



Education & Skills and Catering

Threat of large-scale subcontracting



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Executive summary

Two years into a 20-year £1.7bn educational support services for Staffordshire County Council the **Capita led joint venture company is subcontracting 3,300 staff (87%) to a new contractor**, Chartwells, the school and college catering arm of Compass Group plc.

Only two bidders remain in the procurement process for Education and Skills in Barnet - Capita Group plc and Cambridge Education (Mott MacDonald).

The activities of these two companies and the inclusion of catering in the Education and Skills contract means that it is a reasonable assumption that both bidders will seek to subcontract the Barnet catering service.

The catering service accounts for between 60%-65% of Education and Skills staff.

The planned privatisation of Education and Skills is already putting this income source at risk as a result of the incomplete Outline Business Case (Barnet UNISON, 2015), but if a JVC subcontracts the Catering service, this adds additional risks to this income stream and for the workforce. Subcontracting will lead to two contractors seeking to extract profit from the service.

Barnet UNISON recommended the Catering Service should be excluded from the JVC option in January 2015, which is reinforced with this evidence.

The use of a 20% margin for all services in forecasting increased income in the financial modelling tables is crude, ignores differences between services and distorts the level of potential trading income. The threat of subcontracting the catering service, which is forecast to generate the largest trading income under the JVC option, will have a negative on these forecasts.

Recommendations

Barnet UNISON strongly recommends that the Council should:

1. Postpone the Competitive Dialogue until the revised Outline Business Plan is completed and agreed by the Children, Education, Libraries and Safeguarding Committee.
2. Revise the financial modelling for trading income in the JVC option as a matter of urgency.
3. Revise the Education and Skills Outline Business Plan to take account of the financial, organisational, risk and operational implications of subcontracting the bulk of the workforce to another private contractor.
4. Seek confirmation from the bidders about their long-term plans for all the Education and Skills services and to reject proposals that involve subcontracting of services, except for obtaining specialist advice and skills.
5. Exclude the Catering Service from the JVC option and retain in-house.
6. Revise the Equalities Impact Assessment for Education and Skills to include a full employment profile of those employed in the services.
7. Re-examine the responsibilities, accountability and the decision making process, contract clauses and the method of monitoring and scrutinising the performance of a major subcontractor.
8. Require open book accounting for the JVC, a profit-sharing agreement and an annual report from the JVC as part of transparency for schools and the public.

Barnet Council's planned outsourcing of education and skills services

In September 2014 the Children, Education, Libraries and Safeguarding Committee agreed to examine four options for the future delivery of Education and Skills services:

- In-house
- School-led social enterprise
- Joint venture company (JVC) with schools having an ownership role
- Joint venture company (JVC) with schools having a commissioning role

The Committee discussed an Outline Business Case and accompanying report on 12 January 2015, which examined the above options. The Committee agreed to develop "...a full business case on the establishment of a joint venture company with a third party for the future delivery of the Education and Skills service" (London Borough of Barnet, 2015a). It also agreed to commence procurement to identify a third party partner and development of a full business case.

Services in scope:

- Strategic and financial management of the service
- School improvement
- Special educational needs (SEN)
- Admissions and sufficiency of school places
- School Attendance
- Post 16 learning
- Traded services within Education and Skills:
 - Catering service
 - Governor clerking service
 - School improvement traded service (Barnet Partnership for School Improvement)
 - Newly Qualified Teachers support
 - Educational psychology (part-traded) Education Welfare Service (part-traded).

Barnet UNISON submitted a detailed analysis of the Outline Business Case citing the failure to develop an in-house option; the level of assumptions, estimates, possibilities and potential and other vagaries in the OBC; a failure to identify key risks; the use of crude evaluation criteria; and the need for TUPE Plus for staff transferred and the London Living Wage for new starters be built into the options appraisal and business case (Barnet UNISON, 2015).

Large-scale subcontracting by Capita in Staffordshire

Staffordshire County Council outsourced a range of educational support services to Capita Group plc in April 2013 with a 20-year £1.7bn contract. 3,800 council staff were transferred to a joint venture company, Entrust, with Capita having a 51% majority stake and the County Council 49%.

Two years later Capita/Entrust announced that **3,300 Entrust staff (87%) will be transferred to the new contractor**, Chartwells, the school and college catering arm of Compass Group plc, an international catering and hospitality business (Staffordshire Newsletter, 2015 and Stoke Sentinel, 2015).

The scale of subcontracting raises important questions.

Firstly, the subcontracting covers virtually the entire Entrust workforce and a large part of the JVC budget. This raises questions about the validity of the original procurement process and whether the possibility of mass subcontracting was included in Capita's bid. There also questions about the financial impact of this decision and who bore the cost of subcontracting.

Secondly, the claimed 'rationale' for the Staffordshire subcontracting was to transfer school meals, cleaning and maintenance services to a 'specialist company', leaving Entrust to 'concentrate on providing academic support services' (Stoke Sentinel, 2015).

This scale of subcontracting is unlikely to occur in Barnet's Education and Skills services because the proposed contract includes only catering and excludes other facilities management services included in the Staffordshire contract.

The reasons for subcontracting

There appears to be only two reasons for this decision so early in the contract.

Firstly, Capita realised that it did not have the catering skills and experience to deliver the required range and quality of school meals in over 400 schools and/or to achieve the required level of savings.

Secondly, Capita realised that it had under-estimated the financial resources in its bid. Contractors would normally have sought to reduce the quality/scope of the school meals service, but this would have been a relatively slow process to try to avoid a backlash from pupils, parents and teachers.

The subcontracting 'solution' effectively means that savings can be sought by cutting jobs, terms and conditions and impose new working practices to 'transform' the school meals service. Since schools meals will be no longer be delivered by the Entrust joint venture, 'transformation' and change will be the responsibility of the new contractor. Capita and the County Council can now play the blame game and try to distance themselves from the negative consequences of cuts.

Of course, the reason for subcontracting could be a combination of the above. The decision appears to have been made in secret. There has been no formal announcement by Capita Group plc and Chartwells, or on the Entrust and Staffordshire County Council websites.

Education and Skills Competitive Dialogue in Barnet

Only two bidders remain after the Council received six written expressions of interest:

- Capita Group plc
- Cambridge Education (Mott MacDonald) <http://www.camb-ed.com>

On the evidence of the Staffordshire contract it is a reasonable assumption that Capita will seek to subcontract catering if it is awarded the Barnet JVC contract. It is not clear whether the Staffordshire subcontracting was disclosed during the procurement process or was a decision taken soon after the commencement of the contract.

Cambridge Education provides international development, learning and teaching, leadership and management services, but their website makes no reference to catering (or to any other facilities management service).

On this evidence it is almost certain that both bidders will seek to subcontract the Barnet catering service.

Implications for Barnet

The Initial Equalities Impact Assessment – Education and Skills Alternative Delivery Model identified a total of staff of 336 (London Borough of Barnet, 2015d) of whom:

- 93% of the workforce is female
- 55% of females only are over 50 years of age
- 52.9% of the workforce is white (British, Irish, other white), 21.7% black and black British and 9.2% Asian and Asian British (London Borough of Barnet, 2015d).

However, no information is available on the staff employed in each of the Education and Skills services or on their full-time/part-time status. UNISON estimate that there are at least 300 staff in catering alone, which brings into question the accuracy of the employment data for Educations and Skills. The Equalities Impact Assessment for Education and Skills should be revised to include a full employment profile of those employed in the services.

Taking account of the different composition of services in the Barnet proposal it is estimated that the catering service accounts for between 60%-65% of Education and Skills staff (compared to 87% in Staffordshire).

The Catering service has an annual income of £7,133,970 accounting for 78.7% of Education and Skills income of £9,060,190 (London Borough of Barnet, 2015c). It is one of four sections in Education and Skills, which make a net contribution to the budget. Catering's contribution of £190.470 contrasts with much smaller sums from Barnet Partnership for School Improvement (£33,340), Foreign Language Assistants (£13,380) and North London Schools International Network (£7,520).

The planned privatisation of Education and Skills is already putting this income source at risk, but if a JVC subcontracts the Catering service, this adds additional risks to this income stream and for the workforce. Subcontracting will lead to two contractors seeking to extract profit from the service – the subcontractor and the JVC contractor – putting additional pressure on its financial sustainability.

The Barnet UNISON January 2015 report recommended the Catering Service should be excluded from the JVC option. This is reinforced with the evidence above.

The Council should be concerned that with only two bidders there is a risk that the bidding may not be competitive and therefore may not achieve value for money. Moreover, there is a risk that bids may be inflated in order to retain "profit" from privatising some of the services, principally the catering service. We therefore recommend that a profit sharing agreement is part of the contract between the contractor and the Council (via the JVC) that contains clauses that apply to a subcontractor if the JVC decides at a later stage to subcontract catering. It should require open book accounting for the JVC and any subcontracting and require an annual report from the JVC as part of transparency for schools and the public.

Barnet UNISON highlighted the use of a 20% margin for all services in forecasting increased income in the financial modelling tables for each option (Barnet UNISON, 2015 and London Borough of Barnet, 2015e). This is crude, ignores differences between services and distorts the level of potential trading income. The threat of subcontracting the catering service, which is forecast to generate by far the largest trading income under the JVC option, will have a negative on these forecasts. Financial modelling for the JVC option should be revised as a matter of urgency, not least because the original catering trading income forecast was flawed.

Lack of transparency

The Staffordshire contract exposed a lack of transparency and disclosure about decisions that affect services users, staff and the County Council. It is vital that bidders policies for any subcontracting of Barnet's Education and Skills services are fully disclosed in the procurement process and the powers of the JVC clarified.

It is also essential that the Council re-examines responsibilities, accountability and the decision making process should this issue arise and ensure that the contract clauses take account of the additional complexity in monitoring and scrutinising the performance of a major subcontractor.

Recommendations

Barnet UNISON strongly recommends that the Council should:

1. Postpone the Competitive Dialogue until the revised Outline Business Plan is completed and agreed by the Children, Education, Libraries and Safeguarding Committee.
2. Revise the financial modelling for trading income in the JVC option as a matter of urgency.
3. Revise the Education and Skills Outline Business Plan to take account of the financial, organisational, risk and operational implications of subcontracting the bulk of the workforce to another private contractor.

4. Seek confirmation from the bidders about their long-term plans for all the Education and Skills services and to reject proposals that involve subcontracting of services, except for obtaining specialist advice and skills.
5. Exclude the Catering Service from the JVC option and retain in-house.
6. Revise the Equalities Impact Assessment for Education and Skills to include a full employment profile of those employed in the services.
7. Re-examine the responsibilities, accountability and the decision making process, contract clauses and the method of monitoring and scrutinising the performance of a major subcontractor.
8. Require open book accounting for the JVC, a profit-sharing agreement and an annual report from the JVC as part of transparency for schools and the public.

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