

Report to Resources Overview and Scrutiny – 24th June 2021

Cityserve – Service Update

Report of AD Development & Commercial, Alison Jarrett and Head of Service, Dale Wild

1 Purpose

To update Resource Overview and Scrutiny on the performance of the council's school meal provision service, Cityserve.

2 Recommendation

To note the content of the report

3 Introduction and Background to Service

- 3.1 Cityserve is Birmingham City Council's award-winning education catering service. They currently provide hot, nutritious meals to c.40,000 young citizens in 181 Birmingham schools each day, through their workforce of 822 permanent staff, the majority of whom are low paid, part time and female. Working closely with Public Health and national guidelines, these healthy meals are often the only hot meal these young people will eat during the day.
- 3.2 The service has operated as a commercial model since 2014/2015 and to date has returned a surplus of £13.1m. This surplus has in recent years come under increasing pressure due in good part to rising costs of direct labour (past costs of superannuation in particular), the fragmentation of the customer base due to academisation, increasing food prices and a real-term inflationary reduction in free school meals income from government to schools. This position is further exacerbated by the introduction of Universal Infant Free School Meals (UIFSM) and the entry to the market of agile private and price aggressive competitors and brokers, substantially undermining Cityserve's traditional trading bases.
- 3.3 Income surplus reached a peak at £2.5m in 2015/16 but has since fallen to £2.1m, however behind this lies a drop in gross income from £40m in 2015/16 to £23m in 2019/20 (2020/21 does not reflect normal trading). The surplus has been retained by continuous review of costs, efficiencies and reduction in workforce, both through restructure, through TUPE arrangements and natural attrition. There is a level of cost and overhead however that cannot sustain continued loss of contracts. Future projections are that without a change to the model, the business will breakeven during 2021/22 and move into loss thereafter.
- 3.4 The year 2020/21 has been a financially exceptional year for the service with an outturn, pre-covid budget support of £1.4m deficit. Covid support has been available to the council to cover loss of income and therefore with £2.9m of lost income covered in this way, the service were able to report an outturn of £1.5m surplus, in line with its budget. Trend analysis and projections for the service therefore rely mainly on data and experience from 2019/20 and before.
- 3.5 Cityserve's contracts with schools are on a rolling contract basis, with schools giving one full term's notice to leave. In 2019/20 Cityserve was budgeted to provide meals in 224 schools, however during the course of this year 43 schools served notice to terminate their contracts. In 2020/21 Cityserve was budgeted to provide meals in 181 schools. Since 1 April 2020 a further 18 schools have officially

given notice and will leave in 2021/22, despite Cityserve fully supporting them throughout the pandemic. A further 6 schools have requested TUPE information without serving notice, however they have indicated that they are looking to tender the contract shortly.

- 3.6 A review of the service by the Cabinet Member for Finance & Resources and the Cabinet Member for Education, Skills and Culture together with the Interim Director of Council Management and officers considered actions to both halt market attrition to stabilise the service and then to develop the service to be more attractive to the market and to become sustainable in the future.
- 3.7 Work has shown that Cityserve are not competitive against the private sector on price. This is in large part due to two main areas, these being: Labour costs (Real Living wage and Superannuation costs) and the Service overheads paid to the Council. The Senior Management Team also identified a skills gap when completing tender opportunities which also impacts on Cityserve not being able to increase their client base. A consequent course of action is in progress, including management of service costs, accounting treatment of council overheads, to pursue a pilot price freeze with the schools, service improvements and enhanced tender submission skills.

4 Actions to Address Market and Performance

4.1 Cost Base and Price Freeze

Cityserve's relationship with schools is secured by way of a rolling contract, where a school has to serve notice a full term ahead of leaving. This is being exploited by some consultants, who regularly lobby schools on behalf of competitors advising they will reduce costs by going out to tender. Experience shows that the release of the 2021/22 budgets will increase the number of schools reviewing their contracts and potentially serving notice. There is a cost associated with every bid for a contract and Cityserve needs to consider the balance of incurring these costs against probability of success within the current market.

Cityserve charges to schools are based on total cost recovery including budgeted surplus, in line with council policy on fees and charges. This however creates a position where budgeted surplus becomes a cost to the service and has previously driven further increases to the pricing structure as a result of council inflationary increases to income budgets. As gross income reduces (£40m in 2015/16 to £23m in 2019/20) the margin per contract increases in order to maintain a set surplus amount rather than a target surplus percentage. Projections at the 2021/22 budget setting process recognised the falling surplus trend and reduced the budget for Cityserve to close to break-even.

The service overheads however remain high in comparison to the private sector for three main reasons:

- Increase in payroll (pay award, incremental pay, living wage, employer pension rate change)
- Increase in food (inflation, Brexit)
- Inflation on other operating costs (cleaning materials, disposables etc.)

In order to test the hypothesis that contracts are being lost due to cost increase, a Cabinet Member decision was taken on 23 March 2021 to freeze the prices to schools until the start of the new school year in September 2021 to assess the impact on both contract attrition and the ability to win new

business. The financial impact of this to the council by way of reduced income is being assessed. At the time of decision school meal take-up was at 80% of pre-covid levels and the calculated maximum cost of this initiative is £266k (staffing costs £178k, food inflation £86k, other inflation £2k). As meal demand within schools rises this loss reduces, meal take-up is currently at 95.29% of pre-covid budgeted levels and rising. Should this strategy be successful, Cityserve will look to develop a new Operating Model to reflect the change of emphasis from surplus return to a more holistic service centred on the health & well-being of the child. Since implementation there have been no notices from schools indicating that they may test the market, this is a clear improvement over previous years but it is too early to say whether this will remain the case at the end of the summer term. There has also, notably been 5 schools within the “Forward Trust” cohort who have renewed their commitment to Cityserve including one new addition to the cohort, for whom Cityserve will be the food service partner.

4.2 Tender Submission and Review

A further impediment to Cityserve’s financial performance is the lack of experienced and qualified business development resources to complete tenders. The Options Appraisal identified skills gaps in completing tender opportunities resulting in poor responses. An external advisor group assisted with a model tender which was shortlisted for ITT but failed to win the contract. A full review of this submission will be completed once feedback from the Bid Consultancy has been received and lessons learned will be acted on. Cityserve were successful on the tender to Stirchley Primary School and this work too will be core to the new tender skills improvements.

The new Operating Model will contain more focussed functionality for winning new business through successful tender submission, alongside a strategy to reduce attrition. A move towards greater links between individual school catering teams to school staff and the children will determine the future school meal menu development strategy, where children will be at the heart of driving nutritional meals through rejuvenated health & well-being values.

4.3 Service Enhancement

The Senior Management Team constantly review their service, acting on feedback and experience and looking for ways to enhance the service to children and schools. In parallel with the price freeze a full review of service provision and engagement is in progress. A Strategy Outline document has been prepared centred on the question “How will we/could we provide nutritious, healthy and tasty meals for the children (Citizens) of Birmingham?” This strategy developed by the SLT is in its nascent stage. Taking their inspiration from the pupils and feedback from schools, this strategy places children, their health and their experience at the centre of service design and includes initiatives enhancing communications and building closer engagement. At its heart the strategy development is driven by values and focused on the outcome.

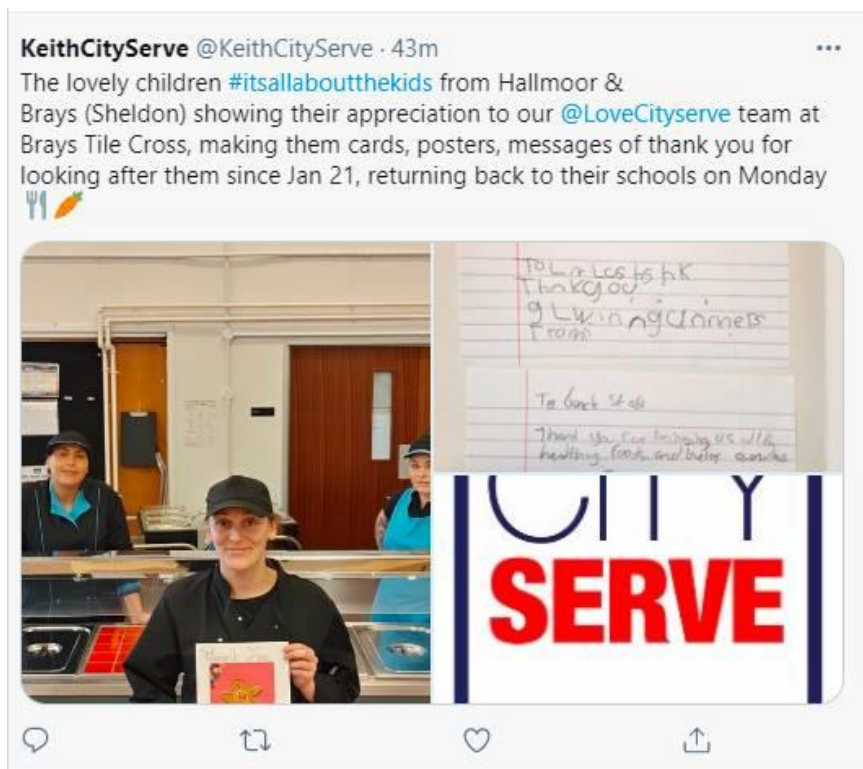
5 Initiatives and Successes

5.1 St Georges Community Holiday Feeding Programme – Cityserve supported the staff and pupils of St George’s Primary School in their Food Hub Initiative. This in-school “shop” was run by year 6 pupils

selling boxes of up to 20 donated grocery items for £3 to parents and families. Cityserve was able to support this initiative by negotiating with their suppliers to donate food items.

- 5.2 St Judes - The head teacher set up a food bank to support the local communities poorest families and were reliant on generous community donations to run this project. The school approached Cityserve for support who in turn approached a few of their key suppliers for support. Two of the larger suppliers offered their support with one making weekly drops of fresh produce to the school and the other donating £500 worth of food of the school's choosing to the cause.
- 5.2 Veg Power – ITV News item – June 2021 - #eat them to defeat them. Featuring on ITV news on 10 June, Moseley CE Primary school is one Birmingham school participating in a national campaign to increase the amount of fruit and vegetables eaten by children. Supported by their Cityserve kitchen, the school is increasing the offer of fruit and vegetables every day, encouraging all pupils to eat and to try new produce. The kitchen and Cityserve staff were filmed during one lunch time.
- 5.3 Covid lockdown school lunch provision. There was a large amount of very negative coverage over the covid lockdown period regarding the provision of lunches to free school meal pupils and to vulnerable families. Cityserve were at the front of providing meals at the outset of lockdown in March 2020, providing packed lunches to all pupils attending schools and for collection by free school meal pupils.

During the second lockdown and following Government announcements in January 2021, Cityserve Senior Management Team took a decision that where schools instructed Cityserve to provide weekly or fortnightly food hampers, this would be put together to include a minimum of £15 of food per week value into each Free School Meals Hamper. Due to the individual nature of each Free School Meal (cultural, religious, dietary and allergen needs), each individual school was provided with as much choice as possible. In all cases Cityserve school-based teams work very closely with their respective schools to provide the style and content of food required by each individual school.



There were many examples of positive feedback to the kitchens and to Cityserve. The comment below reflects the reaction of the children to their Cityserve team on their return to school in January.