



National Audit Office

Smarter food procurement in the public sector

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 963-I Session 2005-2006 | 30 March 2006

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TERMS COMMONLY USED IN THIS REPORT

Contract catering firm	A business engaged in providing a meals service (for example by running a staff restaurant or providing school meals).
e-auctions	Internet-based procurements that are operated as reverse auctions whereby bidders place successively lower prices for the contract.
e-marketplace	Internet-based systems enabling suppliers to post their product prices and purchasers to compare and act upon the deals on offer.
Framework contract/agreement	Centrally negotiated arrangements which local organisations can choose to adopt, benefiting from aggregated purchasing power and reduced administrative costs.
Gain-share	Work between clients and suppliers to identify ways of achieving efficiency gains which are then divided between the parties.
Goods received checks	Checks on items delivered by suppliers which seek to make sure that they are as ordered and invoiced.
Local procurement	Buying items from local sources. Public procurers must abide by the EU rules in their procurement practices, which do not allow discriminatory policies such as 'buy local' or 'buy British'. Purchases from local/British suppliers can, however, be made where these suppliers offer the best cost and quality options – in other words, the best 'value for money' bids.
Organic produce	Food that meets legal standards for its production chiefly aimed at reducing the impact on the environment and encouraging high nutritional quality. Organic farming typically restricts the use of chemicals and requires that animals are reared using minimal use of drugs.

Prime cooking (or preparing from 'scratch')	Using raw (often fresh) ingredients to produce complete dishes to feed the users of the service.
Standard 'costed' recipe	A recipe setting out the precise quantity of each ingredient enabling accurate forecasting of the food costs for each dish.
Stock reconciliation	Comparing purchase records with sales records to identify on a line by line basis the expected stock levels and then comparing the expected levels with a physical count of the stock held.
Supplier (volume) discounts	Reductions to the standard price for a given item usually offered for prompt payment or for bulk purchasing.
Supplier rebates	Retrospective payments by suppliers to purchasers relating to agreed reductions for cumulative purchases exceeding stated limits over a given period (often a year).
Sustainable food	Food which is produced and distributed so as to take into account its wider impacts on the environment (for instance, on carbon emissions and biodiversity), the economy (for instance, on regional economic development), and society (for instance, on the rights and conditions of the workers who produce it).
Take-up	The proportion of potential users of a service who actually use it (often expressed as a percentage).
Wholesale supplier	A business that buys a range of different food and non-food items from producers (such as farms or food manufacturers) and importers for resale to catering contractors, kitchens within public sector organisations.

EXECUTIVE SUMMARY



1 The public sector in England spends around £2 billion¹ per year on providing food and drink to service users, staff, the general public, clients and visitors. This expenditure alone makes public food procurement of interest to Parliament and the taxpayer, in terms of seeking assurance that this money is being spent efficiently.² Equally, the quality and safety of public sector food are of prime interest to the millions of adults and children who eat it. In recent years there has been rising interest in the quality of food served commercially in Britain, as well as in the quality and variety of British produce; accompanying this, and helped by some high profile media coverage, there has been a growing interest in the quality of food served in the public sector, in particular school food.

2 The range of major interests and issues that are touched by public food procurement are vital to the Government's broad aims to improve the user's experience of public services, and are reflected in a number of important Government policy agendas, most notably on efficiency,³ public health and nutrition, and sustainability (addressing the public sector's wider and longer term impact on the environment and economy). There is an increasing recognition of the linkages and potential trade-offs involved between these agendas. For example, an increasing number of studies point to the wider benefits to be gained by increasing the nutritional quality of public sector food, be that improved concentration of pupils in school, or the longer term impacts on obesity and heart disease. Reconciling these agendas is not impossible,

but to successfully combine them places considerable demands on the skills and capacity of those responsible for actually delivering food procurement.

3 A number of departments and agencies have overarching responsibility for policies which apply to the entirety of public food procurement, notably the Department for Environment, Food and Rural Affairs; the Office of Government Commerce; the Department of Health; and the Food Standards Agency. In addition, in each of the four main sectors of spend on public food procurement – schools, hospitals, Armed Forces bases, and prisons – departments are working to improve food procurement with a range of bodies and stakeholders throughout often complex delivery chains.

4 The focus of this report is on how public sector organisations can become more effective procurers of food, maintaining or improving the quality of the meals they serve while controlling or reducing their costs. In particular, we assessed:

- the progress of public sector organisations, including those with cross-government responsibility for food procurement, in increasing efficiency, sustainability, and nutritional quality in their food procurement; and
- what more needs to be done by public sector organisations to improve performance and realise financial and quality of service benefits, supported by examples of good practice from organisations in both the public and private sectors.

¹ National Audit Office estimate (further details are contained within the appendix to this report).

² Public sector food procurement represents around 7 per cent of the £26 billion total UK market for food and catering services (*Public Sector Catering in Berkshire, Buckinghamshire and Oxfordshire: the Potential for Sustainable Food*, Mike Rimmington, Oxford Brookes University Business School, 2005), and is therefore also of direct interest for producers and suppliers throughout the UK food industry.

³ Under the Government's Efficiency Programme, announced in Spending Review 2004, the public sector has been given a target of achieving some £21.5 billion in annual efficiency savings by 2007-08, of which some £7.17 billion is due to come from efficiencies in procurement, including food procurement.

5 Part of our examination concentrated on case study examinations in three of the largest areas of public sector food procurement – schools, hospitals and Armed Forces bases. The fourth, prisons, is covered in a separate report, *Serving Time: Prisoner Diet and Exercise*, published in March 2006.⁴

6 In identifying opportunities for efficiency gains and reduced costs, we have focused on measures which would also benefit, or at least have neutral impacts on, levels of customer service, sustainability, and nutritional quality. Our conclusion is that there is significant scope for increasing efficiency simply through raising the professionalism of public sector food procurement, and by the public sector's pursuing a more joined up approach, and that such measures need have no negative effect on the quality of food served. Indeed, increasing efficiency can have a positive impact on sustainability and nutrition, by enabling organisations to use cost savings in some areas to help to finance improvements in others; for example, savings resulting from better checks on goods delivered could be used to improve the quality of ingredients purchased, or improved nutritional quality could lead to reduced hospital stays and so improve the overall efficiency of NHS Trusts. Within this report we identify numerous examples of organisations that have both increased efficiency and improved the quality of their meals.

Key findings

Addressing the challenge of reconciling costs, quality and sustainability

7 **On the scope to improve efficiency and reduce costs without negative impacts on sustainability and nutritional quality.** Despite the progress made at departmental and frontline levels in our three case study sectors in improving the efficiency of food procurement efficiency we estimate that additional annual efficiency gains of nearly £37 million are achievable across the entire public sector by 2007-08, rising to £224 million by 2010-11. We identified significant scope for improving efficiency in the following areas:

a Reduced prices for the same or better quality food products: We found that prices for a range of commodities routinely purchased in large quantities varied considerably, across the public sector (a pint of milk, for instance, ranging from 17 to 44 pence, and an 800g wholemeal loaf of bread costing between 32 pence and £1.10).

While the lowest prices reported by public organisations were genuinely competitive compared against the best market prices available, there were many which were comparatively expensive. *We estimate that public sector organisations should, simply by improving their market knowledge and buying professionalism, be able to reduce their food ingredient costs by at least four per cent, amounting to £40 million, by 2010-11.*

- b Improved transparency of costs and more rigorous oversight of contract caterers' charges:** There is widespread lack of transparency in contract caterers' charges. As an example, one third of the organisations in our survey that outsourced their catering were unable to state the purchase prices of any of the basket of ten commonly purchased items we requested. Major catering firms routinely obtain volume discounts of around 12 per cent and year-end rebates of approximately three per cent from their suppliers (the largest UK catering firms may be earning up to around £95 million in total this way solely through their contracts with public sector clients in England). However, it is unclear how much of this is returned to the public sector. *Public sector organisations should, through better understanding of the charging structures of major catering firms and through more joined-up negotiations with them, be able to negotiate a share of £30 million from the estimated £95 million per year earned by catering contractors from discounts and rebates.*
- c Aggregating demand to reduce procurement costs and increase purchasing power:** Given that food procurement is common to many public bodies, and that in almost every location there will be other public bodies nearby, there is obvious potential for public food procurers to join together to increase their purchasing power. The overall picture, however, is of fragmented purchasing, particularly within the schools sector and across the NHS. Just over half of public sector organisations (excluding the schools sector where the proportion is likely to be even higher) do not engage in any joint buying with other public bodies, despite 44 per cent of these organisations using at least two of the same major suppliers. Aggregation of public sector demand should not automatically mean aggregation of supply. Procurers may need to assess the longer term impacts of the sustainability and contestability of the market when deciding how their package of requirements should be presented to the market.

4 National Audit Office: *Serving Time: Prisoner Diet and Exercise*, HC 939, Session 2005-06.

We estimate that with greater aggregation across the public sector, an average reduction in prices of four per cent is possible, equating to an annual saving of £80 million by 2010-11. This is in addition to the savings achievable through raising market knowledge and buying professionalism.

- d Improving catering professionalism, and better use of external expertise:** Well developed capabilities in the receipt and storage of food, menu design and meal preparation can all generate efficiency gains and reduce waste. Our survey and site visits indicated that the quality of menu design, goods received checks, stock reconciliation, food storage, and accounting procedures varied greatly. In addition, only a third of organisations in our survey used consultants to successfully reduce their costs, even though those that did reported achieving reductions on average of seven per cent; and only 16 per cent of organisations use commercial price monitoring services, with ten per cent not taking any measures to monitor the competitiveness of the prices paid for food. *We estimate that four per cent cost reductions are achievable across the public sector, amounting to £40 million, by 2007-08.*
- e Managing catering operations to reduce environmental impacts and costs:** We found limited evidence of public bodies working independently or with their suppliers to reduce environmental impacts and increase efficiency. For example, we found no evidence of public bodies passing on the kitchen utility costs to their contractors (which might incentivise them to increase onsite resource efficiency). *Across the schools sector we estimate that it should be possible to achieve annual savings of two per cent, just under £1 million, by 2007-08 by taking actions such as only lighting ovens or switching on grills when needed. Savings of a similar magnitude should be possible across all other parts of the public sector but in the absence of details of baseline expenditure it is not possible to quantify the potential savings.*

- f Increased take-up of meals, and income generated by them:** Where consumers have a choice whether to use a catering service or not, overall take-up of that service is often vital to its financial viability, as reduced income leads to falling spend on ingredients, reduced customer confidence and reduced scope for investment. Failing to increase the volume of take-up and therefore of food purchased represents an unrealised opportunity to reduce unit costs. This issue is particularly relevant to schools, hospitals and local authorities (where they are selling meals to the public), and to the Ministry of Defence's 'Pay-As-You-Dine' initiative. We found significant variations in meal take-up: in the schools sector, for example, take-up varies from 26 to 90 per cent across different local authorities. *We estimate that for the school sector alone it should be possible to achieve, on average, an increase in take-up of ten per cent by 2010-11 which (taking account of increased food and other variable costs) would result in an additional £33 million being generated for schools and local authorities in England. While it is not possible to make firm estimates for the other sectors because of the lack of data on current take-up and revenue generated, similar percentage increases should be possible.*

The scale of the efficiency gains outlined does not necessarily mean that the public sector can cut its spending on food and catering services. The efficiency gains could help finance much needed improvements in the quality of the services provided and, in so doing, help the Government in the steps it is taking to improve public sector food.

8 On increasing the sustainability and nutritional quality of food procurement. We identified five areas where there is significant scope for sustainability and nutritional quality to be increased, and in a more efficient manner:

- streamlining and prioritising objectives;
- being intelligent and innovative in tackling the barrier of higher costs;
- providing strategic support to bridge the gap between procurers and suppliers;
- addressing shortfalls in skills and infrastructure;
- using marketing and education to boost consumer demand.

In particular, it should be possible for the public sector to make faster tangible progress by prioritising those measures that are inexpensive or even save money, and more widely adopting best practice in minimising the extra costs where increasing sustainability and nutrition is more expensive.

9 On the extent to which centrally led cross-government initiatives are contributing to improved public sector food procurement. The main cross-government lead comes from the Department for Environment, Food and Rural Affairs' Public Sector Food Procurement Initiative, established to help the Government deliver its Sustainable Farming and Food Strategy. This aims to achieve a sustainable farming and food sector that contributes to a better environment and healthier and more prosperous communities. The Department has taken a joined-up approach in co-ordinating the implementation of the Public Sector Food Procurement Initiative by a wide range of departments (for example chairing the Food Procurement Implementation Group which brings together representatives from the Department's food commodities divisions, public sector bodies that are major buyers of food and Government Offices for the Regions), funded pilot projects, and provided a large amount of practical guidance for both procurers and suppliers. It is difficult to assess the overall impacts of this Initiative at this stage; but our survey findings as to how many public bodies were aware of the Department's guidance and found it useful suggest that while much has been achieved, much still remains to be done.

10 The other departments with cross-cutting remits are the Office of Government Commerce (in respect of efficiency, advice and guidance on the legal and policy framework governing public sector procurement, and work to open up the Government marketplace to small businesses) and the Department of Health (in respect of nutritional standards). The Office of Government Commerce has worked closely with the Department for Environment, Food and Rural Affairs to advise on the EU rules and value for money policy in respect of the Public Sector Food Procurement Initiative, and they have undertaken a wide range of programmes to increase the participation of small businesses in the public sector market. The Office has not so far prioritised food in its work driving forward the efficiency agenda in large part because its remit has only recently been extended to include the NHS, Armed Forces, and local government (in which the bulk of public spending on food occurs), although its agency, OGCBuying.solutions, is successfully supporting public food procurers in their use of e-procurement to achieve savings. The Office would have the potential to expand the impacts of this work by, for instance, seeking to ensure that as many different public bodies as possible can take advantage of the best deals negotiated by public procurers. The Department of Health is working with the Food Standards Agency and major procuring departments to develop nutritional standards for the public sector; it is too early to record any impacts of this work.

11 On the progress towards improved food procurement within the three case study sectors (schools, hospitals, and Armed Forces). Within all three of our case study sectors the lead departments and agencies have been implementing various improvement initiatives. Many of the initiatives are very recent and therefore the extent of progress and impact varies. Of particular note are:

- **The additional £220 million over planned levels of funding targeted by the Department for Education and Skills at improving school meals.** The first tranche was paid to schools and local authorities in October 2005. The Department has not stipulated what the money should be spent on but has required local authorities to develop and implement strategies, making use of the additional funds to address local priorities.
- **The savings achieved by the NHS Purchasing and Supply Agency's central tendering for framework contracts to supply the whole NHS with food combined with their use of e-auctions.** The Agency tendered for all types of NHS food requirements in one go (with the exceptions of baby milk, fruit and vegetables, and 'readymeals', a market worth in total around £130 million. The Agency was able to obtain more competitive starting bids than previously and achieved further reductions by holding e-auctions to decide the final value of successful bids. Overall they achieved savings of nine per cent (just under £12 million).
- **The Ministry of Defence's Defence Logistics Organisation has applied the principles of Category Management to the tendering of its food supply contract.** The procurement of food is aggregated and managed as a whole across the organisation; this aims to identify how food procurement can be improved through implementing procurement best practice. The Ministry of Defence expects this approach to generate savings of £19.4 million by 2010.

Overall conclusion on value for money

12 Public sector organisations have made progress in improving the efficiency, nutritional quality and sustainability of their food procurement as highlighted by the examples in our three case study sectors and the range of other successful initiatives cited from other public bodies in this report and associated volumes. Our analysis, however, of performance indicates much more needs to be done before the public sector achieves full value for money from its food procurement. In particular, there is significant scope for improvement in increasing joined-up procurement, raising the professionalism and efficiency of catering operations, and increasing take-up and revenue through investing in and marketing the service provided. If our recommendations below on the implementation of good practice and the provision of more effective and targeted support from departments with cross-government and sector specific responsibilities are carried out fully, then significant financial savings will be achieved, and the contribution towards wider Government objectives on public health and sustainability considerably enhanced.



RECOMMENDATIONS

13 We identified six main aspects of performance in the procurement of food and catering services that public sector organisations need to focus their efforts on improving. These are summarised in **Figure 1 on page 14**. To help organisations to implement these recommendations and realise the potential for financial savings we have highlighted the good practice most likely to achieve better performance in two associated volumes published alongside this report (both this and the associated volumes are also available on the NAO website at www.nao.org.uk):

- A guide to help public bodies improve efficiency, focusing on six areas and drawing on examples of good practice that have enabled organisations in both the public and private sectors to reduce their catering costs while at least maintaining levels of service delivery, sustainability and nutritional quality.
- A case study volume setting out in more detail the progress, achievements and scope for further improvements in our three case study sectors.

From our analysis of public and private sector organisations that have made efficiency improvements, we believe the benefits brought about through the carefully managed introduction of our recommendations outweigh implementation costs. It is difficult to be precise, however, about the costs involved in implementation because many of the improvements identified are dependent on wider changes in existing contractual arrangements and will differ from organisation to organisation.

14 To assist the **Department for Environment, Food and Rural Affairs** in targeting its support and advice on sustainable food procurement, we make the following recommendations. The Department should help public sector organisations at all levels of the delivery chain to make tangible progress in increasing the sustainability of their food procurement by:

- Producing more user friendly, practical tools that make it easier for public bodies to include Public Sector Food Procurement Initiative objectives in their procurement of food and catering services.
- Drawing on existing best practice that the public, private and voluntary sectors are developing for the Public Sector Food Procurement Initiative to produce a practical step-by-step guide to help practitioners to improve co-operation among buyers and suppliers and establish the systems, networks and infrastructure to help local producers do business with the public sector.
- Working with major food procurers and the Office of Government Commerce to provide advice on the best ways in which to achieve the aggregation of public sector demand to increase sustainability.
- Examining more thoroughly the costs and benefits of providing extra funding and expertise to help identify ways to secure more innovative and cost-effective engagement with local producers and small and medium-sized enterprises, such as found in the Cornish Food Programme in the NHS, thereby increasing the volume of procurement from these sectors.



However the Department is dependent on the support of others to achieve the aims of the Public Sector Food Procurement Initiative and so it is also crucial that public sector procurers of food (particularly those departments and agencies responsible for significant amounts of catering provision) give their active assistance to the Department for Environment, Food and Rural Affairs to deliver the Initiative's objectives.

15 To assist the **Office of Government Commerce** to make more effective use of their support and advisory services, we make the following recommendations. Now that the Office of Government Commerce's remit has been extended to include all of the major public procurers of food, it could use its expertise (and that of other bodies such as the NHS Purchasing and Supply Agency and MoD's Defence Logistics Organisation) to facilitate the public sector's engagement with major wholesalers and contract caterers either directly or via a central body, and thereby help the public sector collectively to strike better deals. The Office of Government Commerce should also, either directly or in support of a central body:

- Produce guidelines to ensure all contracts are widely available within the public sector and that best practice procurement techniques are widely publicised to help the re-tender of food or catering service contracts negotiated by public service organisations.

- Consider establishing frameworks for contracted out catering services for the public sector as a whole, and in doing so investigate the potential to negotiate rebates from catering firms based on the volume of their business with the public sector in its entirety. As a first step, and to strengthen the negotiating position of all organisations within the public sector, the Office needs to encourage public sector organisations to maintain records of the volume of business between major wholesale and contract catering firms and all public bodies.

16 To assist the **Department for Education and Skills** in its overview of schools meals provision and to increase the practical help given to local authorities and schools, we make the following recommendations. The Department for Education and Skills should:

- Secure greater information on local strategies and performance to identify developing trends within school meals provision, to assess the effectiveness with which the transitional £220 million to improve school meal provision has been used, and to act as an evidence base for decision-making on future policy interventions.
- Encourage greater aggregation of demand in purchasing by schools and local authorities and, if feasible, also with NHS Collaborative Procurement Hubs and other public bodies within the locality as this may open up further opportunities. For example the Department could cover this issue more clearly in their procurement guidance, supported with good practice case examples.

1 Actions that public sector organisations need to take to improve their food procurement performance further

Areas where public sector organisations need to make more progress

Opportunities to aggregate purchasing are often missed and catering requirements are not routinely challenged. As a result public sector organisations often fail to maximise their purchasing power in order to reduce the prices paid for food items. Failure to challenge their catering requirements leads to expenditure on services that are not needed or are of a disproportionate quality.

The existence of specialist food procurement skills and knowledge of the catering market is patchy. There is little sharing of good practice between public sector organisations and access to and use of specialist food procurement skills is limited. This leaves many public sector organisations in a weak position when arranging and negotiating for their catering provision.

Food procurement objectives are often not integrated into the wider objectives of the organisation. This can result in an inappropriate approach being taken to food provision (for example, making the wrong decision regarding whether or not to contract out the service). Risk assessment is often substandard (for instance, the long term implications of deciding not to construct a kitchen suitable for “prime cooking” may not always be fully taken into account), reducing the likelihood that the catering service will be consistently successful.

Recommendations

A Managing demand for food purchases, to optimise the volume, quality and cost of food which will require:

- Departments to encourage the aggregation of purchasing at an appropriate level.
- Local organisations to identify and exploit opportunities to join up purchasing arrangements with other organisations.
- Procurers to regularly challenge their catering requirements making any necessary revisions to ensure that the services purchased are commensurate with their needs and wider organisational objectives.

B Developing food buying and preparation skills and catering infrastructure which will require:

- Departments to provide better guidance and support to procurers at the local level and to disseminate best practice more widely.
- Local organisations to identify and address gaps in their expertise and knowledge, making use of capacity in other organisations where appropriate and utilising catering consultants where it is relevant and cost-efficient to do so.

C Designing a catering service around the needs and policies of the organisation as a whole, which will require:

- Departments to ensure that funding regimes and policies contain the appropriate incentives for local organisations to provide catering services in line with departmental expectations.
- Local organisations to provide catering services in a way that best suits their local circumstances, taking into account issues such as in-house expertise, level and nature of customer demand and fit with the overall organisational strategy.
- Local organisations to assess and mitigate the risks to successful delivery of their catering services.

Examples of where this has been achieved

The Prison Service reduced the number of centrally let food supply contracts following a review in 1999. **By 2003 this had led to savings on the cost of food of £1.25 million and, following further rationalisations, to further cost savings of £2.6 million in 2003-04 and £3 million in 2004-05. Administrative savings of £1.2 million in 2003-04 and £1 million in 2004-05 were also realised as a result of the reduced numbers of deliveries and transactions.**

One secondary school in London secured consultancy advice from the catering manager at another school, who had extensive experience in the restaurant business. **As a result the school made a number of changes leading to improvements in the quality of ingredients and cost savings of 65 per cent.**

Southampton University Hospitals Trust contracts out its catering management while still directly employing its own kitchen staff. As a result the Trust has expert catering managers focused on running an efficient service and maximising sales. The retention of in-house catering staff removes any incentive for the contractor to save money by reducing the level of service and all savings are retained by the Trust. **Rates of food wastage are far below the national average, while the staff and visitors’ restaurants operate without any subsidy making a small profit for the Trust.**

1 Actions that public sector organisations need to take to improve their food procurement performance further *continued*

Areas where public sector organisations need to make more progress

Many public sector organisations (especially smaller, front-line organisations) do not have sufficient market knowledge to be able to negotiate the best deals.

Equally they are often unable to strike a suitable balance between encouraging competition and offering an appropriate level of stability to suppliers. In many cases they do not work with suppliers to clarify their needs or to identify shared opportunities for savings.

In many cases public sector organisations have taken insufficient action to halt declining take-up of their meals service.

Many public sector organisations do not respond to the nutritional needs and taste preferences of their customers and do not address the wider barriers to take-up.

Management information is poor or non-existent. As a result decisions regarding the allocation of resources may be sub-optimal and at a local level control over supplier performance can be compromised. Lack of management information often means that little attention is paid to ways in which ancillary costs can be reduced.

Recommendations

D Engaging intelligently with suppliers, to get the best prices and the specified level of service which will require:

- Procurers to explicitly set out and agree their catering requirements with their suppliers.
- Procurers and suppliers to jointly identify and pursue opportunities for cost savings (which do not affect nutritional standards or sustainability), sharing the resultant benefits.

E Preparing and serving food that meets the objectives of the organisation, and the needs and preferences of customers by:

- Departments providing guidance and support to their front-line organisations setting out required nutritional standards and detailing how they can best be achieved.
- Local organisations developing their understanding of their customers' preferences and offering encouragement to them to eat nutritious food and identifying and overcoming wider barriers to take-up.

F Improving efficiency by taking decisions based on relevant and timely information which will require:

- Departments to obtain adequate management information to retain appropriate oversight of the catering provision they fund.
- Front-line organisations to identify and pursue opportunities for cost savings in ancillary costs, for example by streamlining transaction processes or reducing transport, energy and water costs.

Examples of where this has been achieved

The Defence Logistics Organisation has, since 2004, subjected the food purchasing of the Armed Forces to a Category Management review. Working with the current procurers and suppliers it has focused on its specific requirements and the capacity of suppliers to meet those needs. The Ministry of Defence expects this approach to generate savings of £19.4 million by 2010.

St Aidan's Church of England High School enhanced the nutritional quality of their school meals in order to improve the dietary intake of pupils and encouraged greater acceptance by communicating the changes to parents and children in advance. They also overcame other barriers to take-up by improving the dining environment, extending opening hours and reducing queues. **As a result take-up of meals at the school increased by more than 300 per cent, leading to larger revenues which were reinvested in an improved service.**

An Australian hotel group use an e-procurement system which enables them to speed and simplify the processing of and accounting for invoices. This enables them to offer to pay suppliers more promptly on a sliding scale dependent on the level of discounts offered; it also increases the flexibility for suppliers who (for example) can choose to be paid immediately in return for offering a greater discount. **As a result the group were able to achieve cost savings on the prices paid for items and on the administrative cost of procurement.**

Source: National Audit Office

17 To assist the **NHS Purchasing and Supply Agency** in its overarching work to increase the efficiency with which NHS Trusts purchase food and catering services, we make the following recommendations. The Agency should continue to:

- Increase take-up of national framework contracts through negotiating directly reduced prices for those Trusts which join together and commit to using these frameworks.
- Support and promote those hospitals equipped with central processing units as potential suppliers for neighbouring hospitals, as a means of increasing sustainability and encouraging a diversity of suppliers within the market for hospital ready meals; and explore the potential for joint central processing units to serve both hospitals and other organisations, such as care homes.
- Building on an initial trial, further develop the work of one of the pathfinder Collaborative Procurement Hubs (which are bringing NHS Trusts together on a regional basis) in increasing joint procurement of food between Trusts, and assessing the resulting lessons for implementation throughout the NHS.

18 To assist the **Ministry of Defence's Defence Logistics Organisation** in its transition to a new mechanism for non-operational catering, we make the following recommendations. The Defence Logistics Organisation should:

- Develop facilities contract management skills within the Ministry to realise the proposed benefits of 'Pay-As-You-Dine'; the role of the Facilities Category Management Team could be expanded across the 'Pay-As-You-Dine' facilities provision in addition to the food supply contract. To ensure the success of 'Pay-As-You-Dine' as a personnel measure, the costs to junior staff will need to remain affordable while also providing adequate nutrition.
- Increase the focus on cost after food has been delivered to bases. For example, there is scope to improve energy and water efficiency – and improve utility bills – through fitting separate energy and water meters in kitchens, and to improve waste management and recycling.

PART ONE

The challenge of delivering improved efficiency, sustainability and nutritional standards in public sector food procurement



1.1 The public sector in England spends around £2 billion⁵ per year on providing food and drink to service users, staff, the general public, clients and visitors (this figure excludes the staff costs involved in procurement and service provision) (**Box A**). The size of this expenditure alone makes public food procurement of interest to Parliament and the

taxpayer, in terms of seeking assurance that this money is being spent efficiently and effectively. In addition, public food procurement is today faced with the further challenges of improving sustainability and nutritional standards. In purchasing food public organisations need to comply with EU regulations and secure value for money (**Box B**).

BOX A

Definition of food procurement

"Food procurement" encompasses not just:

- how public bodies buy food

but also how they:

- work out what food they want to buy and from whom
- receive and store food
- prepare and serve food
- dispose of waste food
- monitor their costs and service performance.⁶

It includes both those public bodies which **buy and prepare food in-house** (using their own staff), and also those which **outsource their catering to contract catering firms**.

BOX B

The Government's public procurement policy

The Government's public procurement policy is based on value for money, having due regard to propriety and regularity. Value for money is defined as "the optimum combination of whole life cost and quality (or fitness for purpose) to meet the user's requirement". Public bodies are also required to comply with the EC Treaty and the EU Procurement Directives (the 'EU rules') which ensure that public procurement is fair, transparent and non-discriminatory.⁷ Within this context, public bodies are free to set their own requirements, provided they are non-discriminatory and meet public expenditure tests of need, affordability and cost-effectiveness.⁸

5 National Audit Office estimate detailed in the Appendix. (This figure is based in part on an estimate published by the Department for Environment, Food and Rural Affairs which also includes Ministry of Defence spending on non-operational feeding for Armed Forces personnel based not just in England, but in the whole of the United Kingdom and in Germany).

6 This follows the definition of "procurement" used in previous National Audit Office reports: "The whole-life cycle process of acquisition of goods, services and works from third parties, beginning when a potential requirement is identified and ending with the conclusion of a service contract or ultimate disposal of an asset." *Improving Procurement: Progress by the Office of Government Commerce in improving departments' capability to procure cost-effectively*, HC 361-I, 2004.

7 Buyers can take account of a variety of factors when assessing whole-life costs and quality, including running and disposal costs and quality aspects of the product or service. Buyers must not, however, discriminate against suppliers from outside the UK, with 'buy local' or 'buy British' policies. This includes, for example, requirements about the distance travelled to deliver food, or the locality in which it is produced. Further information on the Government's value for money policy and the EU rules can be found at: <http://www.ogc.gov.uk/index.asp?id=1000084> and Frequently Asked Questions on the PSFPI website at <http://www.defra.gov.uk/farm/sustain/procurement/pdf/psfpi-faqs.pdf>.

8 For more information on Government Accounting rules, please see: http://www.government-accounting.gov.uk/current/content/ga_22_1.htm.

1.2 The total market for food and catering services in the United Kingdom is worth £26 billion,⁹ with the UK food industry employing some 3.8 million people, over 12 per cent of the UK workforce.¹⁰ Public food procurement is thus of direct interest for producers and suppliers throughout the UK food industry, ranging from large contract catering firms such as the Compass Group, with a turnover of around £3 billion and major wholesalers such as 3663, with an annual turnover of around £1.3 billion, to small and medium-sized enterprises such as an individual farm supplying a primary school.

1.3 The quality, safety, and value for money of public sector food are of prime interest to the millions of adults and children who eat it (Figure 2). In recent years there has been rising interest in the quality of food served commercially in Britain, as well as in the quality and variety of British produce; accompanying this, and helped by some high profile television documentaries and series, there has been a growing interest in the quality of food served in the public sector. In addition, a growing number of advocates, both within and outside the public sector, have stressed the potential for public food procurement to deliver an important range of wider benefits to individuals, public services and the environment, for example:

- The Sustainable Development Commission argue that if the public sector can help to change wider eating habits by serving healthier food, it can help to reduce future costs to the NHS.¹¹
- The Department of Health estimates the costs to the NHS of treating the effects of poor diets to be around £4 billion per year.¹² The cost of obesity alone to industry and the broader economy is £3.7 billion with premature deaths among obese employees costing companies £1.1 billion a year.^{13,14}

- Campaigning groups advocating sustainability argue that increasing the participation of local producers in the public sector market reduces environmental impacts, while strengthening the local economy and social fabric.¹⁵
- Nutritionists stress the potential for improved nutrition to, for instance, lead to better pupil behaviour and concentration.¹⁶

2 Some key statistics on the consumers of public sector food

- Some 300 million meals are served in the NHS each year.
- Some 617 million school meals are served each year.
- 117 million meals were served by the MoD in 2004-05.
- 69 million meals are served to inmates in public sector prisons each year.¹

Public sector food is also served to many more people for whom it is not a public service, for example:

- one million staff eat in public sector staff restaurants in the NHS alone;
- millions of visitors eat food procured by publicly-funded cultural bodies. For example, more than 1 million customers are served at the restaurants and cafes at the four Tate Galleries (Tate Modern, Tate Britain, St Ives, and Liverpool) each year.

Source: National Audit Office; *Choosing Health White Paper*, Department of Health, CM 6374, 2004; *Tate Report 2004*, <http://www.tate.org.uk/abouttate/tatereport/2004/business/default.htm>

NOTE

¹ This does not include public sector prisons which have contracted out their catering provision.

9 *Public Sector Catering in Berkshire, Buckinghamshire and Oxfordshire: the Potential for Sustainable Food*, Mike Rimmington, Oxford Brookes University Business School, 2005.

10 *Economic analysis of the UK food industry* (unpublished), Department for Environment Food and Rural Affairs (2005).

11 *Healthy Futures*, Sustainable Development Commission, 2004.

12 *Choosing a Better Diet: a food and health action plan*, Department of Health, 2005.

13 *Tackling Obesity in England*, Report by the Comptroller and Auditor General HC 220, Session 2000-2001: 15 February 2001.

14 Derek Wanless' second report to the Treasury in 2004 estimated that failure to prevent dietary illnesses would cost the taxpayer £30 billion extra a year by 2020.

15 For example, *Good Food on the Public Plate*, Sustain and East Anglia Food Links, 2002.

16 For example, "Research related to the impact of the National Healthy School Standard", Wired for Health, 2005.

1.4 This range of major interests and issues that are touched by public food procurement is vital to the Government's broad aims to improve the user's experience of public services and is reflected in a number of important Government policy agendas, most notably:

- **Efficiency:** under the Government's Efficiency Programme¹⁷, as announced in Spending Review 2004, the public sector has been given a target of achieving some £21.5 billion in efficiency savings by 2007-08, of which some £7.17 billion is due to come from efficiencies in procurement, including food procurement;¹⁸
- **Sustainability:** Government objectives include increasing the capacity of Small and Medium-sized Enterprises to bid for public food supply contracts, and reducing the negative impacts of public food procurement on the environment;¹⁹
- **Public health:** the Government has set out plans to improve diet and nutrition in England with the aim of contributing to a reduction in illnesses, including cardiovascular disease, cancers, and obesity.²⁰

The nature and value of public food procurement

1.5 The four major sectors in terms of spend on food procurement are schools, hospitals, prisons, and Armed Forces bases (**Figure 3**); between them, they account for over £1.7 billion spent on catering in the public sector.

1.6 The sizes of expenditure and approaches to delivery in the public sector range from the primary school which manages its own catering and spends less than £10,000 a year with wholesalers and local producers; to the large NHS Trust which has outsourced its catering to a major contract caterer, with whom it spends £5 million every year; to the Armed Forces, which is increasingly moving towards outsourced catering, and whose current contract with major wholesaler 3663 is worth some £135 million.

1.7 The methods used by public bodies to purchase food and deliver meals to customers vary considerably but can be categorised by service provider, service recipient, the types of provision and catering methods (**Figure 4 overleaf**). At a simpler level, public bodies procure food in two ways, and thereby deal with two different markets of suppliers. Where their catering is in-house, they buy raw ingredients and processed food products from wholesalers; in some cases they also buy directly from manufacturers of food products (such as 'readymeals', sandwiches, and prepared vegetables), and, certainly at the smaller end of the scale, some may buy an amount of produce directly from farms. Where public bodies outsource their catering, they do not buy food but a whole catering service; it is the catering firm that (in almost all cases) both buys the food and provides the staff to prepare it.

3 The four main sectors of public expenditure on food

Sector	Annual spend
Schools	£1 billion on catering overall ¹
NHS	£300 million on food/£500 million on catering overall
Armed Forces	£135 million on food products and delivery ²
Prison Service	£43 million on food/£94 million on catering overall ³

Source: Local Authority Caterers Association, 2004; *Choosing a Better Diet: a food and health action plan*, Department of Health, 2005; Defence Logistics Organisation, 2005

NOTES

- 1 The Department for Education and Skills does not keep central figures on spend on food by schools and local authorities; this is an estimate from the Local Authority Caterers Association.
- 2 Figure is for operational and non-operational feeding.
- 3 This does not include public sector prisons which have contracted out their catering provision or private prisons.

17 The Chancellor announced an Efficiency Programme from April 2005 designed to improve front line services by achieving £21.5 billion of efficiency gains a year across the public sector by 2007-8. The Office of Government Commerce holds responsibility for overseeing the progress of the Efficiency Programme.

18 OGCBuying.solutions, http://www.ogcbuyingsolutions.gov.uk/environmental/practice/environmental_practice_sustainable.asp.

19 The Public Sector Food Procurement Initiative, launched by Defra in 2003.

20 *Choosing a Better Diet: a food and health action plan*, Department of Health, 2005.

4 The different types of catering in the public sector

Public sector catering can be divided up by the categories of: **service providers, service recipients, types of provision, and catering methods.**

- **Service providers:** the catering is provided by either
 - an **in-house** team,
 - **outsourced** staff and managers, or
 - some **hybrid** of in-house and outsourced (for example, the catering management and food buying could be outsourced, with the chef and kitchen assistants remaining as direct employees of the public body)
- **Service recipients:** the catering is provided for one or more of
 - **service users** (such as hospital patients or schoolchildren)
 - **staff**
 - **the public** (such as those visiting hospital patients, or museum visitors)
 - **clients and guests** (such as those attending meetings and receptions)
- **Types of provision:** food and drink is provided in the form of
 - **meals delivered as part of a public service**, either subsidised or without charge (for instance, to patients, schoolchildren, prison inmates, and recipients of community meals (such as food served at day centres and “meals on wheels”))
 - **meals for staff**, which are often subsidised
 - **meals and snacks for the public**, which are normally designed to earn a profit for the public body
 - **vending machines**, for service users, staff, or the public, which are normally designed to earn a profit
 - **hospitality refreshments for meetings and events**, which are normally free to the recipients
- **Catering methods:** meals are
 - **prepared from scratch** (also known as **prime cooking** — chefs use individual ingredients to cook most meals on the day of consumption)
 - **prepared from scratch in one location, then transported** to and served at another on the same day
 - **regenerated from chilled or frozen** (catering staff reheat chilled or frozen readymeals, which are mainly bought from commercial manufacturers; but which can be made by in-house staff preparing from scratch, and then chilled or frozen until needed)

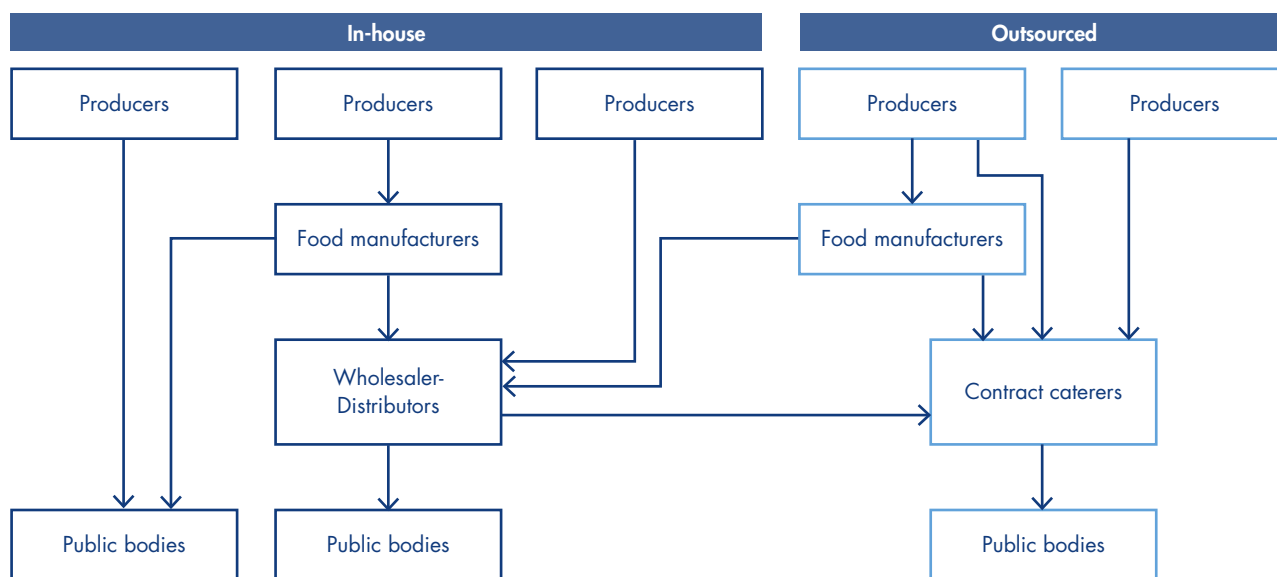
Source: National Audit Office

1.8 In recent years, the trend within the schools sector had been towards outsourcing catering services. While there is evidence of individual schools reverting to an in-house service we found insufficient evidence to determine whether this represented a reversal of the trend towards outsourcing. Five prisons which used outsourced catering firms in 1998 have since taken their catering in-house. Within the National Health Service, the trend is still towards outsourcing, with some 33 per cent of hospitals currently using contract caterers. In the Armed Forces, the trend is again towards outsourcing, with the development of the ‘Pay-As-You-Dine’ programme, under which catering services at Armed Forces bases in the UK and Germany will progressively come under the management of contract catering firms.

Overview of the food supply and catering services market

1.9 The wholesale market that public procurers deal with is dominated by a small number of major suppliers, notably the large general wholesaler/distributors Brakes and 3663 (with around 15 and 14 per cent of the total UK wholesale market respectively). The contract catering market is again dominated by a small number of major companies, notably the Compass Group (whose divisions include Medirest, Scolarest, and Eurest Support Services), Sodexo, Aramark, and Elixor (whose divisions include Avenance and Digby Trout). Large contract caterers buy some produce through the same major wholesalers as public procurers, but often have their own direct arrangements with producers and manufacturers, using the likes of 3663 and Brakes mainly as distributors only. **Figure 5** depicts the relationships between producers, food manufacturers, wholesaler/distributors, contract caterers, and public bodies. **Figure 6** shows the differences in roles within a public body depending on whether its catering is in-house, outsourced, or (more rarely) it is using a hybrid of the two. **Figure 7 overleaf** details the variety of contracts offered by contract caterers.

5 The food supply chain to public bodies



Source: National Audit Office

6 In-house, outsourced, and hybrid models of service provision

Role	In-house		Outsourced		Possible hybrid ¹	
	Provided by:		Provided by:		Provided by:	
	Public body	Catering firm	Public body	Catering firm	Public body	Catering firm
Senior manager	✓		✓		✓	
Catering manager	✓			✓		✓
Food buying	✓			✓		✓
Chefs	✓			✓	✓	
Catering assistants	✓			✓	✓	

Source: National Audit Office

NOTE

¹ This is, for example, the model at Southampton University Hospitals NHS Trust.

7 The different types of catering contracts

- **Cost-Plus (or Management Fee):** All costs are re-charged to the client, less the amount of monies taken from cash or credit sales. The contractor will also charge a management fee, representing their earnings from the contract. *Until around ten years ago this was the most common type of contract. One of the issues with this type of arrangement is that there is less incentive for caterers to control their costs, since clients are billed for them, whatever the case.*
- **Performance Guarantee:** Similar to cost-plus, but the contractor's management fee is linked to their performance across an agreed range of criteria. As a minimum, this usually includes the level of gross profit on sales, employment costs and other overheads. The client can also require an "open book" policy, which means that all revenues generated through the service and costs incurred as a result of providing those services, including the procurement of food and beverages, are open to inspection by the client or their agent. *In recent years, as clients have become more aware of catering services and how contractors work, this has become an increasingly popular type of contract.*
- **Fixed Cost:** A single agreed annual cost, with no variables such as meal numbers or hospitality. *The advantage for clients is that they are able to impose and remain within a definite budget. However, there can be many complications when circumstances change, such as changes to the number of personnel on site. The catering firm will often make more profit than the client had originally foreseen, and which the client is unable to benefit from; alternatively, if it becomes less profitable than the catering firm envisaged, they may attempt to reduce the quality of their service in order to break even.*
- **Semi-Fixed Cost:** Catering services are supplied to the client at an agreed inclusive cost, ultimately at the contractor's risk. Hospitality or "free issues" are charged as additions. *This style of contract became popular after cost-plus became less fashionable, especially in the public sector with bodies imposing strict budgets that they could not exceed. One of the issues with this arrangement is that charges for hospitality and "free issues" can potentially be inflated by the catering firm.*
- **Nil Subsidy:** The contractor provides the catering services at no cost to the client organisation. *This is often associated with high selling prices to staff and/or high volumes of hospitality. Where a client organisation provides the catering space and utilities free of charge it is often overlooked that this represents a hidden subsidy.*
- **Concession/Franchise:** The caterer pays a fixed rental, or gives a percentage of turnover to the client, in return for the use of the client's premises. *Comparatively rare, this is most often used where the location is open to the public, (for example leisure centres, visitor attractions or museums).*

Source: Research conducted by Merritt-Harrison Catering Consultancy on behalf of the National Audit Office

1.10 The factors that affect the prices paid by public food procurers can be divided into supply-side factors and demand-side factors:

- **Demand-side:** To an extent, this is the same as for any other commodity. However, there are also factors that relate specifically to food supply, such as the fact that demand can vary for different cuts of the same animal carcass. For instance, one of the reasons that chicken from Brazil, Thailand, and parts of Eastern Europe is cheaper than that produced in the UK is that demand for breast meat in many poultry exporting countries is lower than for thigh, meaning that breast meat can be sold to the UK at lower prices.²¹
- **Supply-side:** The basic supply-side influence on price is the productivity of farms and fisheries, which can fluctuate considerably according to climatic conditions. For example, due to a prolonged period of minimal rainfall in northern Europe, which affected the growth of potatoes, expenditure by the Ministry of Defence on chilled chips increased by nearly £300,000 in 2005-06.
- The other supply-side factors beyond this are labour, transport, storage, and administrative costs, and the ability to use bulk purchasing to leverage better prices from suppliers further down the chain. These factors apply to every group, from producers, through food manufacturers, wholesalers, and catering firms. Major wholesalers and catering firms, being the largest purchasers, are able both to achieve economies of scale through efficient consolidation of labour, transport, storage, and administrative functions, and to squeeze the prices offered to them by their suppliers; thus they are able to offer better prices to ultimate purchasers. On the other hand, buying produce directly from local producers, food manufacturers, or wholesalers, can in certain circumstances lower prices, either by cutting out other levels of the supply chain, and the charges made at those levels in order for them to obtain their profit, or by simply reducing transport and storage costs.

21 Other factors include low labour costs in these countries that allow for a hand boning service. *Understanding Foodservice Opportunities for Farmers and Small Food Producers*, Institute of Grocery Distribution, 2005.

Key responsibilities for public food procurement

1.11 A number of departments and agencies have overarching responsibility for policies which apply to the entirety of public food procurement, notably the Department for Environment, Food and Rural Affairs; the Office of Government Commerce; the Department of Health; and the Food Standards Agency.

1.12 The Department for Environment, Food and Rural Affairs is responsible for the Public Sector Food Procurement Initiative aimed at encouraging procurers, and building capacity amongst suppliers, towards a more sustainable approach to food procurement (Figure 8). The Department pursues a number of activities to support the Initiative, including publishing practical tools and guidance on their website including the key policy document *Guidance for buyers and their internal customers*²² and a Catering Services and Food Procurement Toolkit; and engaging with major firms and Small and Medium-sized Enterprises about increasing opportunities for public bodies to procure from UK and local suppliers. It also chairs an interdepartmental Food Procurement Implementation Group, bringing together representatives from the Department's food commodities divisions, public sector bodies that are major purchasers of food and Government Offices for the Regions.

1.13 The Office of Government Commerce²³ leads on the Government's public procurement policy of value for money, is responsible for establishing and sharing best practice in public procurement, relationships with strategic suppliers and for overseeing the progress of the public sector towards meeting the targets of the Government's Efficiency Programme. Since 2004 it has set up a commodities procurement team to facilitate a co-ordinated approach to the procurement of commodity goods and services across the whole public sector. In 2005 it began a programme of commodity reviews that included food and "soft facilities management", which encompasses contract catering. This work has led to the OGC facilitating the formation of a working group with representatives of the four organisations who are the largest purchasers of wholesale food items within the public sector in order to identify and develop collaborative opportunities.

8 The five primary objectives of the Public Sector Food Procurement Initiative

- Raise production and process standards.
- Increase tenders from small and local producers.
- Increase consumption of healthy and nutritious food.
- Reduce adverse environmental impacts of production and supply.
- Increase capacity of small and local suppliers to meet demand.

1.14 The Department of Health has a cross-government responsibility for encouraging the take-up of a healthier diet throughout society. The public health White Paper *Choosing Health: Making healthy choices easier*, published in November 2004, sets out the Government's commitment to provide more of the opportunities, support and information people want to enable them to "choose health". It identifies a number of actions on diet and nutrition to promote healthy choices and address health inequalities, and commits the Government to develop guidance on good practice in food procurement in the NHS and across other public sector services, as well as to develop nutritional standards for all foods provided by NHS, MoD and HM Prison Service and other public bodies. The subsequent *Choosing a Better Diet: A food and health action plan* brings together all the commitments relating to food and nutrition in the White Paper, as well as further activity across Government to encourage healthier eating, providing details on the action that needs to be taken at national, regional and local levels to improve people's health through improved diet and nutrition. In addition, the Food Standards Agency, whose role it is to protect the public's health and consumer interests in relation to food, has a strategic target to develop nutritional standards for major institutions. The Department of Health and the Food Standards Agency are working together to support the introduction of these standards by the NHS, MoD and HM Prison Service.

1.15 In addition, in each of the four main sectors of spend on public food procurement – schools, hospitals, Armed Forces bases, and prisons – departments are working to improve food procurement with a range of bodies and stakeholders throughout often complex delivery chains.

²² Guidance for buyers and their internal customers. URL: <http://www.defra.gov.uk/farm/sustain/procurement/pdf/foodprocure.pdf>.

²³ The Office of Government Commerce is an independent Office of the Treasury reporting to the Chief Secretary of the Treasury. It is responsible for a wide-ranging programme which focuses on improving the efficiency and effectiveness of public sector procurement.

School food

1.16 At the national level, the Department of Education and Skills have lead policy responsibility for school food and works jointly with the Department of Health to oversee the Healthy Schools Initiative, within which the provision of nutritious food plays a key part. At the local level, local authorities are responsible for providing or procuring schools meals for all children entitled to a free school meal. All secondary schools, and those primary schools in receipt of a delegated catering budget, can choose either to: a) allow the local authority to manage their catering operations, in common with a number of other schools; b) opt out of the local authority service, and run their own in-house service, in which case they will appoint the catering staff, decide the menus, and buy food themselves; or c) opt out of the local authority service, and outsource their catering to a contract caterer. The Local Authority Caterers Association estimate that, for secondary schools in England, 60 per cent opt into local authority provision, 35 per cent use contract caterers, and 5 per cent manage their own services.

Hospital food

1.17 Four main bodies hold significant responsibilities for hospital food at the national level: the NHS Purchasing and Supply Agency (PASA),²⁴ NHS Logistics Authority, the Department of Health, and the National Patient Safety Agency. PASA's responsibilities regarding food include negotiating national framework contracts with suppliers, which NHS Trusts may then use to buy a range of food items, and auditing the food safety of these suppliers. NHS Logistics itself buys certain food items in bulk, which Trusts may in turn buy from it; Logistics delivers these orders from its network of regional warehouses. Within the Department of Health, the Chief Nursing Officer has overall responsibility for patient experience, including the user experience of hospital food. In April 2005 the National Patient Safety Agency acquired from NHS Estates responsibility for some operational aspects of hospital food delivery. The focus of this work has been on improving nutrition whilst maintaining close attention to food quality and delivery. At the local level, NHS Trusts are free to buy

from suppliers through the framework contracts negotiated by PASA, to buy directly from NHS Logistics, or to negotiate their own deals with suppliers. In practice, many Trusts employ a mixture of these, mixing and matching depending on where they can find the best prices for different items, although the majority of spending goes through PASA frameworks.

Prison food

1.18 The Prison Service negotiates national and regional food supply contracts on behalf of individual prisons. Where prison catering remains in-house, it has since 1999 been mandatory for prisons to order through these contracts; however, prison governors are free to outsource their catering, in which case the catering firm does not have to purchase food through Prison Service contracts. Regardless of whether prison catering is in-house or outsourced, the Prison Service's centrally-based Catering and Physical Education Service monitors the provision of food through six area catering advisors, who also provide technical advice to prison catering managers.

Armed Forces food

1.19 Defence Catering Group, part of the MoD's Defence Logistics Organisation, is responsible for managing food supply to permanent Armed Forces bases in the UK and other countries such as Germany ("non-operational feeding"), and to military units at sea and in Overseas Theatres ("operational feeding"). The majority of operational and non-operational food is currently supplied through a national contract with 3663; food is ordered by bases individually from a core list of approximately 1,400 products to MoD specifications, whose prices are fixed and monitored monthly for competitiveness. Defence Catering Group additionally supports the implementation of the 'Pay-As-You-Dine' programme, which is being extended to all non-operational feeding bases over the next five years. Under this programme, the management of catering services will be outsourced to contract catering firms, with payment for meals being made at the point of service rather than, as under the current system, being deducted automatically from the wages of service personnel.

²⁴ The NHS Purchasing and Supply Agency is an executive agency of the Department of Health, established on 1 April 2000. The role of the Agency is to act as a centre of expertise, knowledge and excellence in purchasing and supply matters for the health service. As an integral part of the Department of Health, the NHS Purchasing and Supply Agency advises on policy and the strategic direction of procurement, and its impact on developing healthcare, across the NHS. The Agency contracts on a national basis for products and services which are strategically critical to the NHS. It also acts in cases where aggregated purchasing power will yield greater economic savings than those achieved by contracting on a local or regional basis. The Agency works with around 400 NHS trusts and health authorities and manages 3,000 national purchasing contracts, influencing around half of the £7 billion spent in the NHS on purchasing goods and services in the health service.

Challenges and opportunities that public food procurers need to focus on

1.20 In addition to the perennial objectives of maintaining food safety, reliability of service, and customer service, the particular challenge faced by public sector food procurers today is to reduce the costs of catering, while making progress towards Government objectives on increasing sustainability and nutritional quality. On cost reduction, there are a number of risks to the efficient running of public catering. These include variations in prices for food (with a considerable proportion of public sector organisations purchasing at relatively expensive prices), lack of transparency in prices passed on by contract catering firms (in particular the extent to which they obtain volume-based discounts and rebates from their suppliers), limited aggregation of demand and purchasing power to strike better deals and reduce administrative costs and expertise, and underdeveloped skills in areas such as “goods received” and menu design (to take advantage of seasonal produce and make efficient use of ingredients and minimise waste).

1.21 Regarding sustainability and nutritional quality, meanwhile, procurers need to understand and to tackle numerous widely-recognised challenges including:

On sustainability:

- confusion over exactly what is meant by “sustainable”, leading to a lack of focus or agreement between public bodies and their suppliers;
- assessing quality as well as cost in the award of contracts, for example the higher cost of organic produce, as well as some local or UK produce which can be produced and supplied more cheaply from elsewhere;
- difficulties for Small and Medium-sized Enterprises in gaining access to major supply chains; and
- perceptions that under EU procurement legislation it is illegal to actively seek to encourage more bids from local or UK producers.

On nutritional quality:

- budgetary constraints, which may affect the quality of produce bought as well as the mix between processed and unprocessed food;
- the need to work with suppliers of processed food to change their practices – for example, reducing the amount of salt they add;
- the risks that if produce is prepared badly, or is unappetising, or if, for example, patients are not given the help they require to eat, then all or part of the nutrition originally present is wasted;
- simply providing “healthy options” may not improve the diet of consumers if they are always able to choose “unhealthy options”, especially where caterers are not both responding to and attempting to educate the tastes of their consumers.

1.22 Meeting these multiple concerns is a major challenge in its own right. As an example of the difficulties faced by public food procurers, in 2004 the Minister for Farming and Food wrote to the chief executives of all Local Authorities in England of his concern that there was “evidence that some public sector bodies are implementing the [Government’s Efficiency] Review by cutting the cost of their procurement without properly weighing up the effect on other operations within their own organisations or on the public sector as a whole. For, example, cutting budgets for the procurement of food and catering where this results in the provision of less healthy and nutritious food can result in more spending by the NHS on obesity and heart disease etc.”²⁵

1.23 In this context, there are great demands on those who are responsible for actually delivering public food procurement – the senior managers, procurement and facilities directors, food buyers, catering managers, chefs, and kitchen assistants. While the goals they are set are not incompatible, to combine them makes considerable demands on their skills and capacity. Regardless of the variety of approaches and sizes of expenditure among public food procurers, all are engaged on essentially similar activities. **Figure 9 overleaf** sets out the characteristics exhibited by successful food procurers, the benefits they bring to efficiency and service delivery and illustrative examples of each.

25 Letter from Lord Larry Whitty, then Minister of Food and Farming, 3 Dec 2004, accessed from the Department for Environment, Food and Rural Affairs website at <http://www.defra.gov.uk/farm/sustain/procurement/pdf/lwhitty-laletter.pdf>.

9 The characteristics of successful food procurers

Characteristics of successful food procurers	Benefits to service delivery and efficiency	Example
Aggregating and bundling demand, wherever possible and appropriate.	Consolidated purchasing power can lead to better prices and fewer deliveries – which could also reduce vehicle emissions.	Southampton University NHS Trust has moved from buying items from several different suppliers, to sourcing all their food items through the Compass Group. This has reduced the prices they pay by an average of around 10 per cent, and reduced their number of deliveries.
Working with the market to influence costs, quality and sustainability.	Engaging with suppliers can lead to changes in their production or delivery methods, with resulting benefits that can be “gain-shared” by both parties.	The Cornish Food Consortium, a collaboration of the five NHS Trusts in Cornwall, worked with local suppliers Callestick Farm, to reduce the cost of the packaging, and thereby make their products cost-effective enough to be served in local hospitals, while reducing their environmental impact.
Developing the appropriate procurement strategies and skills.	Employing experienced catering managers, using catering consultants, and learning from other public bodies can all lead to a long term improvement in efficiency and take up.	A secondary school in London gained consultancy from the catering manager at another school, who had worked as a successful chef in the restaurant business. Following an audit of the existing catering operations, the school made a number of changes, resulting in new supplier arrangements under which ingredients were an average of 65 per cent cheaper than before, and better quality.
Adopting a professional approach to getting the best deals from food purchases and catering contracts.	Having an understanding of the basis on which wholesalers and contract caterers make their charges, and of what other purchasers are paying, means public bodies have a stronger position from which to negotiate.	The Defence Logistics Organisation has, since 2004, subjected the food purchasing of the Armed Forces to a Category Management review, in order to focus on its specific requirements and the capacity of suppliers to meet those needs. This has resulted in the requirement being split between the main food supply requirement and the 10 Man Operational Ration Packs. As the supply markets differ, the process has delivered more robust competition between the different groups of bidders for each commodity group.
Taking a professional approach to goods receipt, storage, menu design, use of produce, stock reconciliation, and accounting.	Concentrating on performing the basics of catering well can have a major impact on costs and quality, especially when identifying the causes of ongoing problems.	The catering department of Northern General Hospital, part of the Sheffield Teaching Hospitals NHS Foundation Trust, is accredited with ISO 9001:2000, which gives it a rigorous programme of procedures and commits it to continuous improvement. As an example, this means that every delivery problem with a supplier is recorded and automatically compiled into a quarterly report, which is then used in future negotiations with suppliers.
Having a commitment to using customer research and marketing to help provide nutritious meals that people want to eat.	Customer research is required in order to tailor menus to the target consumers’ tastes. Marketing and education is also needed, to encourage take-up – especially of more nutritious options.	The Local Authority Caterers Association argues that where school menus are changed, in order to improve nutrition, too quickly or without sufficient consultation and education with both children and parents, the take up of school meals can often decline, undermining the efficiency and effectiveness of schools’ entire catering provision.
Looking to reduce transaction and overhead costs, including invoicing, laundry, utilities, packaging, and disposal.	Paying attention to these aspects of catering can simultaneously reduce costs and environmental impacts, especially where public procurers can work together and change the practices of their suppliers.	Aramark, one of the major contract catering firms in the UK, has switched supplier to the firm C&D Oils who collect used cooking oil from its sites in the UK (including those in the public sector, such as hospitals and Armed Forces bases), and to recycle this into biodiesel, which is then sold to a number of customers. Between October 2004 and September 2005, Aramark recycled over 300,000 litres of cooking oil in this way.

Source: National Audit Office

The National Audit Office examination

1.24 The focus of this study is on how public bodies can increase the efficiency of their food procurement, while making progress towards Government objectives of increasing sustainability and nutritional quality.

We assessed:

- the impact of existing government initiatives on the efficiency and effectiveness of public food procurement;
- the relative performance of different sectors within the public sector; and
- what more needs to be done by the departments and agencies with significant responsibility for food procurement to ensure a wider take-up of best practice approaches. Our detailed methodology is set out in Appendix 1.

1.25 In addition to this main report, we are publishing two supporting volumes. The first is a good practice guide, intended to be used by front-line organisations, which sets out examples of good practice which organisations in both the public and private sectors have adopted to improve the efficiency and effectiveness of their food procurement. The second is a volume of case studies, setting out in further detail the challenges faced, and good practice exhibited, in three of the major four sectors of public sector food procurement: schools, hospitals, and Armed Forces bases.

PART TWO

The performance of the public sector in procuring food and catering services



2.1 This part of the report considers the food procurement performance of departments and front-line organisations (in particular, schools, hospitals and Armed Forces bases), and the potential for improving this performance, concentrating on:

- The scope to improve efficiency and reduce costs without negative impacts on sustainability and nutritional quality;
- The scope to improve the sustainability and nutritional quality of food procurement while remaining focused on efficiency;
- The extent to which centrally led cross-government initiatives are contributing to improved public sector food procurement;
- The progress towards improved food procurement within the three case study sectors (schools, hospitals, and Armed Forces).

Our findings are based on:

- Analysis of data from a survey of 146 public sector organisations (including central government departments, NHS Trusts, local authorities, universities, and Armed Forces bases)
- Case study examinations of school catering, hospital catering and Armed Forces catering, including site visits, document reviews, and interviews with both departmental and catering staff
- Visits to a number of other public and private sector organisations demonstrating different aspects of good practice in food procurement
- Onsite reviews of the catering operations at seven public sector organisations (central government departments, schools, hospitals and an Armed Forces base), carried out on behalf of the National Audit Office by Merritt-Harrison Catering Consultancy
- Reviews of contracts and other commercial documentation from 13 organisations (NHS Trusts, schools, local authorities, and an Armed Forces base)
- A report on sustainable food procurement commissioned by the National Audit Office for this study from Oxford Brookes University
- A benchmarking review of price data from our survey carried out on behalf of the National Audit Office by PSL, catering consultants
- Liaison with key external stakeholders, including private sector food procurers, major catering firms and wholesaler-distributors, sustainability groups, and academics

2.2 By efficiency we do not necessarily mean reducing expenditure but instead ensuring better value for money for the funds spent (for instance, by securing better quality goods or services for the same level of expenditure). This need not conflict with efforts to improve sustainability and nutrition. In some cases the best way to secure better value for money is to invest in improvements to the service (for example, as the additional funding given by the Department for Education and Skills to improve school meals) while making sure that the additional resources are spent wisely and that the progress achieved can be easily identified. In some cases it is possible to recycle savings into further improvements to the service, so that cost savings in some areas help to finance improvements in sustainability and nutrition overall. For example, savings resulting from better checks on the goods delivered can be used to improve the quality of ingredients purchased.

The scope to improve efficiency and reduce costs without negative impacts on sustainability and nutritional quality

2.3 While it is easy to point to differences in average spending between sectors (**Box C**), it is impossible from this to draw any conclusions on the relative efficiency of different sectors, owing to a range of complex factors such as the different requirements of each customer group (for instance, hospital patients often have special needs; active Armed Forces personnel require more daily calories than civilians). Public sector organisations, such as schools and hospitals, need to do more to gather data on average daily food spend to enable them to benchmark their performance across regions, weighted for size of organisation and cost differences in urban, suburban and rural areas.

BOX C

The average daily spend on food (for three meals):

Hospital patients (including snacks and drinks)	£2.60
Armed Forces personnel	£2.10
Prisoners (including snacks and drinks)	£1.87
School meals (lunch only)	£0.37 to £0.85

NOTE

In practice, because take-up of meals served in Armed Forces bases averages around 50 per cent for any one mealtime, and because service chefs allow for this in the number of meals they prepare, the amount spent per person per day is more than £2.10.

2.4 Our examination did, however, reveal significant variances across the public sector in efficiency and the implementation of good practice. Overall, we identified five areas where there is significant scope for improving the efficiency of public sector food procurement:

- wide variations in the prices paid for the same items and lack of transparency and oversight of contract caterers' charges;
- limited aggregation of demand and joined-up procurement;
- underdeveloped professionalism in receiving and using food, and monitoring costs;
- lack of focus on reducing environmental impacts and costs; and
- untapped potential to increase take-up of and income from catering services.

For each area we assessed the potential financial savings that would follow from wider implementation of good practice. The calculated savings are based on an assessment of the savings achievable by 2010-11 against a baseline of performance and expenditure on food (£2 billion by the public sector in England) in 2004-05 (assuming volumes, expenditure, products and prices remain the same throughout this period). In doing this we were mindful that these efficiency gains should also lead to improved, or at least not compromised, service quality, sustainability and nutritional content.

Wide variations in the prices paid for the same items

2.5 In our survey, we asked public organisations to state the prices they paid for a basket of ten commonly purchased items, such as a pint of milk, a loaf of wholemeal bread, and a can of a well-known brand of cola. We found that the prices varied considerably, with a pint of milk, for instance, ranging from 17 pence to 44 pence, and a can of a well-known brand of cola ranging from 17 pence to 34 pence. We compared these prices against very competitive prices available in the market (identified for us by our consultants, PSL), and found that while the lowest prices reported by public organisations were genuinely competitive, there were many which were comparatively expensive (**Figure 10**). The range of prices could be explained by the different sizes of organisation, as well as their differing standards of nutritional quality and the ease with which smaller suppliers are aware of opportunities and able to compete for contracts. It also reflects differences in the professionalism of their food purchasing. In our view these price differentials also indicate considerable scope for many public sector organisations to purchase the same quality of items for significantly cheaper prices.

2.6 This issue of wide variations in price is compounded for those public bodies which outsource their catering by the widespread lack of transparency in the prices stated by contract caterers. Major catering firms routinely obtain volume-based discounts and rebates²⁶ (or other payments such as listing fees, marketing support, ‘hello’ payments and settlement discounts) from their suppliers which they often do not fully reveal or pass on to their clients; analysts at Deutsche Bank estimate that the level of these “invisible earnings” may, for certain contracts and products, reach up to 30 to 40 per cent.²⁷ We estimate that, on average, contract caterers receive supplier discounts on prices of around 12 per cent, and that (in some cases) also receive a year-end rebate from major suppliers of approximately 3 per cent of their annual spend with those suppliers.²⁸ In total we estimate that, taken together, the largest UK

catering firms may be earning up to around £95 million in discounts and rebates from suppliers, solely through their contracts with public sector clients in England.²⁹

It is unclear how much of these discounts and rebates are returned to the public sector, and we found little awareness among staff responsible for oversight of public sector catering contracts of their existence or scale. It is important that procurers consider the outsourcing of a service as a complete package, taking into account not simply item prices but all of the associated costs and discounts.

10 Variations in the prices obtained by public sector procurers

	Milk (1 pint whole milk)	Bread (800g wholemeal)	Specified brand of cola (330ml can)
	Pence	Pence	Pence
NHS Trust (range)	18-27	32-84	20-29
NHS Trust (average)	20.9	55.4	25.3
Local Authority (range)	25-44	55-97	20-34
Local Authority (average)	31.3	69.8	25.1
University (range)	20-38	45-110	17-31
University (average)	28.1	72.2	21.1
Central Government (range)	17-39	57-93	21-31
Central Government (average)	31.0	75.3	26.5
Very competitive market price	22	48	16

Source: National Audit Office survey, and a comparative analysis of prices commissioned from PSL catering consultants

NOTES

Prices obtained by the Ministry of Defence in their central contract with 3663 cannot be published due to commercial confidentiality.

The survey specified a single well-known brand of cola, in order to compare prices of like-for-like products.

²⁶ Discounts directly lower the prices paid by catering firms for certain items, while rebates are received by catering firms retrospectively, based on the volume of their purchases from certain suppliers.

²⁷ *European Catering – Attractive valuation outweighs secular concerns*, Global Equity Research – Industry Update report, Deutsche Bank AG, 10 March 2005.

²⁸ Research carried out on behalf of the National Audit Office by Merritt-Harrison Catering Consultancy.

²⁹ Research carried out on behalf of the National Audit Office by Merritt-Harrison Catering Consultancy.

2.7 This issue was reflected in the answers we received in our survey from organisations that outsource their catering. Fully one third were unable to state the purchase prices of any of the basket of ten commonly purchased items we requested. In addition, we found that 19 per cent (of those that gave an answer) were not receiving an itemised breakdown from their catering firms for the cost of ingredients, with 30 per cent not receiving itemised costs for “sundries” (such as cleaning materials, laundry, and uniform costs). Where organisations did give us information on the prices quoted to them from their catering firms, these were consistently higher than those quoted by organisations which retained catering services in-house and did their own food buying (**Figure 11**). This is not to say that outsourcing is necessarily more expensive overall, when all costs are taken into account; indeed 79 per cent of our survey said that they thought that the service provided under their catering contract was inexpensive or very inexpensive.

Assessment of the potential savings from reduced prices for the same or better quality food products

While the margin for improvement will vary between organisations (dependent to a large extent on the degree to which they are achieving competitive prices already) **we estimate that public sector organisations should be able to reduce the cost of their food ingredients by 4 per cent, amounting to £40 million by 2010-11.*** This recognises that some public sector organisations will already be taking some or all of the measures we highlight and that in many cases organisations will need to wait for the expiration of their existing contracts to secure such savings. We have also taken into account the level of savings considered feasible by our catering consultants based on their examination of the evidence of the study and their knowledge of the catering market. The school and hospital sectors currently appear to have the greatest scope for savings in this area based on the findings of our survey, contract and catering reviews and case studies since they show relatively high variation in prices paid.

* Food prices are inherently volatile, due to such factors as the size of harvests and the outbreak of animal diseases. However, this volatility should not affect the figures cited here, as these reflect the savings that could be achieved if the public sector used greater market knowledge and price transparency to reduce the extent to which it is overcharged. Suppliers may overcharge purchasers whether the best market prices for commodities are high or low.

Assessment of the potential savings from improved transparency and oversight of contract caterers’ charges

We estimate that public sector organisations should be able, through better monitoring of charges, improved contracts (for instance, which stipulate that rebates should be passed on to the client), and better market awareness of the existence of “hidden charges”, to negotiate a £30 million share of the £95 million per year earned by catering contractors from volume discounts and annual rebates. This is a conservative estimate, which takes into account the difficulties in fully identifying and enforcing the passing on of “hidden earnings”, as well as the fact that in some cases these rebates will already be shared and that (justifiably**) contract caterers will want to retain a share.

** While public sector organisations represent a considerable share of the business for contract caterers it is not usually possible to definitively state that it is their contract that (for example) triggers the payment of a discount. Contract caterers and their shareholders will understandably wish to retain a portion of the discounts in order to make an acceptable profit.

Limited aggregation of demand and joined-up procurement

2.8 Given that food procurement is common to many public bodies, and that in almost every location there will be other public bodies nearby, there is obvious potential for public food procurers to join together to increase their purchasing power (for example through economies of scale), both to reduce prices and to improve standards of service and nutritional content. However co-operation is rarely effective without firm direction and leadership. As an example of the potential benefits of increasing aggregation, the Prison Service has achieved annual savings in the order of six per cent on its annual food expenditure following rationalisation of the number of central contracts for food, while a number of local authorities successfully use the Yorkshire Purchasing Organisation, not only to achieve price reductions but also to carry more weight in negotiating higher specifications for nutritional standards with suppliers. Certain factors may complicate or limit the scope for joining up the purchasing of different types of organisations, particularly where they are of very different sizes (for instance, primary schools will need much smaller “drop” sizes than acute hospitals) or where they have specific requirements

11 Organisations that outsourced their catering paid more per item

	Milk (1 pint whole milk)	Bread (800g wholemeal)	Specified brand of cola (330ml can)
	Pence	Pence	Pence
In-house (average)	25.3	64.8	22.3
Contracted out (average)	33.6	84.1	27.7

Source: National Audit Office survey

(for instance, the security concerns of prisons). Overall, however, the current picture is still one of fragmented purchasing, particularly within the schools sector and across the NHS. Fully half (51 per cent) of the respondents to our survey said that they did not engage in any joint buying with other public bodies,³⁰ despite the fact that 44 per cent of these organisations use at least two of the same major suppliers.³¹ The main barriers to be overcome in increasing joined-up procurement, especially across different sectors of the public sector, are largely related to different sizes of organisation and different requirements specific to different types of organisation. The difficulties in coordinating activity in collaborative procurement may be partially alleviated by appointing a lead buying organisation and the use of OGCBuying.solutions e-Sourcing tools which allow multiple organisations to securely share information and tender their requirements online outside of organisational boundaries.

2.9 Aggregation of public sector demand should not automatically mean aggregation of supply. Procurers may need to assess the longer term impacts of the sustainability and contestability of the market when deciding how their package of requirements should be presented to the market.³² Certainly, the aggregation of demand need not put small local suppliers at a disadvantage. For example the requirement of a proposed contract can be split into “lots” during the tendering process (where this does not compromise value for money) and the lots tendered at the same time, so allowing small and medium enterprises

to bid for certain parts of supply contracts. The lots can be split in a variety of ways, for example by product or distribution area, with suppliers able to bid for some or all lots. This approach can bring benefits to the contracting authority since it enables smaller suppliers to develop competencies, reduces risk of over-reliance, and helps to address any lack of competition. Allowing for lots and then communicating this fact effectively among local and regional businesses can be a potentially effective method for furthering local food and ensuring security of supply, as demonstrated by the NHS Purchase and Supply Agency in breaking their frameworks (for example in respect of meat) into regional lots.³³

Assessment of the potential savings from aggregating demand to reduce procurement costs and increase purchasing power

The Office of Government Commerce estimates the administrative costs of tendering for a minor public sector catering contract via the Official Journal of the European Union to be £30,000 (while the cost of a complex contract is estimated as £165,000). In the three month period of September to November 2005 alone at least 60 such tenders were issued by public sector organisations.* Assuming there are around 240 such tenders per year, a 25 per cent decrease in the number of procurements would lead to annual savings in administrative costs of £1.8 million per year.

* The Official Journal of the European Union carried notices for 60 such procurements in this period; it is not possible to quantify the additional procurements carried out locally which do not require advertisement in the Official Journal.

Overall, we estimate that with greater aggregation across the public sector an average reduction in prices of four per cent is possible, equating to an annual saving of £80 million, by 2010-11.**

** This is based on the level of variation of prices of common food ingredients apparent from our survey and takes into account savings on ancillary costs such as transport costs and costs related to checking deliveries and to dealing with invoices and payments. The school sector currently appear to have the greatest scope for savings in this area based on the high degree of fragmentation noted in our case study and the wide variation of spend on ingredients between local authorities noted in a survey by the Soil Association.

30 Among those organisations that said they did no joint purchasing are 23 NHS Trusts; these are still likely to have made purchases from national framework deals negotiated centrally by the NHS Purchasing and Supply Agency. These frameworks achieve price reductions from suppliers based on the expected volume of sales to be channelled through them, and therefore achieve some of the benefits of aggregated purchasing.

31 Greater aggregation may not be the most cost effective approach in all circumstances – though true for most. Joint public sector-commercial ventures, for example, could provide a better solution, e.g. local pub providing meals for North Cerney Primary School, Glos (<http://www.defra.gov.uk/farm/sustain/procurement/casestudies/northcerney.htm>).

32 The Office of Government Commerce have produced guidance on aggregation of demand, available at <http://www.ogc.gov.uk/index.asp?id=1002172>.

33 The NHS's patchwork approach and other ways of increasing opportunities for small local producers are covered in Part 3(b) of Defra's guidance for buyers and their internal customers. URL: <http://www.defra.gov.uk/farm/sustain/procurement/pdf/foodprocure.pdf>.

Underdeveloped catering capability and professionalism and limited use of external expertise in food procurement

2.10 Well developed capabilities in the receipt and storage of food, menu design and meal preparation can all generate efficiency gains. Our survey and site visits indicated that the quality of “goods received” checks, stock reconciliation, food storage, and accounting procedures varied greatly, for example: 14 per cent of surveyed organisations check less than 40 per cent of their deliveries for completeness and quality, while a further 12 per cent said that they were unsure how many were checked; one fifth do not use standard costed recipes;³⁴ and 12 per cent either do not undertake stock reconciliations or do not know whether they are undertaken (on our site visits we found stock control procedures that varied from the frequent and meticulous to the infrequent and insufficiently thorough). We also found patchy approaches to gathering and using management information: in one case outdated figures for uptake of menu choices were used to forecast future demand, while in another a computer system designed to simplify stock control and collate information for accurate ordering was only partially used. In our school food case study, we identified several instances of chefs being recruited to schools from the private sector, who found it necessary on taking up their post to overhaul the menu, institute better checks on deliveries of ingredients, and improve the training of kitchen staff in better food storage and preparation techniques.

2.11 Public sector organisations could make significant savings through greater use of external expertise, from both the public and private sectors, to help achieve cost reductions. Only a third of organisations in our survey used consultants to successfully reduce their costs, even though those that did reported achieving reductions on average of seven per cent. We also found that only 16 per cent of organisations use a commercial price monitoring service, with 10 per cent not taking any measures to monitor the competitiveness of the prices paid for food items, and five per cent relying solely on “having a sense of what is a good price”. In addition, one third of respondents that outsource their catering stated that they would have benefited from expert guidance in drawing up contracts. In general, we found evidence to suggest a range of savings of between three and eight per cent that

can be generated through engaging external advice to improve the efficiency of measures such as goods received and menu design. As a further illustration, a 2005 report commissioned by the Better Hospital Food Programme found that implementing a trial efficiency programme at one NHS Trust reduced patient food costs by 3.4 per cent, and suggested that implementing similar measures throughout the NHS would result in average savings of five to eight per cent (although the report also noted that it would be difficult for Trusts to maintain such percentages of savings over successive years).³⁵

Assessment of the potential savings from improving catering capability and professionalism and better use of external expertise

Significant savings are achievable through better menu design, improved checks on deliveries and enhanced training of kitchen staff in food storage, portion control, use of alternative ingredients and food preparation to make best use of the food purchased, reduce food wastage and maximise the number of meals produced from the ingredients purchased. One catering contractor introduced a formal food production management control system in a public sector training centre and achieved savings of 10 per cent of their food costs which rose to 15 per cent when a computerised version was introduced. Our case studies identified other organisations that had made savings of a similar magnitude. Taking into account the fact that many organisations already adopt good practice in some or many of these areas we **estimate that four per cent cost reductions are achievable across the public sector, amounting to £40 million, by 2007-08**. This takes into account the time required to take the necessary steps (such as arranging training, researching and marketing new menus and sourcing alternative ingredients).

Managing catering operations to reduce environmental impacts and costs

2.12 There is large scope for increasing the energy and water efficiency of public sector catering operations. For example, some 77 per cent of respondents to our survey did not have separate metering in their kitchens to allow them to measure the electricity, gas, and water consumption of their catering service.³⁶ Installing such metering is an important first step towards increasing resource efficiency, to both reduce direct costs and environmental impacts

34 By working out and adhering to standard, costed menus, organisations are able to control their costs, both in being able to place regular orders in bulk (since they know in advance what they will need for a long period) and in monitoring how efficiently they use ingredients (since they can compare the volume of ingredients they are actually using with the amounts they know they should be using).

35 *Simple Techniques in Effective Purchasing*, Better Hospital Food Programme study, April 2005 (unpublished).

36 MoD policy is for utility meters to be installed in all new kitchen builds and major refurbishments.

such as carbon emissions (although smaller organisations should balance the costs associated with the installation of metering with the potential for savings). We also found limited evidence of public bodies working with suppliers to jointly reduce environmental impacts and increase efficiency. For instance, while 52 per cent of respondents to our survey had worked with suppliers to increase recycling, this fell to 30 per cent for reducing packaging or reducing consumption of energy or water. For organisations which outsource their catering, we found no evidence of public bodies passing on the kitchen utility costs to their contractors (which might incentivise them to increase onsite resource efficiency). In our site visits, we found that some organisations had fitted energy efficient appliances, but that the general use of gas, electricity, and water was not controlled efficiently, and nor was this a high priority. Information from major wholesale suppliers showed that many public sector organisations contracted separately for ambient, chilled and frozen products resulting in increased associated logistic and environmental costs due to the need for multiple deliveries.

Assessment of the potential savings from managing catering operations to reduce environmental impacts and costs

In view of the lack of data regarding the overall spend by the public sector on energy and water directly related to the provision of catering services due to the widespread lack of separate metering it is not possible for us to estimate the level of potential savings achievable across the public sector.

However (based on figures provided by the Local Authority Caterers Association and AVL Consultancy for the number of school meals and the average related energy and water costs) we estimate that the overall spend in the school sector is £49 million. **Savings of up to 10 per cent can be achieved by taking actions such as only lighting ovens or switching on grills when needed or installing water efficient taps which only operate when required.**

Across the schools sector we estimate that it should be possible to achieve annual savings of 2 per cent, amounting to just under £1 million by 2007-08. This is a conservative estimate, taking into account the likelihood that some schools are already pursuing energy efficient policies and allowing time for the installation of energy efficient equipment.

Low take-up of meals

2.13 The overall take-up of a catering service is often vital to its financial viability, especially where potential customers have a free choice regarding whether to use it or not. Reduced income leads to falling spend on ingredients, reduced customer confidence and reduced scope for investment (**Figure 12 overleaf**). This issue is particularly relevant to schools, to the Ministry of Defence's 'Pay-As-You-Dine' initiative,³⁷ and where hospitals and local authorities sell meals to the public. We identified, for example, a number of schools that have achieved considerable increases in the take-up of their meals by improving the quality of the food, involving children and parents in the proposed changes, and addressing other barriers to take-up such as queuing times and poor dining environments. There are, however, significant variations in school meal take-up – from 26 to 90 per cent, across different local authorities. These variances in take-up can significantly affect the revenue received with which to run the service. For example, in two local authorities with similar numbers of pupils, but where take-up of school meals varies from 55 per cent in one instance to 38 per cent in the other, we estimate that the annual difference in gross takings between them was almost £4 million.³⁸ In some areas of the country with particularly low take-up the financial viability of school meal services are threatened.

Assessment of the potential savings from increased take-up of meals

The scope for improvement varies considerably among local authorities as take-up of school meals ranges between 26 and 90 per cent³⁹ and averages 45 per cent.⁴⁰ Although 100 per cent take-up is very unlikely, even a modest increase would lead to significant amounts of additional revenue. **We estimate that it should be possible to achieve, on average, an increase in take-up of paid school meals of 10 per cent by 2010-11 which (taking account of increased food and other variable costs) would result in an additional £33 million being generated for schools and local authorities in that sector alone.**⁴¹ It is not possible to make firm estimates for the other sectors, in some cases (such as local authority staff and visitor restaurants) because there is no national data available and in others (such as the 'Pay-As-You-Dine' initiative within the Armed Forces) because the initiative has been introduced recently.

37 This initiative, driven by changes in wider personnel policies within the Armed Forces, will remove the mandatory daily food charge deducted from the salaries of non-operational Armed Forces personnel, enabling them to decide whether to purchase food from military catering facilities or elsewhere. Catering on military bases will form part of regional contracts bundling together other soft facilities management functions.

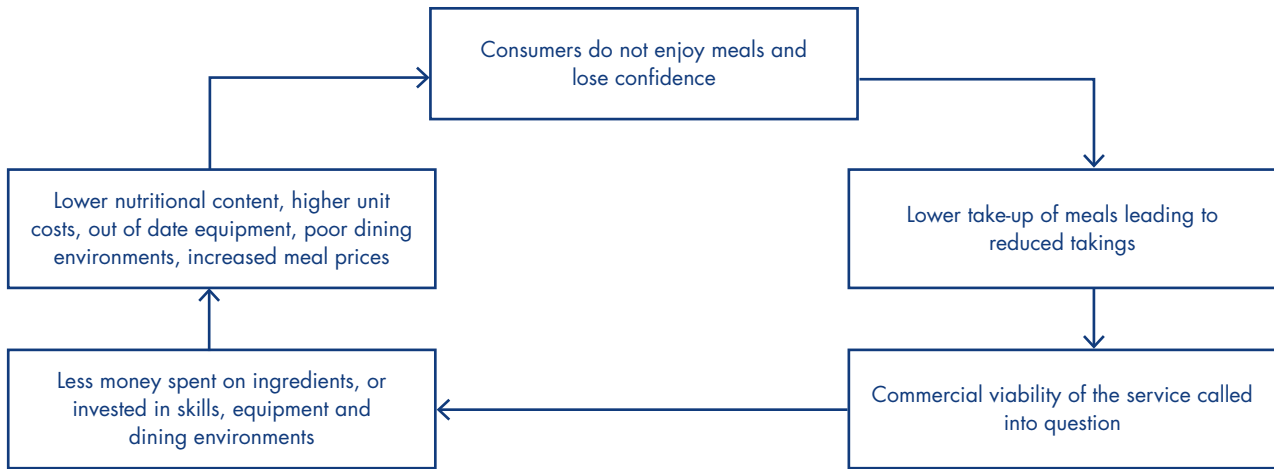
38 National Audit Office analysis of data from the Soil Association's survey of local authorities.

39 Soil Association survey of local authorities.

40 Local Authority Caterers Association School Meals Survey.

41 The Local Authority Caterers Association estimates that parents pay £601 million per year for school meals. Therefore a ten per cent increase in take-up would generate additional revenue (and purchasing power) of £60 million.

12 The value for money implications of reduced take-up



Source: National Audit Office

Overall assessment of potential efficiency savings

2.14 Taken together the potential savings indicate an annual saving of £224 million by 2010-11, an 11 per cent saving against the baseline expenditure of £2 billion in 2004-05. This is a conservative estimate which takes account of the fact that many public sector organisations have already made improvements in one or more of these areas. It provides, however, a reasonable benchmark against which improved performance can be assessed. The potential savings must, however, be set against the costs of implementation. It is difficult to be precise about the costs involved in implementation because many of the improvements identified may be dependent on wider changes in organisational policies or contractual arrangements; for example, renegotiating the terms of a contract with a catering firm, to put it on a transparent “open book” basis, in which all charges are itemised and all discounts and rebates declared to the client. Where more complex change or investment in, for example, new equipment, is necessary, a clear business case would need to be made. However, many of the improvements we have identified, particularly improving menu design, checks on deliveries, stock reconciliations, and energy and water efficiency, can be done at low cost and within short timescales.

2.15 The efficiency savings identified above represent a significant proportion of public expenditure on food and catering in England, even after reflecting the likely rate of inflation over the years to 2010-11. However, this does not necessarily mean that the public sector can cut its spending on food and catering services. The efficiency savings could help finance much needed improvements in the quality of the services provided and, in so doing, help the Government in the steps it is taking to improve public sector food (for example in schools and hospitals).

The scope to increase the sustainability and nutritional quality of food procurement while remaining focused on efficiency

2.16 As part of the overall objective of increasing efficiency and value for money, public procurers are today importantly tasked with increasing the sustainability and nutritional quality of public sector food.⁴² As already outlined, seeking efficiency savings should not conflict with these further objectives. Equally, however, seeking to raise levels of sustainability and nutrition should not mean losing focus on the need to increase the efficiency of all aspects of public procurement. Indeed, public procurers need to seek the most efficient means of increasing sustainability and nutritional quality, in order to lever the greatest outcomes from the funds they use.

⁴² The main relevant cross-government initiatives on increasing the sustainability and nutrition of public sector food are discussed under the succeeding section, “The extent to which cross-government initiatives are contributing to improved public sector food procurement”.

2.17 In examining the public sector’s approach to food procurement, we identified five areas where there is significant scope for improving sustainability and nutritional quality while increasing efficiency:

- streamlining and prioritising objectives;
- being intelligent and innovative in tackling the barrier of higher costs;
- providing strategic support to bridge the gap between procurers and suppliers;
- addressing shortfalls in skills and infrastructure;
- using marketing and education to boost consumer demand.

Streamlining and prioritising objectives

2.18 We found evidence of widespread confusion among both public organisations and suppliers as to what exactly sustainable food procurement entails, and what the priorities to increase sustainability and nutrition should be. This comes as no surprise, given the inherent complexities of these issues. First, sustainability encompasses many different issues, including: increasing opportunities for local suppliers, increasing opportunities for small and medium-sized enterprises, protecting biodiversity, reducing environmental impacts, increasing food safety and nutrition, meeting diverse cultural needs, increasing purchases of fairly traded products, and improving staff working conditions.⁴³ Second, there are no standard definitions for some of these issues, notably for what exactly “local” should mean, although the Department for Environment, Food and Rural Affairs has produced a list of Frequently Asked Questions⁴⁴ to help buyers and suppliers understand the issues and decide how best to proceed in the absence of agreed definitions. Third, some of these issues conflict with each other: for instance, as the majority of organic produce consumed in the UK is imported, increasing organic procurement may exclude local suppliers, as well as increasing “food miles” and hence carbon emissions. These are dealt with in the Department for Environment, Food and Rural Affairs’ *Guidance for buyers and internal customers* explaining the policy and hierarchy of key priorities with, for example, the objective to increase demand for organic food having

a lower priority than the objective to increase tenders from small and local producers. There is however scope for public sector organisations to do more to reduce the confusion currently experienced by public bodies in determining priorities for increasing the sustainability of their food procurement. This should help the public sector to make faster progress and most efficiently allocate its resources by identifying areas for “quick wins”.

2.19 As part of this, there is obvious potential for public bodies to present to themselves and their suppliers a clearer and more coherent set of requirements and criteria for performance assessment. For instance, less than half of the organisations in our survey which were able to give a definite response to this question said that they had established minimum nutritional standards for the meals they serve. We found limited evidence of the use of outcome-based criteria in outsourced catering contracts (to focus more on outputs, such as encouraging healthy eating, rather than solely on inputs, such as price). It is legitimate for such outcomes to be specified and evaluated in the procurement process where there is a clear and direct link to subject of the contract and where the process is undertaken in a non-discriminatory way. Where contracts have been let on the basis of lowest price alone rather than overall value for money, this has usually had negative impacts on the quality of the food produced. As an illustration of the longer term costs this can impose, in some cases schools and local authorities are locked into long term or inflexible contracts where necessary variations (for example to meet the revised nutritional standards to be set out by the Department for Education and Skills) may be expensive or difficult to secure.

Being intelligent and innovative in tackling the barrier of higher costs

2.20 The most commonly cited argument against increasing sustainable procurement of food is that this raises costs: organic food is generally more expensive than conventionally-grown produce, buying from smaller suppliers can be more expensive due to lower economies of scale, and some domestically produced food may also carry a price premium.⁴⁵ While limited in their application, we identified a number of approaches which

⁴³ For example, these issues are all featured within the Catering Services and Food Procurement Toolkit produced by the Department for Environment, Food and Rural Affairs.

⁴⁴ Frequently Asked Questions. URL: <http://www.defra.gov.uk/farm/sustain/procurement/pdf/psfpi-faqs.pdf>.

⁴⁵ For example, although the Ministry of Defence has mandated its contracted food supplier, 3663, to source British produce wherever it is price-competitive and meets the required quality standards, it buys the majority of its meat from abroad. The Ministry estimates that purchasing all UK-origin meat products for UK-based forces would cost over 30 per cent more than currently spent, approximately an extra £6 million per year. One of the reasons for this is the requirement of the Armed Forces for year-round availability, which in turn means a requirement for frozen meat (MOD delivers rations worldwide: the purchase and transportation of frozen products is safer in terms of food safety). Frozen British lamb, for instance, is not competitive with New Zealand lamb, partly because there is currently a shortage of cryogenic freezing plant production capacity in the UK, and no overall incentive for UK lamb producers to invest in it.

are being or could be taken by individual organisations to tackle this barrier of increased costs. One approach is to prioritise those aspects of sustainable food procurement that would be cost-neutral or save money. For example, increasing energy and water efficiency and minimising waste can produce significant savings; and encouraging more bids from small and local suppliers can help to increase competition, and thus help procurers achieve better value for money in their purchasing. Of those in-house caterers in our survey who were able to give a definite opinion on this point, 94 per cent thought that it was possible to buy a larger proportion of food and drink from local or regional producers, who were offering competitive cost and quality bids, while staying within budget and not contravening the EU rules on discrimination. This contrasts strongly with our finding that a significant minority (39 per cent) either purchased virtually no local produce at all, did not know how much they purchased, or gave no answer, indicating significant potential for the public sector to expand its local procurement, for at least selected items, without increasing spending.

2.21 Further approaches, pioneered by some organisations, which could be more widely adopted throughout the public sector include:

- **Changing demand to make sustainable or more nutritious produce more affordable:** Some organisations have found that through opting for higher quality produce they do not need to buy as much, as less of the product is wasted; for instance, mince with a higher product specification will yield a greater proportion of meat than cheaper, lower specification mince, which contains more fat and water. Equally, some organisations have changed the balance of their menus, for instance to reduce the amount of meat served in total, and therefore to increase the quality of the meat they do serve, while also increasing the proportion of fresh vegetables served. Others have slightly increased prices and reduced portions in order to make milk from smaller producers, for instance, affordable to offer. Finally,

many organisations which could not afford or be able to source an entirely sustainable menu have featured some competitive local or organic produce in regular promotions, to increase the amount of sustainable food they serve while minimising any increase in costs.

- **Working with suppliers to make sustainable or more nutritious produce more affordable:** The Cornwall Food Programme, a sustainable procurement team which supports the five NHS Trusts located in Cornwall, has very successfully engaged with local suppliers to change their products and processes, in order to make them affordable for local hospitals. For instance, they worked with a local dairy to bring the price of their luxury ice cream down by reducing the cost of packaging, and worked with a local cheese maker to identify mutually beneficial opportunities, resulting in buying blocks of high quality cheese that were rejected by supermarkets for being slightly too large or small.
- **Joining up to share demand, budgets, and benefits:** We found very little evidence of a joined-up approach, either within or between organisations, to connect food procurement budgets with other budgets that have potentially supportive objectives. However, there would appear to be significant potential for increased joining up to result in both a more efficient and effective use of public money. For instance, during a pilot project Leicester Royal Infirmary was able to reduce the need for additional nutrient supplements, and thereby demands on its pharmacy budget, by increasing the number of daily snacks provided from its budget for patient's food. On a wider level, independent research by an economic think tank indicates that procuring from local and small and medium-sized enterprises can help to boost local economic development,⁴⁶ suggesting the potential to join up procurement budgets with those aimed at regional development and neighbourhood renewal.⁴⁷

⁴⁶ *Public Spending for Public Benefit*, Justin Sacks, New Economics Foundation, 2005.

⁴⁷ Whilst regional development and neighbourhood renewal objectives could not be specified and evaluated in the procurement process, they can be secondary outcomes of procuring fresh food. Additionally, there are no legal restrictions on the pooling of budgets.

Providing strategic support to bridge the gap between procurers and suppliers

2.22 We found that not only does increasing the sustainability of an organisation's food procurement often require significant time and effort, mainly in terms of finding and developing a larger number of new and often small suppliers, but that the burden of work required falls heavily on individual procuring bodies.

2.23 We also found some evidence of a number of barriers to smaller suppliers selling to the public sector. Smaller producers often have difficulties in entering the major supply chains organised by large wholesalers and contract caterers, due to the low margins and slow payments that they often experience, the requirements to pay fees in order to be included in wholesalers' product catalogues and to offer them volume-based discounts, and the need to meet the necessarily stringent health and safety regulations. Wholesalers and contract caterers, meanwhile, are reluctant to deal with some smaller producers due to concerns regarding the reliability of supply, consistency of product, existence of auditable DNA (particularly for meat products) and price.

2.24 There is evidence that these obstacles can be tackled through providing more support to local procurers, both in terms of staff resources and infrastructure. In particular, the success of the Cornwall Food Programme in increasing local procurement by the county's NHS Trusts suggests the potential benefits of providing a dedicated staff resource to bridge the gap between procuring bodies and local suppliers, helping them to identify and implement innovative solutions to the benefit of both parties and the local economy (with the benefits outweighing the costs). We also found several examples of where a combination of aggregated procurement and investment in centralised facilities was able to encourage the entry of smaller producers to the market, increasing competition; for instance, a planned central food preparation unit and blast-freezer is set to enable schools in Hampshire, which have a policy of only buying frozen meat for safety reasons, to now consider if more locally-reared meat can offer the best value for money option.

Addressing shortfalls in skills and infrastructure

2.25 There is widespread evidence of deficiencies in both catering skills and facilities throughout the public sector.⁴⁸ For example, a survey in 2005 covering nearly 10,000 schools, found that in more than a quarter of local authorities there were not enough trained cooks able to prepare fresh food in all of the school kitchens in the area; and that in a fifth, the majority (between 75 and 100 per cent) of school kitchens had facilities that were more than 30 years old.⁴⁹ In addition, many schools and hospitals have been constructed or refurbished without fully equipped kitchens, partly in order to save building space which could be used for other purposes, and partly on the basis that regeneration of partly prepared ingredients and ready meals requires less skill and equipment, hence reducing labour and facilities costs, while making it easier to deliver a wide choice of dishes with a consistent level of service. This shortfall in skills and infrastructure can make it more difficult for organisations to pursue a sustainable procurement policy, in that it leads them to rely on fewer, larger, and therefore usually more distant suppliers, which can afford the infrastructure required to process ingredients and manufacture ready meals. Where a single factory supplies ready meals to public sector clients across a region or regions there is also a heightened risk of disruption to supply (for instance from potential food contamination incidents or influenza pandemics). Front-line organisations also have less direct control over what goes into the meals they serve, including the origins and types of ingredients used, and the levels of salt, sugar, and additives.

48 An example of Government efforts to help address this shortfall in skills is 'Catering for Health', a guide launched in 2001 by the Food Standards Agency and Department of Health, aimed at teaching healthier cooking at catering colleges and work-based training programmes. A simplified version is available at www.food.gov.uk.

49 "Old equipment could hinder healthy eating campaign in schools", results of a survey conducted by Caterer & Hotelkeeper magazine and the Local Authority Caterers Association (LACA), *Caterer & Hotelkeeper*, 15 September 2005.

2.26 To upgrade skills and infrastructure will inescapably lead to higher costs, at least initially, especially where this involves significant investment in facilities. However, if well-managed it also offers the potential to partially or fully offset such costs. For instance, we found examples from both the private and public sector of organisations which had reduced their purchasing costs by investing in staff training and facilities, enabling them to switch from purchasing pre-prepared meat and vegetables to buying fresh and unprepared local produce of the same quality but at a lower price (as these did not already include the labour and packaging costs of preparation). As an example Nottingham City Hospital has its own fully equipped kitchen which has helped them to supplement expenditure on its meals service from retail sales. Where organisations are considering making an investment in skills and infrastructure, their business case needs to explicitly address how to maximise these offsetting cost reductions.

Using marketing and education to boost consumer demand

2.27 Two-thirds of the organisations in our survey said they had responded to customer feedback by offering more fairly traded products, just over a third had offered more local produce, while just under a third had offered more organic produce. This suggests increasing demand for sustainable food from public sector staff and service users. However, it is also clear that lack of consumer demand can be a barrier to increasing sustainable food procurement. For example, where people choose meals within a “functional” setting (such as at work, or as a hospital patient), rather than when eating in a restaurant or shopping to prepare at home, they tend to use a different set of criteria in making their choices. Such consumers are looking for a convenient location, economical prices, speedy service, and meals which can be eaten quickly.⁵⁰ Some of the main characteristics associated with sustainable food – such as being fresh, organic, free-range, of local or British origin, free of genetically modified products, of high nutritional quality and low use of additives – were not seen in this context as being important drivers of food choice.

2.28 This illustrates the importance for organisations to use marketing and education to raise interest from their consumers, and to enable them to become better informed as to their food choices. One area where we found widespread marketing and educational

initiatives was in encouraging healthy eating: just under three quarters of public sector organisations we surveyed have implemented measures, not only to provide healthier options, but to influence customers to choose them (**Figure 13**). For instance, one local authority uses smartcard technology to monitor the nutritional choices of primary schoolchildren and to offer rewards for healthy eating. Meanwhile, one NHS Trust had organised a “healthy workplace” campaign for its staff, involving the promotion of the healthy options served in the staff restaurant over a four week period, with a weigh-in, blood pressure and cholesterol checks at the start and end of the campaign. Raising demand for more sustainable and nutritious food helps to make it more cost-effective to provide, as well as helping to maximise the impacts which the procurement of such food is intended to achieve; in both these senses it can be regarded as increasing efficiency.

13 A sample of measures taken to encourage healthy eating

- Increasing the price of less healthy foods, such as chips and full fat milk, and reducing the price of healthier options such as semi-skimmed milk and “meal deals” which include fruit as the desert.
- Reducing fried foods for hospitality events, and replacing them with more oven-baked products.
- Working closely with catering contractors to introduce healthier options.
- Offering promotions, such as earning free gifts in return for purchases of fruit and vegetables.
- Introducing a “traffic light” system to highlight the nutritional value of each option on the menu.
- Providing a nutritional breakdown of all menu items, enabling hospital staff to give guidance to patients to help them make an informed decision as to what to choose.
- Including healthy options in vending machines.
- Providing theme days on healthy eating, and promoting healthy options, both on the menus and using large promotion boards and colourful displays.
- Providing healthy menus for staff to use at home.
- Producing guides to nutrition, explaining the different types of food available.

Source: National Audit Office survey

⁵⁰ *Foodservice and Farming – Consumer Attitudes to the Origin of Food When Eating Out*, Institute of Grocery Distribution’s Consumer Unit, 2003 (unpublished).

The extent to which centrally led cross-government initiatives are contributing to improved public sector food procurement

2.29 There are a number of significant cross government initiatives aimed at improving the efficiency and quality of public sector food procurement, notably under the lead of the Department for Environment, Food and Rural Affairs, the Office of Government Commerce, and the Department of Health. Here we assess the broad outlines and impacts of the main initiatives.

Department for Environment, Food and Rural Affairs

2.30 The Department for Environment, Food and Rural Affairs is responsible for the Public Sector Food Procurement Initiative, established in 2003 as part of the Department's overarching Sustainable Farming and Food Strategy. There are four main strands to the Department's implementation of the food procurement initiative:

- **Food Procurement Implementation Group:** The Department hosts quarterly meetings, bringing together representatives from all the major national public procurers of food, as well as from other key organisations such as Government Offices for the Regions and public sector bodies that are large purchasers of food, to co-ordinate the wider implementation of the Initiative, to review progress, and to identify the potential for joined-up policy making and purchasing. The effectiveness of the joined-up nature of the Initiative's implementation is a point that has been recognised by the Environment, Food and Rural Affairs Select Committee.⁵¹
- **Funding for pilot projects:** The Department has funded, in conjunction with Government Offices for the Regions, a number of individual projects, designed to assess the potential of different measures to increase sustainable food procurement. One project, costing £14,500 and delivered through

the Government Office for Yorkshire and the Humber, funded staff to work with a local authority to overhaul its procurement processes; this resulted in a saving of £30,000 through switching from imported meat to vacuum-packed locally produced fresh meat, also enabling deliveries to be reduced to once a week with less packaging.

- **Publishing practical guidance and publicising the Initiative's objectives:** The Department offers a number of sources of guidance on its website, including the key policy document *Guidance for buyers and their internal customers*⁵² and a Catering Services and Food Procurement Toolkit, designed to help organisations understand the Initiative and include its aims within tenders and contracts. In addition, the Department has held conferences and a series of regional workshops for buyers and suppliers, designed to raise their awareness of the Initiative and help them implement its objectives. Despite this, we found that 40 per cent of respondents to our survey were not aware of the Government's Public Sector Food Procurement Initiative, while 66 per cent were not aware of the Catering Services and Food Procurement Toolkit (although, of those aware of it, 67 per cent rated it quite or extremely useful).
- **Food Procurement Action Plans:** The Department has encouraged other central government departments to write Food Procurement Action Plans, designed to help them focus more on improving nutrition and sustainability within their food procurement strategies and, for this purpose, issued to them in March 2003 a template setting out 14 areas in which they should set themselves targets. The department reviewed the action plans in July 2003 and some appear on the Public Sector Food Procurement Initiative web site. However, there is no external assessment of departments' progress, although Departments are asked to report on aspects of their performance in the annual Sustainable Development in Government reports.⁵³

51 Fourth Report of the Environment, Food and Rural Affairs Committee (HC 693-1, 2005-06), <http://www.parliament.the-stationery-office.co.uk/pa/cm200506/cmselect/cmenvfru/693/69307.htm#a5>.

52 *Guidance for buyers and their internal customers*. URL: <http://www.defra.gov.uk/farm/sustain/procurement/pdf/foodprocure.pdf>.

53 Sustainable Development in Government reports. URL: <http://www.sustainable-development.gov.uk/publications/report2004/partf.htm>.

2.31 The Department faces a number of challenges in taking the Initiative forward, chiefly those of costs (in terms both of the Department's own costs in carrying on the implementation of the Initiative, and of the cost pressures on procurement budgets throughout the public sector), raising interest among both public organisations and suppliers, meeting the needs of public procurers for more active support, and the lack of any mechanisms to monitor or mandate progress by departments and front-line organisations. From reviewing the barriers to increasing the sustainability of public food procurement, and the good practice of individual organisations, we have identified a number of areas which the Department might focus on in order to deal with its own challenges and accelerate progress throughout the public sector:

- Producing more user friendly, practical tools that make it easier for public bodies to include Public Sector Food Procurement Initiative objectives in their procurement of food and catering services.⁵⁴
- Drawing on existing best practice that the public, private and voluntary sectors are developing for the Public Sector Food Procurement Initiative to produce a practical step-by-step guide to help practitioners to improve co-operation among buyers and suppliers and establish the systems, networks and infrastructure to help local producers do business with the public sector.
- Examining the costs and benefits of more widely providing funding for staffing and infrastructure, to be given the specific aim of increasing participation of local producers and small and medium-sized enterprises where there is a clear justification on value for money grounds, and to assess at what level of government such resourcing would be most efficiently deployed.
- Working with major food procurers and the Office of Government Commerce to provide practical guidance on the best ways in which to combine increases in the aggregation of public procurement with increased opportunities for local suppliers and Small and Medium-sized Enterprises, aims which could potentially conflict with each other. Increasing aggregated purchasing is a clear method of raising efficiency, and the trend within the public sector is likely to be in this direction; this makes it all the more important that the Department works with others to explicitly address the best ways in which to combine this with meeting sustainability objectives.

⁵⁴ The Department for Environment, Food and Rural Affairs should allow public bodies some flexibility in deciding what objectives they should concentrate on to take account of their individual circumstances, for example, what they've done already, what's easier for them and what's in keeping with their strategic priorities.

⁵⁵ E-auctions are a means of driving prices down, through making prospective suppliers bid against each other; these are often called reverse auctions, since bidders must offer successively lower prices in order to stay in contention for the contract. A number of suppliers are invited to bid against each other for a contract; each bidder is able to see in real time where they rank in terms of the value of their bid, but not to see the actual values of the other bids.

Office of Government Commerce

2.32 In 2004, as part of the Government's Efficiency Programme, the Office of Government Commerce began a series of commodity reviews, aimed at assessing the potential for "quick win" efficiency gains in the public sector's procurement of different categories of goods and services. In autumn 2005 it began work on the Soft Facilities Management category which included a review of food and contract catering. The main impact of this work has been to bring together senior procurement figures from the NHS Purchasing and Supply Agency, Department for Education and Skills, Defence Logistics Organisation, and HM Prison Service, to explore the potential for greater joining up of food procurement across these sectors. The results of this National Audit Office report will help to inform the later review, which is expected to conclude in Spring 2006. OGC is also responsible for UK procurement policy and for a range of initiatives to promote a diverse competitive supply base including a national opportunities portal for smaller contracts, a national procurer training programme, simplified pre-qualification documentation and the opening up of supply chains of key suppliers to government.

2.33 OGCBuying.solutions, an Executive Agency of the Office of Government Commerce, is responsible for delivering value for money gains in procurement across the public sector. In particular, it is providing software and support for public e-procurement with relevance to food, such as:

- 'E-auctions':⁵⁵ between the start of the OGCBuying.solutions E-auction Framework in 2003 and December 2005, public sector customers had run 110 e-auctions. Aggregate savings of £92.1 million have been reported by customers. Auction events have been run for a wide range of goods and services, including some for foodstuffs; those running food supply auctions have included Swansea Council and the Scottish and Northern Universities Purchasing Initiative. The public sector could achieve better prices for its food purchases by greater use of e-Auctions, either carried out by contract caterers (provided they were conducted in a transparent manner) or by the public sector itself. In order to comply with procurement regulations, frameworks would need to be established with the appropriate suppliers with the assistance of OGC.

- **‘E-marketplace’:**⁵⁶ OGCBuying.solutions has developed and implemented a central e-procurement system (“Zanzibar”) which will hold the product catalogues of numerous suppliers, through which public bodies will be able to order goods and services at pre-negotiated prices. The Zanzibar system is designed as a single store of all the e-catalogues of products and services offered by a variety of suppliers, at the prices negotiated under the contracts they hold with different public bodies. Zanzibar went live in December 2005, with HM Prison Service as its first user. The Department of Work and Pensions and the Department for Education and Skills joined in early 2006.

2.34 One of the key roles of the Office of Government Commerce is to co-ordinate the activities of public procurers and to represent their interests to the marketplace, in order to help the public sector collectively to strike better deals. Complementing this work, one of the principal roles of OGCBuying.solutions is to develop framework agreements for various services and products for use across the public sector.⁵⁷ The Office has not previously made food or catering services a major priority, nor has OGCBuying.solutions developed frameworks for food or catering services, in large part because its remit has only recently been expanded to include the NHS, the Armed Forces, and local government, three of the four major public food procurers; until recently, the only major food procurer within its remit was HM Prison Service, which had its own well-developed central frameworks.

2.35 Now that the Office’s remit has been extended to include all of the major public procurers of food, it could use its expertise (and that of other bodies such as the NHS Purchasing and Supply Agency and MoD’s Defence Logistics Organisation) to facilitate the public sector’s engagement with major wholesalers and contract caterers, either directly or via a central body, and thereby help the public sector collectively to strike better deals.

2.36 Specifically, the Office of Government Commerce, either directly or in support of a central body, should:

- Produce guidelines to ensure all contracts are widely available within the public sector and that best practice procurement techniques are widely publicised to help the tenderer of food or catering service contracts negotiated by public service organisations. It should also consider what assistance can be given to Government Offices for the Regions and Regional Centres of Excellence in developing training and guidance for buyers and suppliers at a local level.
- Consider establishing frameworks for contracted out catering services for the public sector as a whole, and in doing so investigate the potential to negotiate rebates from catering firms based on the volume of their business with the public sector in its entirety. As a first step, and to strengthen the negotiating position of all organisations within the public sector, the Office needs to encourage public sector organisations to maintain records of the volume of business between major wholesale and contract catering firms and all public bodies.

⁵⁶ E-marketplaces such as Zanzibar enable users to share access to all their respective supply contracts, so that each procuring organisation can easily search for the best deals available. Not every organisation will be able to buy from every contract: access to each contract will still be restricted according to the basis on which it was originally agreed, so that if the original contract was restricted to local authorities then an NHS Trust, for instance, would not be able to buy from it. However, in this instance, other local authorities could use the system to shop around, and access the prices negotiated by those local authorities that had arranged the best deals.

⁵⁷ Centrally and expertly negotiated frameworks, where it is possible to aggregate demand and increase purchasing power, can generally deliver better contract prices than those that might have prevailed through deals negotiated individually by public sector organisations. They can offer reductions in the costs and delays associated with independent procurement exercises, and provide public sector organisations with assurance that the contracts negotiated through the framework are legally compliant with UK and European Union legislation.

Department of Health and Food Standards Agency

2.37 The Department of Health has a cross-government responsibility for encouraging the take-up of a healthier diet throughout society. Regarding consumers of public sector food, this responsibility includes supporting the development and promotion of new nutritional standards for all food purchased by the NHS, Armed Forces, and prisons. In taking this forward, the Department has been working with the Food Standards Agency (FSA) which has a strategic target to develop core nutritional and food-based standards⁵⁸ for the whole public sector, as well as tailored recommendations for individual subgroups (such as prisoners and Armed Forces personnel). This work has been contracted out, and is expected to be completed by Summer 2006. Following its publication, it will be for departments and front-line organisations to interpret these standards for their own use. In addition, the Department, in conjunction with the Food Standards Agency, is working with the NHS, Armed Forces and prisons to support them in identifying and overcoming barriers concerning raising nutritional quality. Building on this work, the NHS Purchasing and Supply Agency is arranging an early meeting with other public sector purchasers, to explore the opportunities for co-ordinating the updating of their food specifications to take account of this new nutritional guidance, as well as for developing common food safety requirements, thereby sharing good practice and avoiding duplication of effort.

2.38 The Department of Health and the Food Standards Agency are further working with the food industry, which can play a major role by the reformulation of processed foods, the provision of appropriate portion sizes, and the clear and consistent labelling to help consumers achieve a balanced diet more easily. This work is directly relevant to improving the nutritional standards in publicly procured foods. The work to reformulate foods includes the agreement of voluntary targets for specific food categories which the industry's manufacturers and buyers, including public procurers, are encouraged to work to. Salt reduction targets have been identified for 88 specific categories of food, with the strategy for reducing sugar and fat (especially saturated fat in processed foods) being due to be announced later this year.

The progress towards improved food procurement within the three case study sectors (schools, hospitals and Armed Forces)

2.39 Within all three of our case study sectors the lead departments and agencies have been implementing various improvement initiatives. Many of the initiatives are very recent and therefore the extent of progress and impact varies. **Figure 14 on page 48** summarises progress on the key initiatives and sets out, in summary, our assessment of the impacts and risks to successful delivery.

2.40 From our case study examination it was clear that department- and agency-led actions have in many cases already led to significant and quantifiable improvements in efficiency (**Figure 15 on page 51**). Of particular note are the savings achieved by the NHS Purchasing and Supply Agency's central tendering for framework contracts to supply the whole NHS with food combined with their use of e-auctions. The Agency tendered for all types of NHS food requirements in one go (with the exceptions of baby milk, fruit and vegetables, and ready meals), a market worth in total around £130 million. Given the size of this market, and because different requirements were being tendered together so that large suppliers were able to make a single bid to supply the NHS rather than making individual bids to supply specific items, the Agency was able to obtain more competitive starting bids than previously. It also achieved further reductions by holding e-auctions to decide the final value of successful bids. Overall, it estimates the likely savings to be nine per cent (just under £12 million).⁵⁹

⁵⁸ "Nutritional standards" relate to the nutritional content of items of food; for instance, they are likely to specify the proportion of a daily reference value for a nutrient different meals should provide. "Food-based standards" relate to the balance and presentation of different types of food offered; for instance, they might specify that fruit should be available throughout the day and indicate the type of provision of foods from the major food groups (starchy foods, fruit and vegetables, meat, fish, meat alternatives, milk and dairy products) that would meet the nutrient recommendations.

⁵⁹ These are projected savings, based on the Agency's estimations of £130 million annual expenditure channelled through these frameworks by individual Trusts. Given the reductions in item prices in comparison to previous framework contracts, if Trusts buy £130 million worth of food through these frameworks, this will result in overall savings of £11.9 million.

2.41 The key issues for frontline schools and hospitals and the financial savings achievable in each sector can be summarised as follows:

- **On school food:** The fragmentation of the school meals market has led to little aggregation of purchasing resulting in some schools and local authorities paying uncompetitive prices for ingredients and catering services. We found few examples of local authorities or schools working together to increase their purchasing power, a problem that is aggravated by the lack of competition within the school meals market since 70 per cent of the contracted out provision is operated by three companies. Take-up of school meals is a vital issue and varies greatly across the country, affecting the viability of the service in some areas. Many schools have taken action individually to improve the nutritional quality of their meals (the primary factor in the gradual fall in the number of children eating school meals) and have addressed other barriers to take-up such as long queues, poor dining environments and extending opening hours. While in many cases this has led to considerable increases in take-up, more than 50 per cent of local authorities have reported that fewer than half of their children took up school meals.⁶⁰ We estimate that the wider adoption of good practice identified by this study could lead to estimated value for money gains of £66 million in the school sector.
- **On hospital food:** While the NHS Purchasing and Supply Agency (PASA) has delivered savings on national framework deals, and the use of these framework deals is extensive, NHS food purchasing is still fragmented, with Trusts opting in and out of national frameworks and few engaging in joint purchasing with other Trusts. Were hospital catering managers to commit themselves to using these national frameworks more, the increased sales volumes would allow PASA to negotiate lower framework prices. One of the practical difficulties here, however, is that Trusts are unlikely to increase their take-up of national frameworks unless this directly lowers their costs, but framework prices are unlikely to be reduced unless the volume of take-up increases. The transition to new Collaborative Procurement Hubs, which will bring Trusts together on a regional basis, may offer the potential to address this by helping to increase volume purchase commitments among groups of Trusts, which would directly lower their costs. Overall, there is significant scope for hospital catering departments to reduce costs without reducing quality, by:
 - increasing the professionalism and efficiency with which they store and use food;
 - adopting a more commercial approach, to increase revenues from hospital restaurants and cafes;
 - increasing energy and water efficiency; and
 - improving the monitoring of their costs, in particular of catering firms' charges. As a conservative estimate, we believe that the wider adoption of good practice identified by this study could lead to estimated value for money gains of at least £43 million across the National Health Service (**Figure 16 on page 51**).

⁶⁰ National Audit Office analysis of data from the Soil Association survey of local authorities, 2004.

14 Progress and National Audit Office assessment of impacts and risks on the key initiatives to improve food procurement in the case study sectors

Sector and initiatives

School Food

Healthy Food in Schools initiative: The Department for Education and Skills is providing an additional £220 million over planned levels of funding targeted specifically at improving school meals. The first tranche was paid to schools and Local authorities in October 2005. The department have not stipulated what the money should be spent on but have required local authorities to set out strategies detailing how the additional funds will be used to address local priorities.

Until recently the Department collected little information regarding the provision of school meals (such as the incidence of contracting out, the average spend on food ingredients or the prices charged for school meals).

New nutritional standards: Published for consultation in September 2005 following the deliberations of the School Meals Review Panel. Schools have to offer complete menus and limits will be imposed on the amount of sugar, fat and salt contained within them. Food based standards for lunches to become mandatory for all schools from September 2006. Nutrient based standards to become mandatory for primary schools in September 2008 and secondary schools in September 2009. In addition, the School Food Trust has been established to promote the education and health of children and young people by increasing the quality of food supplied and consumed in school. It is to become fully operational in spring 2006 and will receive a total of £15 million funding over 3 years (2005-06; 2006-07; and 2007-08).

To assist caterers meet these standards the Food Standards Agency will be publishing voluntary Target Nutrient Specifications for manufactured foods used in school lunches. Draft specifications identify levels for salt, fat and sugar in more than 30 categories of products commonly used in school lunches. Wider procurement to these Target Nutrient Specifications will assist in helping pupils to achieved a healthy balanced diet. Final Target Nutrient Specifications will be published in May 2006.

Guidance for procuring school meals (for schools and local authorities): The guidance will be published by the Department for Education and Skills in May 2006.

Summarised NAO assessment of impacts and risks

It is too soon to assess the impact of this funding but it is vital that the department put in place suitable feedback and measurement mechanisms so that they can promptly and accurately assess progress. There is a risk that the funding will be used on short term measures which do not offer sustainable benefits beyond the period of the funding and that without adequate information on the local quality and standard of school meals, funding may not be targeted at the areas of greatest need and deliver optimal value for money.

It is crucial that the Department for Education and Skills has adequate and timely information on which to base future policy interventions. They could work with other stakeholders (such as the Local Authority Caterers Association, the Soil Association and Unison) who already conduct surveys of local authorities and schools to rationalise the burden placed on them. The Department could also collect information about school meals provision from wholesalers operating in the school meals market.

The new standards (together with the proposed introduction of tougher nutrient-based standards from 2008) should lead to improvements in nutritional quality but schools and local authorities who are locked into inflexible contracts or who currently spend little on ingredients may find it difficult to meet the standards. The School Funds Trust faces considerable challenges in ensuring its messages on good practice are communicated effectively to its potential audience of 23,000 schools and seven million pupils and their parents, in influencing and changing pupils eating habits.

The guidance, if used and implemented, should lead to improved food procurement by schools and local authorities in the medium term by enabling them to make better decisions on how to provide school meals (for example whether to contract out or provide an in-house service), to let fairer contracts and to monitor performance more closely. The envisaged savings on catering costs and the additional revenue generated by increased take-up will only be realised gradually, as existing contracts expire and current arrangements are overhauled.

14 Progress and National Audit Office assessment of impacts and risks on the key initiatives to improve food procurement in the case study sectors *continued*

Sector and initiatives

School Food *continued*

Centre for Procurement Performance: The Department for Education and Skills has established a Centre for Procurement Performance, as part of its Efficiency Review programme, which incorporates the purchasing arrangements for school food as part of its remit.

Summarised NAO assessment of impacts and risks

The Centre for Procurement Performance has a key role to play in encouraging greater aggregation of purchasing of school meals and brokering national agreements with large suppliers while balancing the need to maintain a 'hands off' strategic approach in dealing with schools and local authorities'.

Hospital Food

Supply Chain Excellence Programme: (i) National Contracts Procurement: Aim is to reduce costs and improve the sourcing of national products offering optimum value for money through new national framework agreements. Food-related procurement has so far achieved savings of £11.9 million.¹ A number of regionally based suppliers were included in almost all frameworks, with active support given to smaller suppliers with no experience of e-auctions.

The NHS Purchasing and Supply Agency (PASA) obtained competitive starting bids by tendering around £130 million worth of different contracts together, allowing large suppliers to make single bids. Further reductions were achieved by holding e-auctions to decide the final value of successful bids.

Trusts currently buy around 57 per cent of their food items through PASA frameworks; PASA estimates it could negotiate price reductions of a further 10 to 20 per cent if Trusts bought all their food through PASA frameworks. Only one framework – the NHS sandwich framework – allows organisations from the wider public sector to buy from it; this limits the frameworks' potential sales volumes and savings available to the public sector. The PASA's drive to increase the amounts that Trusts purchase through its frameworks could conflict with Trusts' ability to increase their purchasing from local suppliers.

Supply Chain Excellence Programme: (ii) Collaborative Procurement Hubs: Groups of Trusts that come together on a regional basis to improve procurement standards and create savings through increased purchasing leverage and economies of scale. Three Pathfinder Hubs (West Midlands South, Shropshire & Staffordshire, and Greater Manchester) were established in 2005. The NHS Purchasing and Supply Agency aims to bring all Trusts together within a total of 11 regional Collaborative Procurement Hubs by 2007-08.

Our survey indicated that Trusts currently do much less joined-up purchasing than other public sector organisations; Pathfinder Hubs have the potential to create such consortia for the NHS. Pathfinder Hubs' central procurement teams must have the expertise to effectively lever joint purchasing power; key will be whether Trusts commit to aggregating their purchasing.

Findings on progress made by these Pathfinder Hubs, including savings made to date and lessons learned, are expected to be published by the Agency in early 2006.

Multi-Temperature Choice contract: Consolidates different suppliers' lists into one web-based list, to streamline purchasing and minimise deliveries. Trusts' purchases through the Multi-Temperature Choice contract currently amount to around £35-40 million per year. PASA is aiming to increase this largely by working to demonstrate the ease and benefits of using e-procurement systems to hospital catering departments.

There are numerous benefits in Trusts' ordering products through the on-line ordering package provided by NHS Logistics. The software helps to reduce deliveries and transaction costs, by enabling Trusts to place a single order for items from different suppliers, and to receive a single delivery (for all the "ambient" goods) and a consolidated invoice from NHS Logistics. In addition, the NHS as a whole benefits from improved and centralised management information on how much is being spent by which Trusts on which products and suppliers.

The main potential risk of this system is that it mainly utilises a few major wholesalers, which may conflict with the ability of some Trusts to purchase locally.

14 Progress and National Audit Office assessment of impacts and risks on the key initiatives to improve food procurement in the case study sectors *continued*

Sector and initiatives

Hospital Food *continued*

Better Hospital Food Programme

Summarised NAO assessment of impacts and risks

While it is impossible to evaluate the impact of this Programme solely by referring to the Department of Health's Patient Environment Action Team ratings of hospital catering, these ratings have shown consistent improvement since the Programme was introduced. For instance, 84 per cent of hospitals were rated Excellent or Good in 2005 compared to 58 per cent in 2004.

This is due to be replaced by a new programme, "Eating Well in Hospital", which is intended to build on the successes of the Better Hospital Food Programme.

Armed Forces Food

Category Management Analysis: A Category Management Food Supply Team, independent of Defence Catering Group, has analysed the tendering of the food procurement contract.

Engagement with the market has improved suppliers' understanding of the Defence Logistics Organisation's requirements, and increased the number of bidders for the new contract. The Defence Logistics Organisation's improved understanding of the cost drivers of the supply chain has given them greater awareness with which to choose the winning bid. Prices will be monitored for competitiveness through the continued use of open book accounting combined with the benchmarking of prices. The Defence Logistics Organisation predicts that savings of £19.4 million will be made by 2010.

'Pay-As-You-Dine': This initiative, driven by changes in wider personnel policies within the Armed Forces, will remove the mandatory daily food charge deducted from the salaries of non-operational Armed Forces personnel, enabling them to decide whether to purchase food from military catering facilities or elsewhere. Catering on military bases will form part of regional contracts bundling together other soft facilities management functions.

The resultant economies of scale offer potential savings but catering operations, to remain financially viable, will have to compete on price and quality with the wider market. There is a need to ensure that military personnel maintain a suitable nutritional balance to their food intake.

Food Selection Panels: These provide members of the Defence Catering Group and representatives of each armed service with an opportunity to meet regularly with 3663 to maintain and reassess the Core Range of products.

Active engagement with the supplier over an extended period of time has allowed requirements to be better understood and challenged, and allowed the supplier to seek new sources for similar products that better meet the Armed Forces' criteria. Price or taste-sensitive products are blind-tested by service personnel against organoleptic criteria² with the resultant leading products compared against technical requirements and price, providing a clear view of cost. Products are chosen on the basis of best value for money, but have also generated savings of £1,435,000 in 2004-05, and £271,000 in 2003-04.

Source: National Audit Office case study examinations

NOTES

1 These are projected savings, based on PASA's estimations of £130 million annual expenditure channelled through these frameworks by individual Trusts. Given the reductions in item prices in comparison to previous framework contracts, if Trusts buy £130 million worth of food through these frameworks, this will result in overall savings of £11.9 million.

2 The taste and aroma properties of a food or chemical, which are measured by the senses.

15 Examples of reduced costs achieved in the case study sectors (further details are provided in the associated guidance and case study volumes)

Using expert skills: A secondary school in London acted on advice given by the catering manager at another school to secure improvements to the quality of the ingredients purchased while saving an average of 65 per cent on the prices paid previously.

Maximising purchasing power: In 2005 the NHS Purchasing and Supply Agency negotiated with an NHS framework meat supplier to deliver Solihull Hospital a seven per cent discount within the parameters of the framework on national framework prices. The Agency was able to secure this extra discount because Solihull was both a procurer of large volumes, and because the hospital was here making a firm commitment to a certain volume of purchases over a set period.

Food Selection Panels: Members of the Defence Catering Group and armed service representatives have met regularly with their wholesalers to reassess their Core Range of products and identify products that better meet Armed Forces requirements. This focus on maintaining quality has also led to £1,435,000 of savings in 2004-05 and £271,000 in 2003-04.

E-auctions: The Defence Logistics Organisation has achieved savings through the use of e-auctions. Compared to the price they would have paid using conventional methods of procurement for four catering products, savings of £368,000 have been achieved, with further savings of £390,000 predicted. Savings of £768,000 are projected for four other catering products.

16 Estimated potential value for money gains across the National Health Service

Action for NHS Trusts	Estimated saving
Increasing aggregated purchasing	£12m
Increasing the efficiency with which Trusts receive, store, and use food, and improving their market knowledge and buying professionalism	£18m
Negotiating savings of around 30 per cent in contract caterers' charges through increased transparency and monitoring of charges	£5m
Reducing rates of food wastage across the NHS down to the levels achieved by the top 25 per cent of Trusts	£8m
Total	£43m

Source: National Audit Office.

NOTE

A more detailed breakdown of these projected savings is presented in the accompanying volume of in-depth Case Studies (on hospital food, school food, and Armed Forces food), which is published on the NAO website, www.nao.org.uk. Given that where catering is outsourced, this can complicate the introduction of new processes and systems, and given that around a third of NHS catering is outsourced, in practice some areas of saving are more swiftly achievable than others.

APPENDIX

Our methodology

Our methodology consisted of

Data Analysis

Analysis of data from a survey of 146 public sector organisations (including central government departments, NHS Trusts, local authorities, universities, and Armed Forces bases). The survey included questions regarding the incidence of contracting out, the extent of adoption of good practice in food handling, preparation and contract negotiations and monitoring and the average prices paid for ten commonly used food items (minced beef, pork sausages, frozen peas, butter, milk, baked beans, bread, sugar, a specified brand of confectionary and cola, black sacks and vending cups). A summary of the survey results is available on the NAO website.

Case study examination

Case study examinations of school catering, hospital catering and Armed Forces catering, including site visits, document reviews, and interviews with both departmental and catering staff.

Good practice visits

Visits to a number of other public and private sector organisations demonstrating different aspects of good practice in food procurement.

Catering reviews

Onsite reviews of the catering operations at seven public sector organisations (central government departments, schools, hospitals and an Armed Forces base), carried out on behalf of the National Audit Office by Merritt-Harrison catering consultants. The reviews covered food procurement, food production, hygiene, health and safety, equipment and operational systems and controls.

Contract and invoice analysis

Analysis of contracts and other commercial documentation from 13 organisations (NHS Trusts, schools, local authorities, and an Armed Forces base). This analysis enabled comparison of the procurement of catering supplies and comparison of catering contracts (including terms and conditions) to illustrate issues of good practice across the public sector.

Expert paper

A report on sustainable food procurement commissioned by the National Audit Office for this study from Oxford Brookes University. The report contains an assessment of the sustainability of public sector catering and food procurement in England, barriers to increasing sustainability, ways in which individual public bodies can make progress now (and ways in which government can aid this progress). The paper is available on the NAO website.

Price benchmarking review

A benchmarking review of price data from our survey carried out on behalf of the National Audit Office by PSL catering consultants.

Comments on efficiency savings

Baseline for public sector food and catering expenditure

There is no government data regarding the overall expenditure by public sector organisations on food and catering. This is partly because collation of such data has not been considered to be a priority and partly because a significant proportion of the expenditure takes place at a local level (for example by local authorities) who are not required to report their expenditure on food and catering services to a central source.

Our starting point for the overall size of the public sector food market is the figure of £1.8 billion published by the Department for Environment, Food and Rural Affairs⁶¹ (sourced from an independent study conducted in 1998). We have revised this to take account of food price inflation since that date⁶² and changes to the number of school meals provided and the prices charged for them⁶³. We have assumed (in the absence of data to the contrary) that the number of meals and revenue received elsewhere in the public sector has remained broadly the same over the period. This probably understates the value of the public sector food market and so our estimates are likely to be conservative.

Our overall estimate of £2 billion is broadly in line with other estimates (such as the figure of £2.2 billion quoted in a study by Oxford Brookes University)⁶⁴. It is also in line with the Office of National Statistics' figures for overall government expenditure on food and catering, which adopts a wider definition incorporating, for example, subsistence costs.

Efficiency gain 1: Reduced prices for the same or better food items

Baseline: Analysis of meal costs in the schools, hospitals, Armed Forces and prison sectors indicated that annual expenditure in these four sectors on ingredients totalled around £838 million. These four sectors account for approximately 85 per cent of all public sector spend on catering provision. We therefore estimate the cost of food ingredients in the public sector to be £1 billion.

Estimated savings: £40 million annually by 2010-11 (four per cent of the annual public sector spend on food ingredients).

Analysis of the prices quoted for individual food items in our survey indicated that if those organisations paying higher than average prices were able to reduce them to the average value of prices reported by respondents then overall savings of eight per cent would be achieved. This is likely to be conservative as it takes no account of the additional scope for reduction in prices by those organisations paying average or below average prices. This magnitude of efficiency savings is also consistent with the evidence we obtained from the detailed case studies, good practice examples, and catering efficiency and contract reviews.

We have split this overall saving of eight per cent equally between this efficiency gain and efficiency gain 3 (aggregating demand to reduce procurement costs and increase purchasing power – see below) in the absence of any robust evidence supporting an alternative apportionment between the two savings.

Efficiency gain 2: Improved transparency and oversight of caterers' charges

Baseline: Earnings from volume discounts and rebates and other similar payments (such as marketing contributions and 'introductory' payments) are extremely difficult to quantify as they are generally not transparent to the purchaser. We have based our estimate of the total being earned as 15 per cent of the current expenditure on food for the public sector by contract caterers, drawing on the views of a wide range of experts and stakeholders (including catering consultants). This amounts to £95 million.

Estimated savings: £30 million annually.

It is equally difficult to establish the extent to which rebates, discounts and other similar payments are already recovered by public sector organisations and our estimate of the scope for further recovery is therefore necessarily conservative.

Efficiency gain 3: Aggregating demand to reduce procurement costs and increase purchasing power

Baseline: The baseline for this efficiency gain is our estimate of the total expenditure (of £2 billion) by the public sector on food and catering services as calculated above.

Estimated savings: £80 million annually by 2010-11 (four per cent of the total public sector expenditure on food and catering services).

This estimate is based on the total value of the market for public sector food and catering (and so incorporates all costs). This reflects our finding that efficiency gains from greater aggregation can be made not only on ingredient costs but also on the costs of procurement, administration, contract monitoring and transport. As mentioned at efficiency gain 1 above, we estimate that public sector

61 Department for Environment, Food and Rural Affairs (2002) Public Sector Food Procurement Initiative. <http://www.defra.gov.uk/environment/sustainable>.

62 Based on data from the British Hospitality Association survey, 2005.

63 Using data from the Local Authority Caterers Association Survey, 2004 and Unison's School Meals report, 2005.

64 'Public Sector Catering in Berkshire, Buckinghamshire and Oxfordshire: the Potential for Sustainable Food', Mike Rimmington, Oxford Brookes University Business School, 2005.

organisations can save eight per cent on their expenditure on food ingredients and we have apportioned this saving equally between the two efficiency gains.

Efficiency gain 4: Improving catering capability and professionalism and better use of external expertise

Baseline: This estimate is based on the figure for purchase of food items detailed in the comments for efficiency gain 1 detailed above.

Estimated savings: £40 million annually by 2010-11 (four per cent of the total public sector expenditure on food ingredients).

The estimate is based on consultations with experts and stakeholders (including catering consultants) supported by the evidence of gains made by organisations examined during the study as case examples or as part of a catering efficiency review.

It is also in line with the average savings of 7 per cent quoted by those respondents to our survey who had reviewed and improved their catering provision. (Altogether one third of the respondents to our survey had conducted such reviews).

The overall percentage saving attributable to gains 1 to 4 compared to the overall size of the public sector market amounts to 9.5 per cent of the public sector spend on food and catering service (efficiency gains of £190 million from an overall budget of £2 billion), compared to the range of 12-15 per cent which expert catering consultants consulted during the study considered to be the overall potential saving. Again this emphasises the conservative nature of our estimations.

Efficiency gain 5: Reducing environmental impacts and costs

Baseline: We were only able to identify baseline figures for the schools sector during the course of our study and so our calculations reflect that sector only. Our estimate of the annual baseline energy costs (of £49.4 million) have been sourced from unpublished figures⁶⁵ setting out the breakdown of costs in an average school meal and is based on of the number of school meals served annually (617 million).⁶⁶

Estimated savings: Just under £1 million (two per cent of the baseline)

The extent of potential savings is based on the evidence gathered from case examples and catering efficiency reviews conducted during the study and recognises that many public sector organisations will already have adopted much of the good practice outlined in our report.

Efficiency gain 6: Increased take up of meals

Baseline data: This estimate is restricted to the schools sector where relevant data on take-up and revenue could be sourced. The baseline used for expenditure by parents on school meals is £601 million⁶⁷ and the breakdown of fixed and variable costs in a school meal is sourced from unpublished figures analysing the breakdown of costs for an average school meal⁶⁸.

Estimated savings: £33 million (ten per cent of the total payments by parents for school meals less the associated food and other variable costs)

The potential for increases in take up reflects evidence gathered from a number of case examples (including those highlighted on websites managed by the Department for Education and Skills and the Department for Environment, Food and Rural Affairs) and recognises that the scope for increased take up varies widely, not least due to increases already secured and socio-economic or cultural factors.

65 Provided by AVL Consultancy.

66 Sourced from data from the Local Authority Caterers' Association School Meals Survey 2004.

67 Sourced from data from the Local Authority Caterers' Association School Meals Survey 2004.

68 Provided by AVL Consultancy.