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| HIGH LIFE HIGHLAND REPORT TO BOARD OF DIRECTORS16 June 2016 | AGENDA ITEM REPORT No HLH /16 |

## **Update - Catering, Cleaning and Facilities Management - Report by Chief Executive**

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| **Summary**The purpose of this report is to provide Directors with an update on the progress The Highland Council is making in considering options for the future management of its catering, cleaning, facilities management and janitorial services, with one of the options involving the proposed transfer of all or part of these services to High Life Highland.It is recommended Directors:-1. note and comment on the updated position, with particular attention to the issues raised in paragraph 3, HLH Governance /Due Diligence; and
2. remit to Directors on the Finance and Audit Committee either by way of a formal meeting or email contact to assist the Chief Executive in forming an HLH view where required in advance of, or following on from, the THC Member’s seminar on the 29 June 2016.
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| **1.** | **Business Plan Contribution** |
| 1.1 | This report supports the highlighted Business Outcomes from the High Life Highland (HLH) Business Plan:1. **To advance sustainable growth and financial sustainability**
2. **Deliver the Service Delivery Contract with THC**
3. Improving staff satisfaction
4. **Improving customer satisfaction**
5. **A positive company image**
6. **Services designed around customers and through market opportunities**
7. Sustain a good health and safety performance
8. **A trusted partner**
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| **2.** | **Background** |
| 2.12.22.32.4 | The Highland Council is considering options for the future management of its catering, cleaning, facilities management (CCFM) and janitorial services. One of the options is to seek the Board’s agreement to transfer all or part of these services to HLH.A Members Seminar was held on 12 May during which the Director of Care and Learning presented the background to the proposed change, the aims of seeking new management arrangements and the options available. The Chief Executive will take Directors through the seminar presentation at the Board meeting.The Chief Executive of HLH was asked to attend the Seminar for the purposes of responding to issues raised by Members in respect of the potential impact on HLH if the option to transfer all or part of the CCFM and janitorial services to HLH was to be proposed. The Chief Executive will provide a verbal update for Directors at the Board meeting on the range of issues asked and answered.At the conclusion of the Seminar, Members requested that Council officials develop the risks and benefits of five of the nine options presented. The five options to be further reviewed are as follows:* 1. Status quo - plus;
	2. School management of CCFM / janitorial services;
	3. Transfer to Council’s existing ALEO (HLH);
	4. Transfer to another Highland Council Directorate; and
	5. Split CCFM / janitorial Services into school meals and building services for any of the above options.
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| 2.52.6 | A second Members’ Seminar will be held on 29 June following the next full Council meeting, to which the Chief Executive has been invited. At the Seminar Members will be presented with the benefits, risks and issues to the Council associated with each option. It is anticipated that the outcome of the Seminar will be a further narrowing of the options. As previously authorised by Directors, HLH officers have sought external advice from the company’s solicitors and financial advisors on the implications to the company if the Council were to approach HLH to adopt the management of all or part of CCFM and janitorial services. A summary of the advice received is presented in the following sections. |
| **3.** | **HLH Governance/Due Diligence** |
| 3.1 | The Company solicitors Anderson Strathern, VAT specialists Ernst and Young [EY] and the charity regulator OSCR have been approached for initial views on the potential transfer of all or some of CCFM to HLH. A summary of the advice so far as well as proposed further work required follows:-* The services under consideration could be operated through either the HLH main or trading company
* The potential transfer is new territory for the charity regulator and as such it is as yet unsure on its view. Follow up contact has been made through the company solicitors, including a proposal to meet to discuss the matter further
* The Council operates schools meals as part of its statutory obligations and as such, the income derived from that activity is not subject to VAT. As HLH cannot operate under such a regime, on the initial advice received, it seems likely that VAT on school meals income would apply were it to operate the service. In addition, further discussions are needed to explore the VAT effect were HLH to deliver the school meals service but simply act as a collecting agent for the income. The Council would also need to take advice on both of these issues.
* Further work needs to take place to clarify if HMRC would treat the subsidy for the potential CCFM transfer as a management fee or a grant/deficit subsidy as the VAT treatment for each is considerably different and would impact on HLH’s current VAT position as well as for the enlarged entity.
* Work remains ongoing with EY with regards to HLH’s current VAT position, which will impact on the starting point of any potential CCFM transfer, most importantly in terms of input Vat recovery (Partial Exemption).
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| 3.2 | In order that Directors can be assured of their input should issues arise prior to, or following on from the next THC Members seminar on 29 June, it will be recommended that it be remitted to Directors on the Finance and Audit Committee either by way of a formal meeting or email contact to assist the Chief Executive in forming an HLH view where required. Directors should note however that all decisions on whether to accept or reject any proposal of transfer will come before the full Board.  |
| **4.** | **Implications** |
| 4.1 | Resource Implications – work is required to continue to establish the VAT and budgetary implication of any proposal for transfer. |
| 4.2 | Legal Implications – firm legal advice will be sought once it is clear if it remains appropriate to consider some or all of CCFM services for transfer. |
| 4.3 | Equality Implications – there are no new equality issues relating to the report. |
| 4.4 | Risk Implications – as part of the exploration of each option, risks and benefits are under consideration . |

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|  **Recommendations**It is recommended Directors:-1. note and comment on the updated position, with particular attention to the issues raised in paragraph 3, HLH Governance /Due Diligence; and
2. remit to Directors on the Finance and Audit Committee either by way of a formal meeting or email contact to assist the Chief Executive in forming an HLH view where required in advance of, or following on from, the THC Member’s seminar on the 29 June 2016.
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Signature:

Designation: Chief Executive

Date: 3 June 2016