structure, led by a commercially focused Senior Leadership Team. This structure replaced the previous one with separate Area Cleaning Managers and Area Catering Managers.
- 5.1.2 By 2014/15 the business made a trading surplus of around £1.7m; this increased in 2015/16 to just over £2.1m. The turnaround in trading surplus was solely achieved by the catering service. The cleaning element of Cityserve's business has not achieved its financial targets during this period – largely due to the relatively high costs of employment and management compared to its competitors.
- 5.1.3 During 2015/2016, Cityserve made a number of business improvements in an attempt to improve operational efficiency. The improvements included the introduction of micro fibre flat mop systems, a streamlined '3 products system' - cost comparison was completed with suppliers to ensure cost savings were secured and providing training to over 900 staff on how to use both the equipment and chemicals. Despite these efforts the cleaning business failed to generate a sustainable surplus.
- 5.1.4 The number of schools choosing to purchase cleaning from Cityserve has fallen significantly with a number of other schools indicating that they are considering withdrawing from cleaning.
- 5.1.5 Customer's expect clean establishments at a competitive price. In a sector where there is little variation in quality contracts are often won on price. Cityserve's cleaning service is more expensive than competitors; charges cannot be reduced because of Cityserve's high payroll costs. The costs to schools will be partially mitigated through avoiding council overheads and management costs associated with managing the service,
- 5.1.6 Broader Context
Demand for cleaning services over the last five years has decreased substantially and projections have found it is likely to reduce further over the coming years whilst many of the business' operating costs will increase.
- 5.1.7 Academisation provides schools with the greater operational freedom to choose their cleaning service provider - it has enabled schools to cluster together to procure cleaning services from the wider market or bring cleaning services in-house. Since 2009, only a small number of schools who converted to Academy status still purchase cleaning from Cityserve.
- 5.1.8 The Association for Public Service Excellence's (APSE) 2016 survey into Local Authority cleaning services revealed the majority of respondents expect their cleaning budgets to either decrease (48.3%) or decrease substantially (15.5%), whilst 22.4% expected budgets to stay the same; only 13.8% expect budgets to increase.
- 5.1.9 Given APSE's independent research into the sectors' budget predictions for cleaning services and the known impact of academisation on cleaning service demand it is fair to assume this trend will continue, with a decrease in the number of establishments purchasing cleaning.

- 5.1.10 If no action is taken to address the issues highlighted above the risk of Cityserve not meeting its approved budgets will increase, as will charges to schools for their cleaning service.
- 5.1.11 A two stage options appraisal took place on 6th September 2017 in order to appraise the future direction of Cityserve's cleaning service. The options appraisal was scored by the Head of Commercialism and officers from Commissioning, Legal Services, Corporate Human Resources and City Finance.
- 5.1.12 Initially, a long list of six options was under consideration, however four options were discounted as unviable or not meeting the priorities at stage one of the appraisal. The explanation for this decision is contained in paragraph 6.0 of this report. The two options that progressed to stage two of the appraisal were the continuation of the service in-house or the migration of the service into schools. The priority outcomes identified for options under consideration were:
- a. Minimise the future exposure to losses through retaining non profitable business
 - b. Protect the employment and terms and conditions of employees currently delivering the service
 - c. Minimise the future financial risk to Cityserve and the Council through operational/staffing costs
 - d. To provide a high quality effective cleaning service to schools
 - e. Potential for schools to make financial savings on cleaning
 - f. Cityserve continue generating the required budgeted contribution of £2.1m
- 5.1.13 Trade Unions were also consulted as part of the options appraisal process on 12th October 2017 and were supportive of the recommended options as the best available options to deliver a sustainable service while protecting jobs and terms and conditions of staff, notwithstanding a number of risks that are addressed elsewhere in this report.
- 5.1.14 The option to migrate the cleaning service to schools, academies and children's centres is the preferred option. The reasons for this decision are contained in paragraph 7.0 of the private report.
- 5.1.15 There is a slight dependency on the early years report that impacts children's centres. The dependencies would be managed in scope of this project. It is to be noted that this is a very small element of the business and if required will receive bespoke management in conjunction with the early years project. Any specific challenges will be managed on a case by case basis, also in conjunction with the early years project.

6. Evaluation of alternative option(s):

- 6.1.1 **Retain the current service "Do Nothing"** – This option was discounted as it exposes the business to unacceptable on going risks and will lead to increasing costs to schools. Consultation with Trade Unions concluded that this option presents as a greater risk to staff than the recommended option.
- 6.1.2 **Relocate to another trading vehicle within BCC** – This option was discounted because no other BCC vehicle was identified.
- 6.1.3 **Decommission** – This option was discounted as it would not provide any protections for staff and have a high impact on schools through a break in cleaning service. Trade Unions indicated that they were not supportive of this option during consultation.

- 6.1.4 **Outsource/sell to an external provider** – Soft market testing revealed the cleaning service would not be an attractive prospect for commercial suppliers.
- 6.1.5 **Retain the current service and improve or modernise** – This option was taken forward to stage two of the options appraisal. It has been discounted as there are considered to be no viable routes to modernising the service that would make a significant positive impact on its ongoing commercial viability and consultation with Trade Unions concluded that this option would present a greater risk to staff than the preferred option.

7. Reasons for Decision(s):

- 7.1 To progress formal consultation in respect of the proposed option for the delivery of cleaning services currently provided by Cityserve.

Signatures

Date

Cllr Majid Mahmood
Cabinet Member for Value for
Money & Efficiency:

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Cllr Brigid Jones
Deputy Leader:

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Colin Diamond
Corporate Director, Children
& Young People:

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List of Background Documents used to compile this Report:

1. Business Plan and Budget 2016+

List of Appendices accompanying this Report (if any):

1. Appendix 1 – Equality Impact Assessment