



National Audit Office

Smarter food procurement in the public sector: A good practice guide

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

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Smarter food procurement in the public sector: A good practice guide

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WHAT PUBLIC ORGANISATIONS NEED TO DO TO IMPROVE THEIR FOOD PROCUREMENT



1 Drawing on good practice in the public and private sectors, this volume of the report sets out six main areas which individual public bodies that provide catering need to focus on in order to maintain and improve the efficiency and sustainability with which they procure food, and the quality of service provided to customers:

- Managing demand for food purchases, to optimise the volume, quality and cost of food;
- Developing food buying and preparation skills, and catering infrastructure;
- Designing a catering service around the needs and policies of the organisation as a whole;
- Engaging intelligently with suppliers, to get the best prices and the specified level of service;
- Preparing and serving food that meets the objectives of the organisation, and the needs and preferences of customers;
- Improving efficiency by streamlining transaction processes and reducing overhead costs.

2 In identifying these opportunities the service received by the customer, nutritional content and sustainability have been at the forefront of our thinking. The approaches we highlight either encompass improvements to the quality of service provided to customers alongside efficiency gains, or at least should not, if well managed, lead to reductions in customer service, nutritional quality and sustainability.

Managing demand for food purchases, to optimise the volume, quality and cost of food

Effective management of demand requires:

- **Identification and realisation of opportunities to aggregate demand with other organisations, within and across sectors – to maximise purchasing power and deliver economies of scale.**
- **Rationalising the number of suppliers and product lines purchased – to streamline processes, improve oversight of purchasing performance, and take advantage of bulk purchasing.**
- **Continuous and robust challenging of catering requirements – to avoid unnecessary expenditure on services which are not needed, or on unnecessarily high quality specifications.**

3 **Aggregating demand with other organisations.**

Purchasing in greater volumes tends to be cheaper, both because it places purchasers in a stronger position to negotiate discounts (while making it more affordable for suppliers to offer them), and because it creates economies of scale in processing and receiving orders. Current examples of joint purchasing exist between:

- Individual offices that make up a single large organisation – for example, a Government Department;
- Different organisations within the same sector – for example, publicly-run prisons (**Case example 1**);
- Different organisations across different sectors, all located within a single region, for example, the regional purchasing consortium in Dumfries and Galloway comprising schools and social services (**Case example 2**).

4 **Rationalising the number of suppliers and product lines.**

Purchasers can maximise their spending on certain brands, or with certain suppliers, and thus take better advantage of sales volume discounts, by identifying where they are buying more than one brand or size of the same type of product, or buying similar goods from multiple suppliers, and seeking to reduce this to as few as possible. (At the same time, organisations should be mindful of the need to retain sufficient diversity of suppliers to achieve price and service level competition, and to ensure that they are able to meet the Public Sector Food Procurement Initiative objective of encouraging Small and Medium-sized Enterprises to tender.) Organisations can also use such an exercise to ensure they buy products in the most cost-effective unit size. As a very small but typical example, the NHS Logistics catalogue lists individual 2.5 kilogramme bags of long grain rice at £2.75, but packs of three 5 kilogramme bags at £4.42 per bag; the latter is 22 pence cheaper per kilo. If a large acute hospital (of 800 beds) switched from ordering the most expensive bags of rice to the cheapest, it would make a possible saving of up to around £500 per year, based on a typical consumption of around 2200 kilos of rice per year.

5 **Challenging catering requirements.**

Having reviewed their requirements for a catering service, some organisations, such as the Office of Government Commerce, have decided not to provide a staff canteen, thereby releasing valuable office space for other purposes (**Case Example 3**). Other organisations have reviewed and reduced the levels of subsidy they provide for staff catering, for instance the Department for Work and Pensions, which is modernising catering provision and in turn enabling the phasing out of all subsidies for its staff catering, resulting in potential savings of up to £4.2 million per year.

CASE EXAMPLE 1

Aggregating demand to negotiate better deals and create economies of scale

In 1999, as a result of a review of its procurement methods, HM Prison Service replaced 43 national and numerous local purchasing food supply contracts with far fewer centrally let national and regional contracts. The simplified structure of national and regional contracts allowed the Prison Service to set consistent standards for quality and make financial savings. In April 2003 the National Audit Office published its report *Modernising Procurement in the Prison Service*¹, which found that efficiency savings of £1.25 million had been made through using centrally let food contracts.

Since then further savings have been made partly due to a further reduction in the number of contracts and by making their use mandatory. By 2005 the number of contracts had been reduced to eight national and 14 regional contracts for fresh produce. In 2003-04 the Prison Service made cost savings of £2.6 million and in 2004-05 it made cost savings of £3 million from its contracts. Some of the largest savings have come from the frozen food contract where the caterers have been able to purchase residual products at competitive prices. Rationalising the number of suppliers has also meant savings in administration procedures: reducing the number of deliveries to handle at prison gates and at stores and removing catering managers from involvement in procurement. There were savings in efficiency of £1.2 million in 2003-04 and £1 million in 2004-05. The Prison Service estimates that it will make a further £8 million of savings from its food budget and by more efficient procurement between 2006 and 2009.

Source: National Audit Office

NOTE

1 National Audit Office, *Modernising Procurement in the Prison Service*, HC562, Session 2002-03, April 2003.

CASE EXAMPLE 2

Aggregating demand across different sectors

Dumfries and Galloway Local Authority has operated a central distribution hub serving 125 schools and providing ingredients for 8,500 school meals every day as well as up to 500 meals on wheels every day. The hub was created to address problems in delivering fresh meat and bread across a wide geographic area. Some items perished in transit while others were stolen or eaten by rodents because it was necessary to deliver them out of hours. The creation of the hub allowed greater use of frozen food and consolidation of orders so that food was delivered in good condition at a time when staff were available to receive it.

By aggregating the requirements across sectors the council were able to buy in bulk and so secure better prices for their ingredients, and to reduce the number of invoices and payments, thereby lowering administration costs. The use of the hub also enabled the council to rationalise the distribution system by using fewer vans, saving 18 per cent in transport costs and reducing CO₂ emissions.

Source: Yorkshire Forward and Government Office for Yorkshire and the Humber Food and drink in Yorkshire and the Humber: Regional Supply Chains Mapping Study

CASE EXAMPLE 3

Challenging the requirement for a staff restaurant

In 2003 the Office of Government Commerce took the decision to vacate two of its three premises in London, and consolidate most of its London-based staff into its office at Trevelyan House in Westminster. A space review team, commissioned to examine the most efficient ways to accommodate the extra staff within Trevelyan House, identified the need to provide more meeting rooms as a priority, and recommended that the existing staff restaurant be converted for this purpose. Carrying out a staff survey, management found that feelings were not especially strong because of the wide range of sandwich shops and restaurants in the surrounding area. The Office therefore removed the staff restaurant.

At the same time, the Office reinvested the financial savings gained by no longer subsidising staff meals in providing free tea and coffee, as a key element of new "village hubs" located on each floor of the redesigned building. This has ensured that the Office continues to offer limited catering facilities to staff, while successfully facilitating staff networking.

Source: National Audit Office

6 All organisations, including those which provide catering as a central part of their service delivery (such as hospitals, schools, and armed forces units), can potentially make savings by reviewing the specifications they set for the food and level of service they buy from suppliers. For instance, through engaging with its major wholesale food supplier, the Defence Logistics Organisation reassessed its requirements for special packaging for the Royal Navy, and was able to replace them with standard products that did not carry a bespoke premium (**Case example 4**). In particular, organisations could focus on any specifications which require products that need to be tailored for them, and review whether these could be replaced by more standard alternatives that are likely to be cheaper.

Developing food buying and preparation skills, and catering infrastructure

Developing effective skills and infrastructure requires:

- **Sharing good practice, and providing dedicated support to both purchasers and suppliers, where appropriate – to raise performance across the public sector and support innovation.**
- **Developing purchasing, catering, and management skills, alongside investments in catering facilities where appropriate – to enable cost savings, greater quality control, and the delivery of organisational objectives.**

7 **Sharing good practice, and providing dedicated support where appropriate.** Individual purchasing bodies can make use of and contribute to good practice in food procurement. For example, the National School of Government has drawn on the Catering Services and Food Procurement Toolkit, published by the Department for Environment, Food and Rural Affairs, to design tenders that meet its goals on sustainable procurement (**Case example 5**). Similarly, in conjunction with a wide range of stakeholders the Department for Education and Skills is drafting guidance on the procurement of school meals, setting out the advantages and disadvantages of the various models of provision and giving advice on issues such as the use of fresh ingredients, menu design and budgetary and staffing issues.

8 Catering managers could valuably learn and exchange advice on good commercial practice as members of peer to peer networks, such as the Local Authority Caterers Association and Hospital Caterers Association. In addition, where procurement officers shortlist a number of catering firms prior to awarding a contract, they can gain greater assurance about the likely quality and cost-effectiveness of their service and performance by visiting other organisations which already employ them. For example, in evaluating a bid from the Harrisons catering firm, officers at Lambeth Borough Council visited a school in neighbouring Wandsworth, where Harrisons had a borough-wide contract.

9 Many organisations have taken advantage of the potential benefits of contracting in expert skills and advice. A number of catering consultancies offer services that can improve the efficiency and quality of an organisation's catering, reviewing both the prices charged by contract caterers and wholesalers and the practices of kitchen staff. For example, a review of the catering service at one Trust, commissioned as part of the Better Hospital Food Programme to investigate the potential for efficiency savings in NHS catering, claimed that over six months patient food costs were reduced by 3.4 per cent (although the report also noted that it would be difficult for Trusts to maintain such percentages of savings over successive years).¹ Organisations can also look to contract expert advice from outstanding practitioners in the public sector (**Case example 6**).

10 The potential benefits of providing dedicated and ongoing support, to both procurers and suppliers, are exemplified by the work of the Cornwall Food Programme, a team which supports a consortium of the five NHS Trusts in Cornwall. The main role of the team is to help the consortium of Trusts implement their objective to procure sustainably and cost-effectively, through work to create a level playing field for small as well as prime suppliers and reducing adverse environmental impacts. The team has enabled the consortium to develop new suppliers, including encouraging and working with them to improve their manufacturing processes to meet the Trusts' requirements at the same or lower cost (**Case example 7**).

“The main barrier to increasing local procurement is hours in the day. Catering managers have enough to do, running a busy catering department. You need extra staff, dedicated to working with local suppliers.”

Sustainable Food Development Manager,
Cornwall Food Services

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

CASE EXAMPLE 4

Reducing food packaging requirements

The Royal Navy, given the marine environments in which it operates requires particularly tough packaging for food items that may be stored in bulk on ships for extended periods of time, such as rice. These supplies were normally specially packaged by the armed forces regular suppliers, but at a price premium. By working with its main supplier, the MoD's Defence Logistics Organisation was able to identify commercially available products that met the requirement without the need for additional packaging, resulting in a significant annual saving.

Source: National Audit Office

CASE EXAMPLE 5

Using good practice toolkits to meet sustainable procurement goals

The Centre for Management and Policy Studies (part of the National School of Government) has recently used the Toolkit in re-tendering the contract for one of their training facilities. The Centre's manager had not tendered a catering contract for some years, and found that the Toolkit useful in helping her to focus on how to ensure that the new contract delivered some of the organisation's objectives on sustainable procurement.

The successful contractor won because of an innovative approach, including willingness to invest in the on-site kitchen (which had previously been effectively "dead space"), healthy and sustainable menu options including some organic choices and attention to food sourcing and packaging.

Source: Research carried out for the NAO by Oxford Brookes University Business School

CASE EXAMPLE 6

Benefits of contracting in expert skills and advice

A secondary school in London secured consultancy advice 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 better quality and an average of 65 per cent cheaper.

Source: Department for Education and Skills

CASE EXAMPLE 7

Using dedicated support to increase sustainable procurement

The Cornwall Food Programme is a team which supports the food procurement of the five NHS Trusts in Cornwall. In total, the five Trusts serve 5,000 meals per day (for patients, staff, and visitors).

The chief executives of the five Trusts established Cornwall Food Services with the objective of increasing the proportion of food procured from local producers and suppliers. Since 1999, this proportion has consistently increased, so that today around 30-35 per cent of the Trusts' food budget is spent on Cornish produce, with an additional 25-30 per cent spent with Cornish wholesalers and other suppliers. The key to this success has been the extra staff resource provided by the Food Services team, which has enabled the Trusts to bridge the gap between purchaser and supplier.

By encouraging tenders from local suppliers, the team have engaged at length with potential suppliers, working with them to identify opportunities for making high quality produce cost-effective to purchase. For instance, they worked with Callestick Farm, a local dairy, to bring the price of their luxury ice cream down by reducing the packaging costs. After discussing opportunities with an award-winning local cheese maker, they began buying blocks of high quality cheese that are rejected by supermarkets for being slightly too large or small. Previously, these unwanted blocks had been sold to a manufacturer at the nominal sum of £100 a tonne; Cornwall Food Services were able to buy them at an economical price which benefited both parties.

Source: National Audit Office

11 Developing purchasing, catering, and management skills, alongside investments in catering facilities.

A workforce skilled in food buying and preparation provides an organisation more flexibility and control over what it serves and which suppliers it uses, and can also increase cost-effectiveness. Where the skills of staff are enhanced they are able, for example, to adapt recipes to make better use of seasonal produce or food items on special offer. Better skills mean that staff can also process more of the ingredients themselves, avoiding the higher costs associated with purchasing pre-prepared food items (which tend to be more expensive because of the added staff and packaging costs they already incorporate in their sales price; although overall savings can be offset to some extent if it means employing more skilled chefs at higher wages). The City Inn chain of hotels, for example, have invested in the butchery skills of their chefs, allowing them to buy larger or alternative cuts of meat, and to turn these into the portions and cuts they require; their meat purchases are thus cheaper overall, since the cuts they are buying require less processing from meat wholesalers, and are less in demand from consumers.

12 The benefits from investment in skills can be enhanced if accompanied by investment in equipment. For example, St Peter's Primary School, Nottinghamshire, first enhanced the training of its kitchen staff to better equip them to cook fresh meals from raw ingredients. To maximise the time they could spend using these skills, the school then purchased equipment to wash, peel, and slice fresh vegetables. This also meant it could buy fresh local vegetables at a lower price than the pre-prepared vegetables it had previously been buying. In addition, allowing staff to develop and use their expertise in well designed surroundings, using equipment that is fit for purpose, can improve job satisfaction and reduce the costs and disruptions associated with the high staff turnover levels that typify the industry. The Head of St Aidan's Church of England High School in Harrogate, for instance, noted a fall in turnover of staff after making the decision to invest in staff skills, reducing recruitment and training costs, as well as increasing parent and pupil satisfaction.

Designing a catering service around the needs and policies of the organisation as a whole

A catering service which takes into account the needs and policies of an organisation as a whole requires:

- **Joining up food procurement objectives with the wider objectives of the organisation and public sector as a whole, and (where appropriate) joining up budgets and responsibilities – to most efficiently and effectively deliver objectives on cost control, sustainability, and nutrition.**
- **Determining the best way to deliver food services – so that the approach to food provision is appropriate to the organisation's circumstances and capacity.**
- **Focusing on risks and how to mitigate them – to strengthen the organisation's abilities to consistently deliver a successful catering service.**

13 **Joining up food procurement with wider objectives of the organisation and public sector as a whole, and (where appropriate) joining up budgets and responsibilities.** It is important for organisations to have an explicit strategy for food procurement, rather than simply relying on a general procurement strategy, so that food and catering management decisions take into account the relevant wider and long term objectives of organisations and the public sector as a whole. This should not only be explicitly linked to public health and sustainability goals, but also to facilities or estate management strategies. The latter is important in ensuring that design and procurement decisions take account of the need to build the kitchen facilities appropriate for an organisation's chosen model of service, and that they are flexible enough to handle fluctuating levels of future demand or changes in service delivery.

14 One example of an integrated strategic approach to food procurement is the use of Departmental Food Action Plans, introduced as part of the Government's Public Sector Food Procurement Initiative (**Case example 8**). These provide a model which could be adapted and extended to organisations throughout the public sector. In another example, the Ministry of Defence provides a single standard contract which all military and civilian bases must use when outsourcing their catering. This ensures consistency and professionalism in contract terms, and removes the need for individual contract managers to spend time developing and negotiating their own contracts.

15 Our consultations with major wholesalers and catering firms revealed that they often find it difficult to meet requests for greater sustainability because these lack clarity. Sustainability can mean several things, some of which can to an extent be contradictory (for instance, clients may want smaller, local suppliers to have a fair opportunity to compete in a public market and request produce which is both local and organic, which may be difficult to satisfy since the majority of organic produce served in the UK is grown abroad). One of the benefits of taking a strategic approach to food procurement is that an organisation has to be clear about what its objectives and priorities are, which in turn helps it to give clear messages to staff and the suppliers they deal with.

16 In developing food procurement strategies, organisations should examine the potential for joining up key responsibilities and budgets, in order to maximise both efficiency and effectiveness. At its simplest this could entail closer co-ordination and communication between those responsible for purchasing (be that buying food or letting a contract) and those responsible for carrying out or overseeing the catering. In particular, where procurement is undertaken by a centralised unit (for example within a local authority or NHS Trust), the unit needs to produce a clear and concise summary for front line managers so that they know the service standards which they are entitled to under the contract, and the procedures they should follow to remedy any shortcomings. Lambeth Council, for example, has issued all its head teachers with a short summary of the service levels they can expect from the caterers based at their schools. The further potential for joining up teams and budgets is given by Leicester Royal Infirmary, which, during a pilot project, reduced the need to give patients "sip-feed" (easy to swallow) dietary supplements, and with that the costs to its pharmacy budget, by providing patients with two extra snacks per day.²

2 National Patient Safety Agency, 2005 (unpublished).

CASE EXAMPLE 8

NHS Food Procurement Action Plan

In 2003 a joint strategy was agreed between the NHS Purchasing and Supply Agency and NHS Estates¹ to co-ordinate the agencies' approach to implementing the Public Sector Food Procurement Initiative within the NHS, and which has subsequently been reviewed every quarter. The Action Plan has had a number of benefits:

- **Joint ownership by two chief executives:** That the Action Plan was agreed by the chief executives of NHS Purchasing and Supply Agency and NHS Estates gave its objectives a high priority within both organisations, and helped to ensure that the work of both agencies was complementary.
- **Action point for both agencies to raise awareness of sustainable food procurement:** This led the agencies to commission research into how NHS catering managers view sustainable food as an issue, providing a useful baseline against which to measure progress, as well as giving the agencies a better understanding of how they should communicate with stakeholders.
- **Measuring progress against objectives set by the central Public Sector Food Procurement Initiative team:** The agencies have had to measure their progress quarterly against 14 key objectives, including: organic food objectives, UK and local supplier objectives, healthier eating objectives, objectives for ethnic, cultural and religious diets, and objectives for minimising waste.
- **Encouraging the NHS Purchasing and Supply Agency to make its own catering provision more sustainable:** The Agency negotiated with one of the suppliers on the national NHS framework agreement to provide its office in Reading with sandwiches and fruit that supported the objectives of the Public Sector Food Procurement Initiative.

Source: National Audit Office

NOTE

1 Until its abolition in 2005, NHS Estates had overall responsibility for patient food safety. This responsibility has now been transferred to the National Patient Safety Agency.

17 Determining the best way to deliver food services.

Organisations need to understand which model of service provision best suits their circumstances and objectives, with a number of factors influencing whether it is more or less cost-effective to provide catering services in-house or to outsource them. These include:

- economies of scale in terms of likely demand;
- the size and materiality of the local catering market;
- in-house skills, experience and capacity;
- the availability of suitable facilities, and the investment costs to upgrade them if they are not suitable (for example, do existing kitchen facilities allow for “prime cooking”, that is, meals to be prepared from raw ingredients, rather than simply re-heating ready-meals);
- the organisation’s demands for space (which might compete with the space requirements of a kitchen suitable for “prime cooking”;
- the quality and cost of ready-meals;
- the likely potential revenue available where customers pay for meals; and
- overall cost effectiveness.

The business case for whatever option is chosen needs to demonstrate it has taken all these factors into account.

18 Larger schools, for example, with suitable kitchen facilities may wish to provide an in-house service in order to benefit from the revenue generated, whereas it may be more efficient for smaller schools to rely on the local authority to provide catering services. Many NHS Trusts need to evaluate prime cooking versus regenerating chilled or frozen ready-meals. Some organisations have also used hybrid models. Southampton University Hospitals NHS Trust, for instance, has taken an innovative approach to organising its catering service by contracting Medirest (a division of the Compass Group) to provide both its full time catering managers and its food purchasing, while continuing to employ its own in-house chefs and catering assistants (**Case example 9**).

19 Focusing on risks and how to mitigate them. An effective food procurement strategy will include a clear analysis of the opportunities and risks involved in different models of service provision, and the actions needed to mitigate them. Among the common risks public bodies need to focus on are reliability of supply, food safety, and possible changes in capacity or requirements (with resulting cost implications). An example of the latter is the introduction by the Department for Education and Skills in 2005 of new mandatory standards of nutritional quality, as well as obliging all schools to provide hot meals by September 2008. This may prove difficult for schools and local authorities with long-running outsourcing contracts. This is, first, because long term contracts will need to be renegotiated, which could incur significant costs, and second, because some of these newer schools have been built without kitchen facilities suitable for prime cooking using raw ingredients.

20 This reinforces the wider point that certain procurement decisions, especially those relating to construction and facilities, may affect the future flexibility of an organisation’s catering provision, a risk which ought to be explicitly addressed in business cases for the relevant decision. For example, the central production unit built by the then Oxford Regional Health Authority in 1993 at a cost of £5 million was closed in 1995, following a change in the procurement arrangements in a number of local hospitals, and subsequently demolished without ever having served a meal (**Case example 10**).

CASE EXAMPLE 9

Determining the best way to deliver food services

Southampton University Hospitals Trust is made up of three main hospitals, with 1,500 beds and 7,500 staff in total. For over 10 years it has contracted out the management of its catering department to Medirest (part of the Compass Group), while still directly employing its own chefs and kitchen assistants as in-house staff. The Trust considers this a better model of provision than a fully outsourced service because:

- It has expert catering managers focused on the commercial disciplines of running an efficient service and (in the staff and visitors' restaurants) maximising custom and revenue. For example, the 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.
- Catering staff remain in-house and so the catering firm has no incentive or ability to save money by reducing the numbers or skill levels of the workforce, and thereby reducing the level of service and all savings achieved are retained by the Trust.
- The Medirest general manager not only manages the Trust's own staff and visitors' restaurants but the onsite retail outlets, Burger King and Upper Crust, which are also owned by Compass, providing competition that helps to maintain the quality of service in the Trust's own staff and visitor restaurants, as well as the competitiveness of their pricing to customers by using best commercial practice.

The Trust's chosen model of outsourcing, however, raises issues which should be reviewed by any organisation considering whether to emulate it:

- Whether it is best to permanently contract out the catering management, rather than directly employing managers with the required expertise, where available.
- Whether it would be better to use contracted managers for a fixed period, while requiring them to train the in-house staff who would ultimately replace them.

Source: National Audit Office

CASE EXAMPLE 10

The impact of wider procurement decisions on catering provision

In 1993 Oxford Regional Health Authority completed the construction of a purpose-built central production unit at Battle Hospital in Reading. Costing £5 million, it was designed to provide cook-chill ready meals for hospitals in the surrounding area. However, following a change in the management structure of the NHS, some of the hospitals it was intended to serve withdrew as clients before the unit opened, making the whole project unviable. Despite attempts to sell the facilities to a catering firm, it was eventually demolished without ever having served a meal. The space it occupied is now a car park. Another newly-built but unwanted unit, at Slade Hospital, Oxford, was also closed in 1995. The combined cost of the units was £12.1 million.

The crucial factor in this case was the impact of wider NHS reforms under the National Health Service Act 1990, which enabled hospitals to apply for Trust status and gain greater independence from Regional Health Authorities, enabling them for example, to make alternative procurement arrangements of their own. These reforms only came into force after the project had begun, leading the auditors who examined it to state that, in their opinion, in the absence of mechanisms to inform health professionals of the likely impacts of national reforms to the NHS on operational matters, it was not necessarily the case that the project board should have identified the relevant issues.

Source: National Audit Office, drawing on the Report on the Oxford and Reading Cook Chill Units, produced by Coopers & Lybrand for Anglia and Oxford Regional Health Authority, 1996

Engaging intelligently with suppliers, to get the best prices and the specified level of service

Intelligent engagement with suppliers requires:

- **Developing a good understanding of the market, competitive prices, and the basis of suppliers' charges – to negotiate as an intelligent buyer and get the best deals.**
- **Finding the optimum mix between stimulating competition among suppliers and providing suppliers with stable contracts or longer-term certainty about demand – to achieve the best available results in terms of lowering costs, improving performance and encouraging innovation.**
- **Working closely and communicating clearly with existing and prospective suppliers – to best enable them to deliver products and services that meet the purchasers' objectives, and to help them find and share cost savings.**

21 Developing a good understanding of the market, competitive prices, and the basis of suppliers' charges.

The greater the insight that procurers can gain into the food and catering market, the better equipped they are to negotiate with suppliers, both to secure prices which are competitive and to identify opportunities for purchasers and suppliers to work together to reduce costs. As a starting point, two main approaches that procurers can use to help inform themselves as to the competitiveness of the prices quoted by suppliers are:

- Using a price benchmarking service, to independently monitor what a supplier is charging against best market price for equivalent purchases;
- Ensuring that suppliers' charges are as transparent as possible, thus enabling procurers to compare prices.

22 Where organisations outsource their catering, they need to be aware that some contract caterers can, in some contracts and on some items, inflate the prices for food items which their clients pay for by failing to fully disclose and pass on volume-based discounts and rebates. Shell stipulated in their contract that their caterer should return to them 100 per cent of such rebates and discounts earned as a result of their contract (**Case Example 11**).

Procurers could ensure that contactors' invoices maximise transparency by itemising expenditure under such headings as food items (priced individually), management fee, staff costs, and sundries (such as uniforms and laundry). They should also request contractors to operate on an "open book" basis, where the contractor is obliged to reveal their expenses incurred and revenue generated on the contract, and thereby the approximate level of profit they are making. This is beneficial to the client, not just during the running of the contract, but also when retendering it, since the client is then able to inform prospective bidders of the potential revenues to be made, and hence can attract better informed and more competitive bids.

23 Procurers need to understand the main cost drivers for their suppliers if they are to determine whether they are getting a fair price and identify gain-share opportunities. Logistics (both storage and delivery) is one component of the final cost where there can often be significant potential for savings without reducing quality. Consolidating deliveries should both reduce the delivery charges made by suppliers and the staff time required to receive deliveries, as well as helping to reduce the carbon emissions caused by separate vehicle journeys. Some organisations have worked with their suppliers to reduce the logistics costs of their suppliers, and subsequently benefit from reduced prices as a result. The Defence Logistics Organisation, for example, has targeted a reduction in the logistics costs of its food procurement contract with its main wholesale provider of food (**Case example 12**).

24 Procurers can improve efficiency by looking at whether the costs of deliveries can be shared between a number of public bodies. First, where their suppliers are making deliveries to more than one organisation from a single load, purchasers could communicate with their suppliers to ensure that they are not paying the entire transport costs for the load. Second, public bodies can form a procurement cluster to consolidate deliveries and bring down logistics costs; this can be especially effective where the cluster is procuring from a number of small local producers. Shire Services, the Direct Services Organisation of Shropshire County Council has helped six schools to receive some of their food direct from local producers.

CASE EXAMPLE 11

Adopting a suitable procurement strategy to secure a competitive contract price

Shell conducted an on-line procurement process for the catering contract for their headquarters building in London. With assistance from a catering consultant they were able to pay 25 per cent less compared to the historic contract price from the previous providers. The company achieved this by taking a number of steps within the procurement process

- They required prospective bidders to set out their estimate of the number of staff and their salaries needed to provide the required service at an initial stage of the bidding process. These were ring fenced and capped for three years subject to annual salary reviews. Bidders were not allowed to amend these estimates at subsequent stages of the process, thus preventing them from scaling back service quality in order to win the bid and forcing them instead to focus on reducing food and operating costs (without impacting on the quality of the food served).
- The contract was bundled together with that for their front desk receptionist and conference room management, creating an opportunity to exploit economies of scale.
- The management fee and part of the charges for consumables and disposables were capped at the outset of the contract, preventing unforeseen cost increases and enabling Shell to claim any resultant savings.
- The company recognised and exploited their market status. Contracts of this scale and prestige are increasingly rare in London and competition proved intense with several large catering firms bidding against each other.
- The company stipulated that their contractor should return 100 per cent of the rebates and discounts earned as a result of the contract. While this has resulted in the return of such payments by the contractor to Shell it is difficult for the company to be certain that they have received the full amounts to which they are entitled.

Shell have retained the services of their catering consultants who perform a monthly audit of both financial achievement and service quality in order to monitor ongoing performance against the contract.

Source: National Audit Office

CASE EXAMPLE 12

Working with suppliers to reduce logistics costs and identify gain-share opportunities

The MoD's Category Management Food Supply Team worked closely with the current procurers and suppliers to understand the existing Armed Forces food requirements and the main cost drivers involved in the supply chain. They constructed a cost model based on a set amount of food. Three main costs were identified: labour (38 per cent), raw materials (16 per cent), and logistics (16 per cent). Understanding the cost drivers for each element of the supply chain enabled the category management team to develop a pricing mechanism that allowed savings to be shared between the supplier and the MoD. The new contract includes a pricing mechanism to help the MoD maintain control over the pricing of the contract, even though the volumes are uncertain. Each tenderer completed a spreadsheet providing their costs for all aspects of the management of the contract, detailing different volumes of throughput. This information was used to produce a management cost per case and a profit fee per case for each banding of volume.

Understanding the cost drivers for each element of the supply chain enabled the Category Management team to develop a pricing mechanism which encourages continuous improvement and allows savings to be shared by both supplier and the Defence Logistics Organisation.

Source: National Audit Office

25 Finding the optimum mix between stimulating competition among suppliers and providing suppliers with exclusive contracts or long-term guarantees of work. In order to increase competition, organisations could proactively seek and engage with prospective suppliers, to alert them to forthcoming opportunities and to offer them guidance in completing tenders. The forthcoming national opportunities portal will provide a good channel for advertising these small contracts.³ For example, two years before its central food procurement contract was due to be re-let, the Defence Logistics Organisation began a process of engaging with the market to extend the range of prospective food suppliers and encourage them to tender for the contract to supply food to the armed forces (**Case example 13 overleaf**). Shire Services, the Direct Services Organisation of Shropshire County Council, meanwhile, have encouraged local producers and suppliers to enter the supply chain by measures such as ensuring procurement processes are not overly bureaucratic (**Case example 14 overleaf**).

³ The Small Business Service and the Office of Government Commerce are working together to deliver the new opportunities portal which is proposed to become the established way of procuring Government contracts valued at less than £100,000. The on-line facility will be come operational in spring 2006.

CASE EXAMPLE 13

Encouraging greater competition through improved understanding of the food supply market

Two years before its central food procurement contract was due to be re-let, the MoD's Defence Logistics Organisation engaged with the market to identify areas for savings. The present contract involved two broad types of food procurement: supply to operational theatres and supply to non-operational bases. It was assumed that aggregating the demand provided the best value. But by engaging with the market and analysing its costs, the unit prices for an operations-only contract were identified as on average four per cent cheaper than for a combined contract: the complexity of one central food supply contract for operations and non-operations in terms of logistics was cancelling out the savings made through leveraging bulk food purchasing. This alleviated concerns about the effects of the staggered removal of non-operational supply over the life of the new contract due to the introduction of 'Pay-As-You-Dine'. (See Case Example 11.)

The Defence Logistics Organisation further engaged with the market to contact current and prospective suppliers to make them aware of the new contract and interest them in tendering for it. The 10 Man Operational Ration Pack contract is much smaller than the main food supply requirement. Suppliers were able to bid for either of the contracts, or submit a combined bid. As the supply markets differ, the process has delivered more robust competition between the different groups of bidders for each commodity group, and a greater awareness with which to choose. The new contract will take effect in 2006.

Source: National Audit Office

CASE EXAMPLE 14

Encouraging local producers to supply food by redesigning procurement processes

Shire Services (the Direct Services Organisation of Shropshire County Council) sought to both improve nutritional quality in the school meals provided and to increase the proportion of food bought from local producers. It brought together wholesalers and local producers to discuss the opportunities and barriers to having increased supplies from local suppliers. As a result of an improved understanding of the market it identified a number of local suppliers it had previously been unaware of and:

- Simplified its procurement process to encourage bids from smaller producers, reducing it from two stages to one;
- In view of the geographically dispersed nature of the county, made arrangements for local producers to supply schools in their immediate area.

As a result a significant number of local producers, who had not previously been part of the supply chain for school meals in the area began to supply produce to the wholesaler used by Shire Services. The increased use of local producers has led to much greater use of fresh food in primary school meals in the county, representing an increase in quality over previous provision at no significant additional cost.

Source: National Audit Office

26 Where organisations outsource their catering, they should aim to set an optimum contract length in order to lead to mutual benefits for both purchaser and contractor. For many organisations this would result in contracts of between three years (with the option to extend it by a further two years) and five years (again, with the option of a two year extension). A contract under three years' duration is unlikely to be economical enough for prospective contractors to attract the best terms or a large number of bidders; while contracts of over seven years may lead to a lack of competitive tension and consequent decline in value for money (as well as making it more likely that major changes to organisational requirements will develop, resulting in expensive variations to the original contract).

27 Organisations with outsourced catering should consider the advantages and disadvantages of both "bundling" the catering contract with other facilities' management contracts to create a single services contract, and keeping them separate (or "unbundling" them where they are currently awarded as a single contract):

- The potential advantage of bundling the catering contract into a single services contract – covering, for instance, cleaning, security, reception, post room, reprographics, and estate management, in addition to catering – is that this can create savings by reducing contract management overheads for both the client and the service companies. For example, when the former Department for Transport, Local Government and the Regions reviewed its central London building management contracts, it decided to bundle up all the separately contracted single service contracts. Following the creation of the separate Department for Transport, the Department continued with this strategy, letting all its facilities services for its London office space as a single contract with just one company, Operon. By reducing layers of contract management, the bundling of these contracts led to significant annual savings of around £400,000. Initially, Operon subcontracted the catering service, but subsequently they took over direct management of this service, contributing to these savings.
- The potential advantage of unbundling catering provision from a wider facilities management contract is that this can increase competition and lead to greater control by the procuring body over the level of service provided by the caterer. In 2005 Lambeth Council unbundled the catering contracts for its schools from a wider facilities management contract, leading to what the Council regard as an improvement in service at no extra cost.

28 Organisations can also exploit the potential for e-procurement to increase the diversity of suppliers. E-procurement systems do not generally require the initial purchase of expensive equipment; in most cases, all that purchasers and suppliers require is a computer, the relevant software package, and an internet connection. This means that e-procurement has the potential to connect a very wide range of purchasers and suppliers; this potential diversity of suppliers can both increase the competitiveness of prices, and help purchasers reach objectives on increasing procurement from local and Small and Medium-sized Enterprises (**Case example 15**).

29 Working closely and communicating clearly with existing and prospective suppliers. Purchasers need to monitor the performance of their suppliers, and to actively use this information in ongoing feedback and contract management to improve performance. The Northern General Hospital, Sheffield, does not just have a rigorous system of checking goods on delivery to make sure that these are to the quantity and quality ordered, but produces quarterly and annual reports on supplier performance which are used to negotiate rebates from or to switch suppliers (**Case example 16 overleaf**).

30 Where organisations outsource their catering, they should tailor their contract to both reflect their priorities for their catering service (particularly around the balance to be struck between cost, nutritional quality, and sustainability), and to build in gain-share incentives, meaning that the contractor is motivated to innovate to reduce costs and increase revenues, and that a proportion of these gains are shared with the purchaser. For example, the contract between Lambeth Council and Harrisons, its schools catering provider, balances input-based specifications (for example, focusing on price) with outcomes-based specifications (focusing on nutritional quality or sustainability). The NHS Purchasing and Supply Agency ensured that the contract specification for the provision of fruit and vegetables to schools was written to reflect the organisation's wider objectives (**Case example 17 overleaf**); and the contract is managed based on these criteria. Meanwhile, all the contracts let by the Ministry of Defence as part of the 'Pay As You Dine'⁴ programme are specifically designed to ensure that contractors can only increase profits by increasing sales, by appealing to the broader market of site visitors and dependents of service personnel, rather than simply by raising prices or lowering quality. This approach requires a very good understanding of market costs and prices on the part of the procurer.

⁴ 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.

CASE EXAMPLE 15

Using e-purchasing and "virtual market" systems to increase competition, achieve better deals and prices, and reduce procurement costs

There are a number of widely-recognised benefits in using e-procurement, including:

- faster and cheaper processing of orders and payments;
- better controls over who can purchase what from which suppliers; and
- better collection of information on purchases made, and goods and services received.

A particular type of e-procurement system which offers further potential benefits to food procurers is that which invites suppliers and purchasers to join "virtual markets". This type of system uses two main mechanisms to make it simple for purchasers to shop around for the best deals, and thereby to keep prices as competitive as possible. First, it provides a generic catalogue of product specifications to which suppliers must make their own product list conform; this means that purchasers can always compare prices of like for like products. Second, it automates the process of shopping around, automatically choosing which suppliers offer the best deals for which products. In addition, while purchasers are able to view the prices offered by all suppliers, suppliers are unable to see what others are offering, in effect creating a continuous e-auction and making prices even more competitive.

Systems like this can also potentially help public bodies meet objectives on increasing sustainable procurement. First, they allow managers to impose various controls on purchasing, which, for instance, could include barring purchases of lettuces which need not meet certain quality criteria. Second, and more importantly, they can make it easier for smaller suppliers to sell to a wide variety of purchasers. In particular, smaller suppliers can try to compete with larger wholesalers on specific items, and on supplying purchasers in their area. For instance, where suppliers want to advertise a special offer, they can do this automatically and to all prospective purchasers at once, rather than by calling them individually. Overall, there is the potential for systems like this to make it easier to mix purchasing from both large national suppliers and small local suppliers, and still obtain competitive prices.

Source: National Audit Office, drawing on information from PSL Consultants

Cooking and serving food that meets the objectives of the organisation, and the needs and preferences of customers

A catering service that meets the objectives of the organisation, and the needs and preferences of customers requires:

- Addressing the barriers to increased take up, and taking a commercial marketing approach to attracting more custom – to increase cost-effectiveness by boosting revenues and making most efficient use of staff and facilities.
- The overcoming of budgetary and logistical constraints to cook and serve appetising food – to maximise customer satisfaction and the delivery of nutritional objectives, and to reduce wastage through unwanted meals.

CASE EXAMPLE 16

Improving performance through robust 'goods received' and quality control processes

Northern General Hospital is part of the Sheffield Teaching Hospitals NHS Foundation Trust. The Trust as a whole has 2,500 beds, 11,000 staff, and spends around £5 million a year on catering. Northern General's catering department is exceptional in being accredited with ISO 9001:2000, an international organisational standard, originally designed to raise the methodical rigour and efficiency of manufacturing, but which can be applied to services such as catering. The basis of ISO-accreditation is commitment to continuous improvement, focused around the customer. The catering department are audited twice a year by the ISO awarding body, and must pass to retain their accreditation.

The catering department have built up a quality procedure manual which covers in rigorous detail how the whole catering department carries out purchasing, monitoring suppliers, processing purchasing orders, goods received and storage and changing suppliers.

Regarding goods received procedures, for instance, the catering department logs every complaint it has about a supplier (for example, if goods delivered were not of the specified quantity or quality). The catering manager receives a monthly print out of every problem, supplier by supplier, and at quarterly and annual review meetings the department considers each supplier's performance. These reports are used either in negotiations with suppliers to improve performance, or as the basis for deciding to change suppliers. As a condition of its ISO accreditation, the department has to improve in its number of complaints with suppliers from one year to the next.

Source: National Audit Office

- Responsiveness to the nutritional needs, dietary requirements, and taste preferences of customers – to offer them both what they want and what they need.

31 Addressing barriers to increased take up and taking a commercial marketing approach to attracting more custom. An organisation will be unable to successfully deliver its objectives – such as increasing the nutritional intake of its staff or customers – if the take up of the meals it offers is low. Higher levels of take up will also improve cost-effectiveness by minimising waste, increasing

CASE EXAMPLE 17

Translating an organisation's objectives into contract specifications

The NHS Purchasing and Supply Agency (PASA) is responsible for the supply of fruit and vegetables to 16,000 primary schools in England under the School Fruit and Vegetable Scheme. In letting framework agreements for the Scheme with suppliers, PASA has looked to incorporate both social and environmental sustainability issues.

PASA's prime objective under the Scheme has been to provide safe and nutritious food to children. To ensure this could be achieved, volumes were co-ordinated and agreements reached with primary producers who could supply the quantity of fruit required (approximately 200 tonnes of fruit or vegetables for around 2 million children every day). This allowed the produce supplied to be produced in accordance with the Government's Sustainable Food and Farming Strategy and the Corporate and Social Responsibility objectives. Framework agreements were placed with a range of producers worldwide who could all work with a common standard for horticultural produce. This gave children the opportunity to have variety of produce confident that it had been ethically produced whether grown in England or elsewhere.

Separate agreements (tenders broken down into lots) were then negotiated with distributors who would quality control the produce on receipt against the specification. Each distributor was responsible for delivery to schools within their distribution areas. Each distributor delivered to a specific local authority and looked to combine the logistical arrangements with the supply to the school meal service. The volume of produce required allowed a different type of contract to be negotiated, bringing in a new range of primary contractors into public sector purchasing, whilst maintaining the high service levels of local and regional distributors needed to supply all schools.

As a result of this policy 99 per cent of eligible schools have opted to take part and continue to take part in this voluntary scheme. PASA monitors and works with suppliers to achieve wider objectives during the course of the contract (such as minimising the use of pesticides on produce or making more efficient use of vehicles).

Source: National Audit Office

economies of scale, and generating extra income which can be reinvested in improvements to stimulate further demand; this can be crucial to the overall viability of a catering service, especially within schools. As demonstrated by Nottingham City Hospital, where NHS Trusts increase revenues from selling meals and snacks to staff and visitors, these can be used to invest further in patient meals (**Case example 18**).

CASE EXAMPLE 18

Generating commercial revenues to re-invest in frontline services

Nottingham City Hospital is an Acute Teaching Hospital, linked to Nottingham University Medical School. With 1,100 beds and 5,500 staff, it serves an average of 2,500 meals every lunchtime to patients, staff and visitors. For the past seven years, the catering department has achieved annual efficiency savings of one per cent, reducing its spend on food per patient per day to £2.09. Its funding from the Trust for patient feeding is actually smaller than this; it supplements this funding with revenue it generates from selling meals, snacks and refreshments, and groceries to staff and visitors, for which its turnover is £1.5 million.

Vending machines: The Hospital rents its own vending machines and buys the items to stock them direct from suppliers. By directly procuring the machines and their contents itself, the Trust enjoys full control over what is stocked in these machines, and full retention of the revenue; this is in contrast to the situation at some other public bodies, where one firm would be contracted to provide both the vending machines and their contents (with the client generally providing the electricity for lighting and refrigeration for free). The Trust's vending machines are forecast to make the Trust £31,000 net profit, which is reinvested in the catering department.

Staff and visitor restaurant: The Trust has reduced the subsidy of staff meals from 25 per cent to 20 per cent, while increasing prices by around 35 per cent. Where the restaurant used to cost the Trust significant sums of money, it is now cost-neutral.

Functions: The Trust no longer offers any hospitality services. If managers, doctors or academics would like to hold a function, the Trust will cater for it but must be paid in cash (for instance, from charitable or commercial funds), not with Trust funds. This generates sizeable real income for the Trust catering department.

Coffee shops: The Trust has established its own branded chain of four coffee shops within Nottingham City Hospital, and is due to expand offsite with a further four shops at medical treatment centres within Nottingham. Previously, the Trust subsidised its retail catering operation by £200,000, but by improving the commercial professionalism with which they buy from suppliers and sell to the public, they make a profit today of £200,000.

Source: National Audit Office

32 Organisations need to identify and address the barriers to increased take up. St Aidan's Church of England High School, for example, increased take up of meals by pupils from 30 per cent to 90 per cent (in the process increasing daily takings by more than 300 per cent), by improving the quality and attractiveness (to both pupils and parents) of the meals provided, but also by addressing other factors such as the dining environment, length of queues, the stigma attached to the provision of free meals, and turnover of kitchen staff (**Case example 19**). Similarly, a number of hospitals have worked to reduce the number of unwanted meals delivered to wards by being more responsive to the demands of patients. One of the major causes of food wastage in the NHS, for instance, is the delivery of meals to patients who are not there, having been discharged earlier in the day or undergoing treatment away from the ward. This is compounded by meal ordering procedures which sometimes mean that patients order their meals more than a day in advance. The catering department at Southampton University Hospitals Trust has addressed this by telephoning each ward prior to preparing its meals, to verify patient orders. At the University Hospital of North Tees, meanwhile, patients order their meals via a bedside handset linked to an electronic menu ordering system; since the introduction of this system, wastage through the delivery of unwanted meals has been considerably reduced, increased dietary information has been available and the hospital is more able to vary menus in 'real time' at no extra cost.

CASE EXAMPLE 19

St Aidan's Church of England High School, Harrogate

St Aidan's High School put a lot of effort into improving the nutritional quality of their school meals but recognised they were heavily dependent on increased pupil take up if they were to achieve their objective of improving the dietary intake of pupils. To encourage greater acceptance they communicated the proposed changes to parents and children months in advance and taught pupils about good nutrition prior to the introduction of the menu changes. They also recognised that it was necessary to overcome other barriers to take up. They borrowed money to improve the dining environment, extended the opening hours of the dining facilities and invested in a cashless card system to reduce queues and to give anonymity to pupils eligible for free school meals.

Source: National Audit Office

33 Overcoming budgetary and logistical constraints to cook and serve appetising food. Where organisations adhere to a well-designed, costed menu programme, this can provide several benefits:

- **Menus that consist mainly of long-running cycles of the same dishes** enable organisations to place orders automatically and in bulk, thus benefiting from economies of scale and bulk purchasing discounts;
- **Menus that take into account seasonal variations** enable organisations to buy ingredients at their lowest price and meet objectives on sustainability;
- **Menus which allow organisations some room for flexibility** enable organisations to take advantage of special offers from suppliers – for example, Nottingham City Hospital offers patients daily “Chef’s Special” options (duck breast being a recent example), by looking for good quality produce where suppliers have a glut of it to sell;
- **Menu cycles which include regular “organic” or “regional produce” days** enable organisations to increase the sustainability of their food procurement, while spreading any increased costs out so that these are more affordable;
- **Menus which offer genuine choice** should lead to greater take up and customer satisfaction, as well as less wastage through meals being left uneaten – for example, the Department for Environment, Food and Rural Affairs has worked with one of its catering contractors so that they do not occasionally offer very similar dishes (for instance, chicken curry and chilli con carne) on the same lunch menu;
- **Ensuring that kitchen staff adhere to costed recipes** enables organisations to control costs and maintain consistency of quality – at the Northern General Hospital in Sheffield, for example, all ingredients are measured out to stated recipes by catering assistants before the chefs begin cooking.

34 Responsiveness to the nutritional needs, dietary requirements, and taste preferences of customers. There are two main ways in which organisations can monitor the quality of the food they serve: tasting the food itself, and surveys of customers. An example of the first is the Defence Catering Group, which assembles regular tasting panels, drawn from all three armed forces, to taste and select new products offered to them by their main supplier. Another example is Southampton University

Hospitals Trust, which helps to guarantee the quality of the food it serves to patients by serving the same food in its restaurants for staff and visitors. The catering departments in Sheffield Teaching Hospitals NHS Trust conduct regular Patient Meal Service Quality Audits, sampling food and canvassing feedback both from patients and ward staff. Every quarter they discuss the main findings to focus on major trends; for example, Northern General Hospital (the largest hospital in the Trust) found that after making a change to the regeneration process, vegetables were not being cooked sufficiently to meet the likes of patients. This was quickly addressed and resolved.

35 In aiming to increase take up of meals, public bodies need to strike a balance between meeting customers’ preferences and incorporating higher levels of nutrition. To increase nutritional quality, organisations need to not only serve healthy options but also to persuade customers to choose them through marketing and education. For example, under the new ‘Pay As You Dine’ system currently being introduced in Army and RAF Strike Command bases in the United Kingdom and Germany, forces personnel are provided with a wider range of differently priced and nutritionally different meal options, which they are required to pay for at the till, than under the preceding system in which they had a smaller choice of meals, payment for which was automatically deducted from their wages. The new system places a much greater emphasis on informed customer choice. The Ministry of Defence now issues its recruits with a *Recruits’ Guide to Nutrition*, which ranks foods according to a Red/Amber/Green system, to encourage them to think about the food they choose. The Ministry reinforces this message with the *Commanders’ Guide: Nutrition for Health and Performance*, which encourages more senior ranks to lead by example. This system could be extended to identifying foods on both menus and hotplates as red, amber or green, reinforcing the implications of food choices.

36 Organisations also need to take account of any particular dietary needs their customers may have, whether these are cultural or ethical needs (for instance, for Halal, Kosher, or vegetarian dishes) or physical needs, such as hospital patients who have difficulty swallowing, who may need special dysphasic (entirely smooth) meals. The Ministry of Defence, for example, have addressed the cultural dietary needs of their personnel by procuring Halal and Kosher operational ration packs, designed to feed troops on international operations.

Improving efficiency by streamlining transaction processes and reducing overhead costs

Reducing the administration and overhead costs of catering requires:

- **Generating timely and robust management information – to use in improving processes and managing the performance of suppliers.**
- **Streamlining transaction processes, especially through e-procurement – to reduce transaction costs, generate better management information, and achieve more control over purchasing.**
- **Targeting energy and water use, waste disposal, and sundry overheads as areas in which to look for efficiency and innovation – to reduce costs and meet sustainability objectives.**
- **Optimising stock holdings and freshness of deliveries – to reduce the wastage of food that has to be thrown away, and the costs of unnecessarily large storage facilities.**

37 Generating timely and robust management information.

Organisations need to regularly review information on the costs and performance of both in-house and outsourced catering. A lack of such management oversight is a recurring theme identified in previous National Audit Office reports on public sector catering. Generating and using good quality management information helps not only to control costs but to achieve specific objectives, for instance on sustainability. The Eden Project has successfully used management information to make its restaurant and snack bars commercially successful, and to meet its objectives of increasing the proportion of local produce which it buys (**Case example 20**). The Northern General Hospital, meanwhile, demonstrates the practical potential of organisations being able to trace in detail the origins of all their supplies. For example, in a recent audit of its catering department, the auditor selected a meal at random that had been served six weeks previously, and asked to know about one ingredient – the celery – that had been used in it: the department were able to tell him where it came from, when the order was issued, when it was received, who cooked it, and who put it on the dish. Such record keeping is important both for food safety purposes (for instance, if certain food items are recalled by the manufacturers due to contamination), and for assurance that any management policies which specify what type of produce to buy, or where it must come from, are actually being adhered to by the caterers.

CASE EXAMPLE 20

Using management information to improve the performance of catering operations

The Eden Project, based in Bodelva in Cornwall and opened in March 2001, is centred on three giant “biomes”, displaying a wide variety of the plants found in three of the world’s climates. As an educational project, dedicated to promoting understanding of the relationship between plants, people and resources, Eden has a particular view of its restaurants and snack bars. Not only do they need to be seen as sustainable, through using local suppliers and being waste neutral, but they need to offer tempting affordable food and make a profit, in order to generate investment in the Project’s core work.

In its first year, Eden was forecast to attract 650,000 visitors, but in the end attracted almost 2 million, over three times that number. Local suppliers were struggling to cope with the unprecedented demand and it quickly became clear to management that they needed to improve their catering processes to cope with such volumes. Over the next few years they

- Generated data on the cost of sales and profitability of each outlet, through the introduction of batch costing and internal transfer pricing, allowing them to fine tune their service to fit demand, and to tailor their menus to maximise profitability whilst still retaining a ‘healthy choice’ policy.
- Used information on staff capacity and market prices to assess the costs and benefits of increasing on-site production relative to buying in from suppliers; this led to increased use of Eden’s central production unit, with all baguettes, sandwiches and salads being made on-site using local bakery and filling products.

Eden has continued to develop its use of information to control costs, and has been able to achieve a constant increase in the locally sourced elements as well as achieving a year on year improvement on its margins from catering. It has increased the proportion of ingredients it buys from local suppliers from 65 to 85 per cent over the last four years and has started to generate more information on where their suppliers purchase from to satisfy themselves that locally produced food is being used wherever possible – a process that is rare for any commercial organisation. Eden is also generating new information to help change the practices of suppliers: for instance, it has begun a project of measuring the weight of packaging (such as cardboard and PVC wrapping) that comes with all its deliveries, which it will then report back to its suppliers, using this as the basis for setting targets for year on year reductions in the packaging they use.

Source: National Audit Office

38 Streamlining transaction processes, especially through e-procurement. By paying attention to their stock control, ordering, payment, and accounting processes, organisations can save time and money, and gain better control over their purchasing, enabling them to more successfully use food procurement to deliver their stated objectives. These effects are greatest where organisations successfully exploit the potential of e-procurement; as an example, where NHS Trusts use the e-direct NHS purchasing system, transaction costs are reduced from an average £0.30-£0.50 to an average £0.22 per transaction.⁵ Organisations can use this increased speed and efficiency in processing invoices to explore whether suppliers would be willing to offer discount terms in return for guaranteed prompt payment. An Australian hotel group provides an example from the private sector of the benefits, to both suppliers and purchasers, of exploiting this potential of e-procurement (**Case example 21**).

39 Targeting energy and water use, waste disposal, and sundry overheads as areas in which to look for efficiency and innovation. All organisations could look to improve the efficiency of their kitchen overheads, as achieving this should not only save money without impacting on the quality of the service, but also improve environmental sustainability. For example, the Aramark catering firm has switched to a supplier, C&D Oils, which collects used cooking oil from its sites and sells it on to be recycled into biodiesel, which is in turn sold to

motorists and hauliers in the same way as normal diesel (**Case example 22**). Procuring bodies should further examine the potential long term savings available through investing in energy efficient kitchen equipment. A 2005 report by the Auditor General for Wales on energy and water efficiency in the higher education sector made a number of recommendations as to ways in which to achieve environmental and cost benefits, including fitting timer switches to vending machines to ensure that they are switched off during hours when buildings are not in use. Such a measure was estimated to be worth savings of £1,410 across the three universities examined.⁶

40 Optimising stock holdings and “use by” date of deliveries. Organisations should seek to optimise stock holdings to reduce costs and preserve taste and nutritional content, taking account of the costs and benefits of aggregating deliveries. In particular, organisations should monitor whether any food items are being thrown away because they have spoiled, and review whether this is because they are being kept too long, or because suppliers are providing items that are nearly or already out of date. For instance, in 1997 prisons held on average some 27 days’ food supply, and in a report the following year the Public Accounts Committee recommended that stockholdings should be reduced.⁷ Since 1998 prisons have reduced their food stocks to 11 days on average and by doing so have realised a one-off saving of some £2 million.

5 NHS Purchasing and Supply Agency, 2005.

6 *Energy and Water Management in the Higher Education Sector in Wales*, Auditor General for Wales, 2005.

7 Committee of Public Accounts 13th Report of 1997-98 (*The Prison Service: Prison Catering – HC419 of 8th April 1998*).

CASE EXAMPLE 21

Using e-procurement to reduce transaction costs

A hotel group in Australia use an e-procurement system that was developed specifically for food purchasers. One of the benefits they have gained through e-procurement has been to speed and simplify the processing of and accounting for invoices, for both themselves and their suppliers. For example, the system enables suppliers to automatically turn orders into invoices, almost literally at the press of a button.

The hotel group has used an innovative approach to exploit these benefits, to the mutual benefit of themselves and suppliers. Because their e-procurement system enables them to process invoices more quickly, the group are able to offer to pay suppliers more promptly, in return for being offered better terms by suppliers. What is particularly innovative in this approach is that the company offer suppliers different periods of time in which to be paid, in return for different levels of discounts. This enables the company to automatically negotiate discounts from suppliers, while allowing suppliers flexibility in return, including the knowledge that if they ever urgently need to improve their cashflow they can choose to be paid immediately, while accepting a greater discount in overall payment as a result.

Source: National Audit Office, drawing on information provided by PSL catering consultants

CASE EXAMPLE 22

Innovative waste management to reduce costs and improve environmental sustainability

Aramark, one of the major contract catering firms in the UK, has switched supplier to the firm C&D Oils to 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, drawing on figures from Aramark and C&D Oil Company