



National Audit Office

Smarter food procurement in the public sector: Case Studies

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

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National Audit Office

Smarter food procurement in the public sector: Case Studies

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INTRODUCTION



1 This volume of the report contains case studies examining food procurement in three of the four largest areas by expenditure in the public sector:

- School food;
- Hospital food;
- Armed Forces food.

The fourth area is prison food. This area was the subject of a separate National Audit Office examination in the same period, the results of which are published in our separate report *Serving Time: Prisoner Diet and Exercise, HC 939 Session 2005-2006*.

2 Each case study examines the role played by organisations at different levels in the delivery chain, from department level down to frontline delivery within schools, hospitals and Armed Forces bases. More specifically, each examines:

- the action being taken at all levels to improve food procurement and the impacts achieved to date, including examples of good practice;
- the priority areas for improving food procurement, including an assessment of the financial savings that are realistically achievable; and
- a summary of key lessons of principle and practice for all public sector organisations in improving the efficiency and effectiveness of their food procurement.

3 The lessons and good practices identified fall under one of six key areas:

- Managing demand for food purchases, to optimise volume, quality and cost;
- Developing food buying and preparation skills, and catering infrastructure;
- Designing a catering service around the needs of the organisation as a whole;
- Engaging intelligently with suppliers, to get the best prices and 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.

CASE STUDY ONE

School food

School meals have received increased public and parliamentary interest following negative media coverage focused on:

- *the low expenditure on ingredients in school meals; and*
- *poor nutritional standards and the potentially negative impacts of this on educational outcomes and the health of children.*

This is set against a background of falling eligibility for free school meals and declining levels of school meal take-up (both paid and free).¹ A wide range of centrally led improvement initiatives are underway to address these concerns, but there are already a number of good examples of what can be achieved by individual local authorities and schools in reducing costs while improving nutritional content and increasing the use of local suppliers.



Summary of the key points and overall potential financial impacts

- 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.
- Take up of school meals varies greatly across the country, affecting the viability of the service in some areas.
- Procurement skills should be enhanced in order to negotiate fairer contracts for school meals provision.
- There are variable standards of menu design, delivery checks, food storage and food preparation procedures in local authorities and schools leading to inefficient use of food in some cases.
- Wider adoption of good practice identified by this study could lead to estimated value for money savings of £66 million.

The scale and organisation of school food provision

1 The cost and scale of school food provision are considerable (**Figure 1**). It is estimated that local authorities and parents spend just under £1 billion per year on school food (£360 million by authorities and £601 million by parents in 2002-03), with some 3.25 million school meals served every day in England and around 100,000 people employed in their provision.²

1 Key statistics on the cost and scale of school food provision

	Total	Primary	Secondary
Average cost per meal	£1.50	£1.37	£1.68
Number of schools	21,000	17,500	3,500
Number of pupils (million)	7.6	4.3	3.3
Number of meals served daily (million)	3.25	1.8	1.4
Number of meals served annually (million)	617	347	270
Proportion of pupils eligible for free school meals	15.8%	16.8%	14.5%
Percentage take-up of free school meals	78%	82%	73%

Source: National Audit Office examination of data from the Local Authority Caterers Association Survey 2004; Department for Education and Skills' 'Statistics of Education: Education and Training Statistics for the UK'

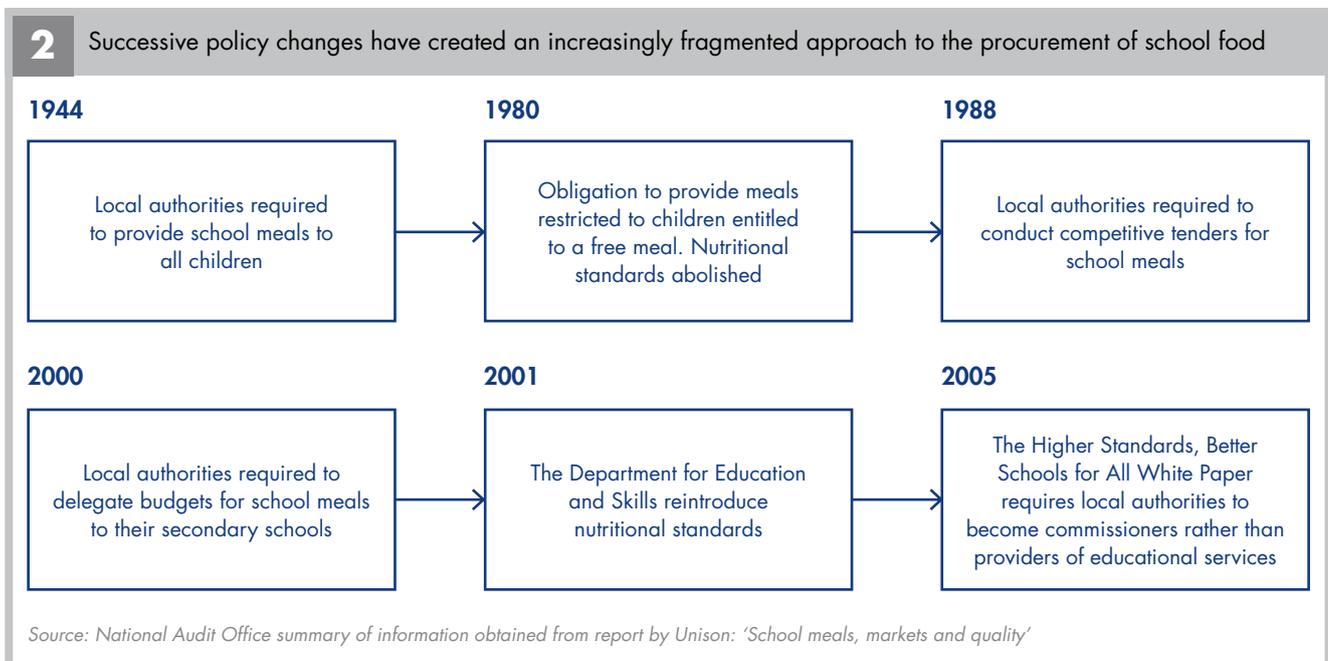
1 McMahon W and Marsh T (1999) *Filling the Gap: free school meals, nutrition and poverty*. Child Poverty Action Group/Local Authority Caterers Association School Meals Survey 2004.
 2 Local Authority Caterers Association School Meals Survey 2004.

2 The Department for Education and Skills have lead policy responsibility for school food. It funds local authorities to provide education services in their area. Local authorities are responsible for distributing this funding to schools and for providing or procuring schools meals for all children entitled to a free school meal (which in practice is usually extended to all children who want a meal). At the local level the arrangements for school meal provision are highly fragmented, reflecting a trend since the 1980s towards devolved budgetary responsibility to schools and the outsourcing of local authority soft facilities management functions such as catering (**Figure 2**).

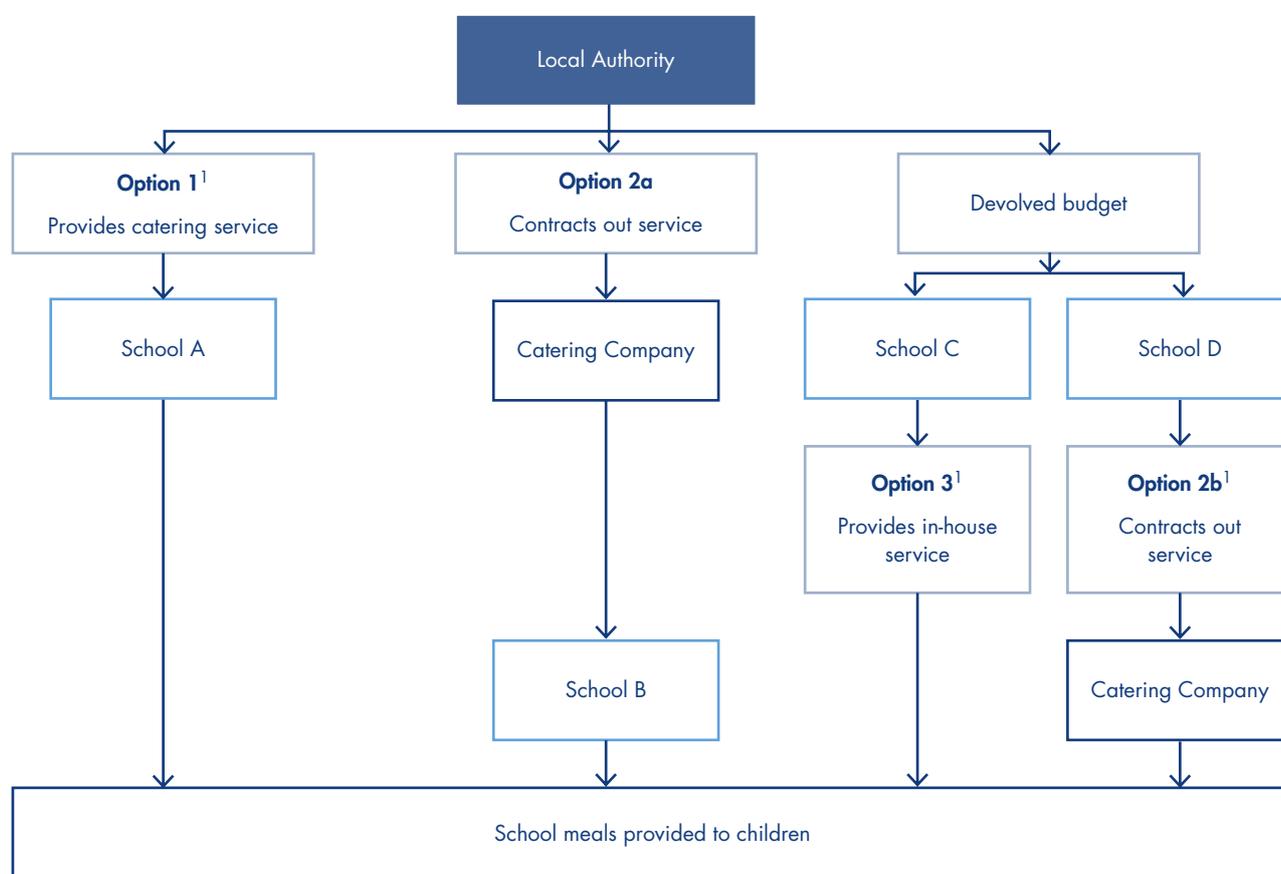
3 Currently local authorities are statutorily required to delegate the budget for school meals to their secondary schools. Authorities are also required to offer delegation of budgets for primary and special schools that opt to have them. Schools in receipt of delegated budgets can either opt to remain within the school meal provision arranged by the authority or to provide or procure the service themselves (**Figure 3**). Some authorities have delegated the budgets to all of their schools and withdrawn their general provision. In these cases schools arrange their own provision.

The action being taken to improve the procurement of school food and its impact to date

- 4** Three of the most recent and significant national policy initiatives to improve school food were implemented by the Department during 2005:
- **Healthy Food in Schools Initiative:** The Department has allocated an additional £220 million over three years from September 2005 to local authorities and schools to improve the quality of school food. Linked to this, Ofsted are to assess a school's approach to healthy eating as part of regular school inspections from September 2005 and make visits to a pilot number of local authorities and schools, working alongside nutritionists, to determine the best way to inspect the proposed school meal standards. The Department for Education and Skills needs to ensure that, together with other organisations with an interest in improving school food, it has proportionate feedback mechanisms in place to assure itself that this additional funding is being used to best effect in the pursuit of improved school food; and to inform its future policy interventions. The key risks and our assessment of the mitigating actions are summarised in **Figure 4 on page 6**.



3 The organisation of school meal provision at the local level



Source: National Audit Office; Local Authority Caterers Association Survey 2004

NOTE

¹ Most school meals are provided using one of the following options:

Option 1: 65 per cent of provision is provided by local authorities, predominately for primary schools, most of which do not have the capacity to provide the service in-house, and do not have the level of business that would allow them to offer a commercially viable proposition to a catering firm.

Option 2a and b: 35 per cent of the market is contracted out to catering firms either by authorities (2a) or individual schools (2b).

Option 3: 5 per cent of provision is provided in-house by schools themselves, most commonly by secondary schools in receipt of devolved budgets and who have sufficient in-house capacity.

- **School Food Trust:** The Trust, which will become operational in Spring 2006, promotes the education and health of children and young people by increasing the quality of food supplied and consumed in schools. It is receiving core funding of £15 million over three years from the Department and is also likely to be bidding for additional funds from other sources. Since the Trust is not yet operational it has not been possible to form an assessment of its effectiveness.
- **Enhanced procurement support and guidance:** The Department has created a Centre for Procurement Performance as part of the Department's Efficiency review programme which incorporates the purchasing arrangements for school food as part of its remit. The Department (for the first time) undertook a survey of local authorities in autumn 2005 in order to get an overview of the provision of school food. The Department is working with the National Audit Office to develop a final version of its guidance for schools and local authorities on food procurement. The guidance should be available in early May.

4 Additional funding to improve school food: key risks and mitigating actions

Risk

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.

Failure to secure competitive deals with suppliers will lead to unnecessary additional spending on ingredients without commensurate improvements in quality.

There are limited arrangements in place at a national level to enable the Department to assess the benefit gained from the additional funding, and also to maximise the money that is spent on longer term measures which offer benefits beyond the period of the funding.

Mitigating action and NAO assessment

The Department has allocated funding based on the number of pupils in each local authority area and the proportion of them that are eligible for free school meals. These criteria have been used in the absence of performance data (for example on existing catering arrangements, the fitness for purpose and condition of kitchen facilities and information on the current standard of school meals).

The Department has provided guidance to local authorities on the types of items and activities the funding might be used to support, on the basis that it considers local authorities are best placed to know how, at the local level, the funding can be used to greatest effect.

The Department has already indicated to local authorities that these criteria will remain unchanged throughout the three year period of the funding.

In May 2006 the Department will publish guidance on food procurement for schools and local authorities (which has been available in draft on the Department's website from June 2005).

The Department has created a Centre for Procurement Performance which incorporates the purchasing arrangements for school food as part of its remit. Representatives from the Centre participate in a working group with representatives of the three other largest public sector purchasers of food to identify and develop collaborative opportunities to secure better value for money.

It will take some time for these initiatives to become established good practice across the sector, with the risk at a local level that better deals are not secured.

The Department has to balance the need to secure value from the additional funding with its commitments to greater autonomy and decision making at a local level. In the case of the additional school food funding, local authorities are advised to draw up and implement a strategy for the use of the funds in their area but the Department, in keeping with their commitment to greater local autonomy, has no plans to directly review these in any detail.

Already the first tranche of funding has been allocated and it will be important for the second and subsequent tranches of funding that the Department assesses the adequacy of the arrangements in practice and determines whether there is a need for additional information to obtain sufficient assurance that the money is being well spent.

The Department plans to make use of a range of existing initiatives to help assess the value for money achieved. The Department has established a reference group of local authorities through which the Department will develop and implement strategies to help local authorities use the additional funds effectively. Once operational, the School Food Trust can also have a role to play, possibly in feeding back on local progress and practice, and the Department's introduction of new nutritional standards offers a benchmark for schools and parents to assess the quality of school meals.

The Department should consider reviewing, perhaps on a sample or targeted basis, some of the strategies being developed by local authorities, to satisfy itself that they will deliver value for money.

Source: National Audit Office

5 The remaining initiatives, while not an explicit part of our examination are summarised in **Figure 5**, along with progress and impacts to date.

5 The progress and impacts to date of national initiatives to improve school food

Initiative

Food in Schools initiative (Department for Education and Skills and Department of Health)

A 'whole school' approach was launched in 2001 to use holistic methods to improve food and nutrition within schools encompassing issues such as vending machines, breakfast clubs and training for primary teachers in diet, nutrition and cooking.

New Nutritional Standards for school food (Department for Education and Skills)

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.

National Healthy Schools Programme (Department for Education and Skills and Department of Health)

An accreditation scheme which requires schools to demonstrate to the Departments how they are contributing to the five outcomes laid out in Every Child Matters. New guidance specifically requires schools to address four key themes, including healthy eating. Supported by the Healthy Living Blueprint (launched in August 2004) and the Food in Schools Toolkit (launched March 2005) to help all schools to take a 'whole school' approach to health and nutrition. Funding amounts to £9.3 million in 2005-06.

The Building Schools for the Future programme (Department for Education and Skills)

Funding for the creation/refurbishment of kitchens has been made a priority within these wider programmes which in total will see £5.5 billion invested in improving schools in 2005-06 (rising to £6.3 billion in 2007-08). All secondary schools will be refurbished over fifteen waves of investment, and from 2008-09 additional funding will be available for primary schools with the aim of renewing 50 per cent over the next fifteen years.

In addition, over £3 billion capital funding a year is available for schools and local authorities to meet their local priorities, which can include new or refurbished kitchens.

School Fruit and Vegetable scheme (Department of Health)

Introduced in 1999 to provide a free piece of fruit or vegetable every day to all pupils aged 4 to 6. Funding from the inception of the scheme (including lottery funding) to the end of 2005-06 will amount to £125 million.

Progress and impact

Food in Schools toolkit launched in March 2005 offering support to schools to tackle a wide range of food and nutritional issues.

Consultation on draft standards ended in December 2005.

Legislative requirements included in Education and Inspections Bill 2006 with guidance and regulations to follow.

Approximately 10,000 schools (just under half) have received accreditation. The target is for half of schools to have attained Healthy School status by 2006 and for the rest to be on the Programme by 2009.

The Department's requirement that all local authorities begin to plan the reintroduction of hot meals by September 2008 is likely to challenge those schools who do not currently provide hot meals. In some cases considerable capital investment by the relevant local authority will be required and it is unclear how the necessary funds will be sourced.

Two million pupils receive a free piece of fruit or portion of vegetables every day.

Source: National Audit Office

6 At the regional and local levels, initiatives are more fragmentary and tend to address specific issues. For example, East Anglia Food Link, (a not-for-profit co-operative which promotes a more sustainable and localised food system) has brought together seven local authorities to increase the proportion of food purchased from local producers and to drive up nutritional quality. This initiative is enabling the pooling of knowledge and skills, the sharing of procurement costs, and the negotiation of better prices. Other examples include local authorities successfully increasing the proportion of locally produced food used in their schools at no extra cost or negotiating for improved nutritional quality (Case Examples A and B).

CASE EXAMPLE A

Increasing the use of locally produced food

Shire Services, the Direct Services Organisation of Shropshire County Council, took the following steps to improve nutritional quality and to increase the proportion of food purchased from local producers:

- Brought together wholesalers and local producers to discuss the opportunities for increased use of local suppliers, improving their knowledge of their local market and identifying a number of potential local suppliers of meat and vegetables.
- Simplified its procurement process to encourage bids from smaller producers, and addressed the dispersed geographical characteristics of the county by arranging for local producers to supply clusters of schools in their immediate area.
- Set up pilot in four schools under the Soil Association’s Food for Life project – aiming for school meals to comprise 50 per cent local food, 30 per cent organic food and 75 per cent unprocessed food. The four schools involved in these pilots have set up local supply networks for local and organic produce.

There is now a greatly increased proportion of locally produced meat and vegetables used in school meals within the county. The aim is to increase this number further in the medium term, by continuing to nurture relationships through the supply chain. 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 examination of Shropshire County Council’s Local and Healthy Food in Schools Initiative

CASE EXAMPLE B

Improving nutritional quality through robust contract letting and management

In 2004 Lambeth Council reviewed its provision of school meals, which at that time were delivered as part of a wider contract covering other services such as grounds maintenance. The Council decided to remove the catering element from the contract and put this out to tender as they and the 62 schools covered by the contract considered that the quality of the meals could be improved by using a contractor with specialist catering expertise. The Council set up a Schools Steering Group consisting of head teachers, bursars, governors and parents to help develop the specification and to agree the criteria to be used in awarding the contract (which were incorporated in the tender documents) with a strong focus on the nutritional quality of the food to be provided. Assessment of the bids included:

- Comparing sample menus against Nutritional Standards developed by the authority in the light of the national framework created by the Department for Education and Skills. Recipes were analysed to calculate the proportion of fresh food used.
- The extent to which bidders would offer access to specialist services such as dieticians, health and safety experts and buyers.
- Site visits to schools in other authorities, both with the bidder and independently, to look at the work of bidders in other schools, including examining their commitment to high nutritional content.

The contract was let in September 2004. Ongoing contract management and performance monitoring is conducted on an ‘open book’ basis, including joint tri-annual audits of each school, where Council and contractor staff score the service against a range of criteria including nutritional content, staff training, food purchasing, storage, preparation, and health and safety. The Council has also issued a Contracts Management Manual to schools setting out in an easy to use format what they are entitled to and the procedures to be followed if problems arise.

Uptake of school meals has already risen by two per cent across the borough and is expected to continue to increase. While the overall cost has remained the same, average spending on ingredients per meal has increased by 11p to 56p per meal. Children, parents and teachers agree that standards of service and nutritional quality have increased, reflected in the improved levels of satisfaction reported in user surveys.

Source: National Audit Office examination of London Borough of Lambeth’s tendering of school food provision

Priority areas for improving school food procurement

7 We identified six main areas where the efficiency and performance of school food procurement can be improved at both the departmental and local level (summarised in **Figure 6**) which we comment on below.

a) Aggregating purchasing to achieve cost savings

8 To date the significant opportunities and savings offered by aggregated purchasing have not been realised. For example, in areas where local authorities no longer provide a universal school meals service we found little evidence of schools working together to share procurement costs or aggregate their demand to achieve cost reductions and efficiency savings. One exception we identified was four schools in Braintree, Essex working together to share procurement costs, standardise their requirements and negotiate improved prices (**Case Example C**). The Department for Education and Skills and the School Food Trust need to work with local authorities and schools to aggregate purchasing where appropriate and achieve cost savings through streamlined procurement processes and increased purchasing power. **We estimate that these savings would rise to 4% by 2010-11, an annual saving of £14.4 million.** This could be achieved by placing greater emphasis on the benefits of aggregation within the draft food procurement guidance and by working with local authorities to identify and overcome barriers to aggregation and to identify and disseminate the details of good practice models.

b) Developing expertise in food procurement

9 In order to negotiate the best deal for their schools it's essential that procurers have (or have access to) expertise in the catering market and understanding of the benefits and disadvantages of the various ways in which school food can be provided. Some 40 per cent of the local authorities in our survey said that they would have benefited from more expert guidance on drafting and letting contracts and only 25 per cent said that they had made successful use of catering consultants to reduce costs.³ (Our survey covered local authorities but their close association with local authorities suggests that the findings are generally transferable). Without these skills authorities and schools risk making sub-optimal decisions on whether to contract out provision or they may select the wrong type of contractor or fail to negotiate the best deal. Local authorities and other organisations should consider pooling resources to provide regional or

6 Six areas where the efficiency of school food procurement can be improved

- Aggregating purchasing to achieve cost savings
- Developing expertise in food procurement
- Addressing lack of competition in the school food market
- Adopting good practice in contracting
- Adopting good practice in making best use of the food purchased
- Maximising the take up of meals and revenue

CASE EXAMPLE C

Working together to pool expertise and reduce procurement costs

Essex County Council ceased to arrange catering provision for their schools in April 2004, delegating the responsibility for making these arrangements to the schools themselves.

Four primary schools in Braintree (under the leadership of the chair of governors of one of the schools) started to work together to pool skills and knowledge of food safety, menu design and local sourcing. Recognising that meat purchases represented a significant proportion of the budget, they worked together with East Anglia Food Link (a not-for-profit co-operative which promotes a more sustainable and localised food system) to identify and benchmark local producers. As a result local producers were contracted to supply two products (pork sausages and beef burgers) to all four schools. The producers agreed to tailor their products for the school meals market; the sausages were made longer to fit the baguettes used by the schools and smaller burgers were produced which were more suited to children's appetites. The aggregation and standardisation of their requirements by the schools made the opportunity more viable for smaller producers. The schools have benefited from streamlined procurement processes and reduced unit costs when compared to what they would have achieved had they procured separately. They have also seen an improvement in nutritional quality (for example, the use of fresh sausages and burgers with 100 per cent beef content).

Source: Essex School Meals Supply Project: Final Report

sub-regional centres of expertise for negotiating catering and food procurement that would be available for all needs in the area and build up knowledge and expertise such that better contracts are negotiated with a wider more competitive market. The use of support from other organisations with expertise, both public and private should also be considered. The Centre for Procurement Performance within the Department for Education and Skills should take a lead in facilitating the development of these centres of expertise.

3 National Audit Office Food Procurement Survey.

c) Addressing lack of competition in the school food market

10 The current contracted-out school food market is dominated by three large firms (Scolarest, Sodexo and Initial) who together account for 70 per cent of the market.⁴ Local authorities have typically received far fewer bids to provide schools meals services than for other soft facilities management services such as cleaning or grounds maintenance. This largely reflects the high entry barrier into the market, including the cost implications of stringent health and safety regulations and, as is often the case, the need for significant investment to improve kitchen facilities. Without meaningful competition schools and local authorities are less able to secure competitive prices for the goods and services they buy or to drive up standards.

11 Local authorities need to consider how best to address this lack of competition. For instance, the Shropshire case example (Case Example A on page 8) shows how simplifying procurement processes and facilitating a dialogue between producers and wholesalers can help overcome the barriers to small and medium enterprises entering the market and how greater sustainability can be achieved without significant increases in cost. Local authorities could identify alternative suppliers and contractors and engage with them to identify and overcome the barriers to them entering the market. The Department for Education and Skills (with the assistance of the National Audit Office and other stakeholders) will develop the content set out in their draft Food Procurement Guidance on how best to increase competition.

d) Adopting good practice in contracting

12 Failure to adopt a clear, thorough specification leads to the creation of ambiguous terms, sows the seeds of future disputes and increases the likelihood of substandard services. Procuring organisations should work more closely with potential bidders to ensure that their specification is unambiguous but without excessively rigid terms which could increase costs in low priority areas. For example local authorities should avoid insisting on the provision of specific produce throughout the year if it attracts premium prices when it is out of season and avoid stipulating particular brands if cheaper alternatives have

equivalent nutritional content. The Lambeth case example (Case Example B on page 8) shows how a thorough procurement process which incorporates input from all of the key stakeholders leads to a specification that is clear to bidders and to schools alike and ultimately to a service which better achieves the organisation's objectives. Better clarity is achieved where bidders are required to:

- set out a management plan (sometimes termed a 'method statement') setting out in narrative how they intend to run and manage the service;
- set out a transparent financial model (making initial financial assumptions clear);
- set out the basis for costing variations, identify the grounds for termination and set out how performance is to be monitored; and
- stipulate terms of service (such as portion sizes in order to reduce the scope for contractors to be able to cut costs artificially).

13 Contracts should be let for a suitable duration to both maximise the benefit gained from the initial cost of procurement and to avoid 'locking in' schools or local authorities for excessively long periods. Where contracts are let for unduly long periods there is often limited flexibility to address changes in circumstances (such as demand), and where variations arise for good reasons, for example, relating to changes in nutritional standards, they can be very expensive to implement due to the inflexible nature of the contract terms.

14 The school food market is characterised by wide variations in prices, unit costs per meal and contract practices. For example, prices for a pint of milk in the school food sector vary by more than 100 per cent; with 60 per cent of the local authority respondents to our survey unable to say how much they paid their contractors for a range of commonly used food items.⁵ This demonstrates the lack of transparency by contractors on the price paid for ingredients for school meals and the scale of volume discounts and rebates they receive. Contracts should require an 'open book' approach so that local authorities and schools are aware of costs and discounts, can benchmark performance against other authorities or schools and can assess whether they are getting the best deal and performance possible from their suppliers.

⁴ National Audit Office analysis of figures from the Local Authority Caterers Association Survey 2004.

⁵ National Audit Office Food Procurement Survey.

15 The Lambeth case example (Case Example B on page 8) illustrates how closer engagement with stakeholders helps procurers to produce agreed and weighted criteria for awarding contracts and to use them as the basis to institute appropriate performance monitoring. Procurers should, where possible, carry out joint audits with their contractors to promote greater transparency and quicker identification and rectification of problems. To reduce the risk that frontline staff fail to identify, or simply tolerate, sub-standard provision because they are unsure of what they are entitled to or how to enforce these rights, local authorities should produce easy to use guidance for school management, governors and kitchen staff, setting out the standards of service laid out in the catering contract and the procedures to be followed when problems arise.

16 Taking areas C and D together we believe that the universal adoption of good practice across the schools sector could lever a **4 per cent reduction in food costs contained in contracts with catering firms by 2010-11, an annual saving of £4.6 million.**

e) Adopting good practice in making best use of the food purchased

17 Our study found variable standards in procedures within schools for the use, storage and preparation of food within schools. Where these procedures are poor there is an increased risk of excess wastage, payments for substandard or short delivered items or ordering patterns that are not reflective of demand. The good practices we identified during the study include:

- Improving menu design to balance costly and less expensive dishes to minimise the risk of a loss in an individual week, to both reduce waste and, by concentrating on a narrower range of meals, to improve quality (Case Example E on page 13). Flexible menus, for example, can be used to take advantage of the lower prices charged for seasonally available produce. At the same time it is important to retain sufficient consistency to encourage pupil familiarity with, and take-up of, menu choices.
- Adopting better 'back door' delivery procedures to increase assurance that goods delivered are as invoiced thus reducing the potential for short deliveries, substandard goods and wastage.

- Investing in better training of kitchen staff to improve the efficiency of food usage driving up standards of storage procedures and food preparation in school kitchens and so both reduce excessive food wastage and obtain the optimal number of meals from the ingredients purchased (**Case example D**).

18 We estimate that universal adoption of these good practice measures could generate **savings of at least four per cent on food costs by 2007-08, an annual saving of £14.4 million.**

CASE EXAMPLE D

Improving 'back door' delivery checks and staff training

St Aidan's Church of England High School in Harrogate were unhappy with the quality of the food provided by their contractors, a significant factor contributing to the low proportion of pupils eating at the school. They decided to bring catering in-house and to appoint a commercially experienced on-site chef/manager.

The investment has been justified by improved efficiency and service performance. For example, the new manager instituted rigorous 'back door' checks on all deliveries from existing suppliers. As a result all but one of the previous suppliers have been replaced, with a higher proportion of the new suppliers based locally. The manager has developed improved working relationships with suppliers, to the benefit of the school. For example, suppliers now make more effort to advise the school of special offers on seasonally available produce or surplus stocks. The manager also redesigned the menus to both increase nutritional quality and to balance costly and less expensive dishes to minimise the possibility of a loss in any given week. The school estimates that this has resulted in both ten per cent cost reductions and increased ingredient quality.

The school has also invested in enhanced training of kitchen staff, enabling them to use new equipment, to cook with fresh ingredients and to adopt better food storage techniques leading to both reduced wastage and improved nutritional quality. The changes improved staff turnover thereby minimising recruitment and training costs and it has increased confidence in the service among children and parents.

Source: National Audit Office examination at St Aidan's Church of England High School

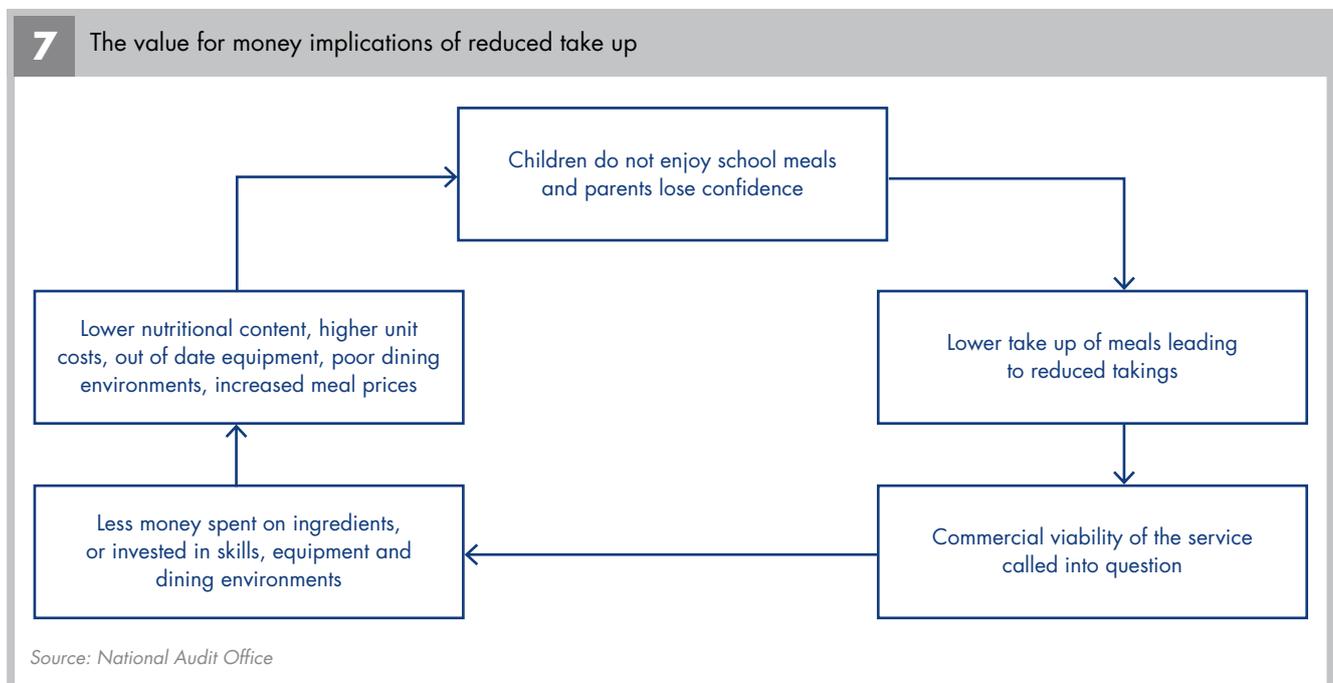
f) Maximising take-up of meals and revenue

19 Currently take-up of school meals (paid and free) varies between 26 and 90 per cent⁶, with some 22 per cent of children entitled to free school meals not taking up their entitlement.⁷ Declining take-up is primarily driven by parents switching to other forms of provision in response to concerns about the poor quality of school food. In a recent survey conducted by a contract catering firm, only 14 per cent of parents are prepared to pay more for a school meal, despite the fact that children spend an average of £1.75 on the way to and from school, more than the average price of a school meal.⁸ Improved take-up is, however, crucial to the viability of the school food service since extremely low take-up can threaten the existence of a school meals service while increased revenue for schools with medium take-up increases the likelihood of surpluses that can be reinvested in improved facilities or better ingredients (Figure 7). It also reduces the risk of children eating food of low nutritional quality from other sources and encourages social interaction between children at lunchtime.

20 The potential for increased take-up is considerable. We estimate that an average increase in take-up of 10 per cent (in our view a conservative increase), would generate additional takings of £60 million. Allowing for

resultant increases in variable costs (such as food) we estimate that additional annual revenue of £33 million could be generated for reinvestment in improved school food facilities or indeed in other areas of school provision. Good practice steps to towards increased take-up include (Case example E):

- Improving nutritional quality and ensuring that parents and children are involved in the proposed changes from an early stage, helping to convince parents that the price charged offers value for money for the quality of food provided.
- Where appropriate, reducing the opportunities during the school day for children to leave the school premises to reduce the opportunities for them to purchase poor quality food.
- Creative and extended use of facilities (for example Breakfast Clubs or after school facilities).
- Addressing reluctance to take-up free meal entitlement due to the perceived attached stigma by the use of systems which do not identify those pupils who are eligible for free school meals.
- Reducing meal queuing times, extending opening hours and improving dining environments.



6 Data from the Soil Association survey of local authorities available at <http://www.soilassociation.org/web/sa/saweb.nsf/848d689047cb466780256a6b00298980/6755b104af86402580256fce0033c869!OpenDocument>.

7 Local Authority Caterers Association Survey 2004.

8 The Sodexo School Meals and Lifestyle Survey 2005 (covering UK schools).

CASE EXAMPLE E

Increased take-up achieved through improved nutritional quality and dining environment

St Aidan's Church of England High School, Harrogate took a number of steps to increase take up of meals:

- Used a loan from their Local authority to refurbish kitchen facilities, to build new dining areas and to replace poor quality crockery and cutlery. The improved dining environment has proved attractive to pupils of all age groups, including those in the sixth form.
- Introduced new menus containing dishes with a higher nutritional value. Crucially the school communicated the proposed changes months in advance to pupils supplemented by educational activities on good nutrition, all of which encouraged greater acceptance.
- Extended opening times by introducing a breakfast club and all day opening of the sixth form café.
- Invested in a cashless card system which:
 - requires parents to pay by cheque (and so reassures them that dinner money actually reaches the school)
 - enables better forecasting of likely demand, planning of future menus and purchasing decisions
 - allows monitoring of pupils' meal choices of individual pupils
 - keeps anonymous those children eligible for free school meals (in order to encourage them to take up their eligibility).

More than 90 per cent of the pupils now eat regularly in school compared to 30 per cent prior to the changes. Since teachers now eat alongside pupils there is no need to pay for dinner supervisors. Takings now average more than £2,600 per day, more than four times greater than the highest figure recorded by the previous contractors while the prices charged are still in line with prices elsewhere in the Authority. Surpluses are reinvested in further improvements, such as the employment of a nutritionist and further extension of the dining facilities.

Source: National Audit Office examination at St Aidan's Church of England High School

Key Lessons

- The need for robust Departmental oversight to identify trends, inform suitable policy interventions and ensure value for money is achieved in respect of additional resources deployed.
- The importance of specialist procurement skills at a local level to draw up fair contracts and to monitor performance once they are in place.
- Investing in skills of kitchen staff helps make better use of the food purchased.
- Increasing aggregation of purchasing gives better leverage to negotiate improved deals with contractors.
- Increasing take-up is vital to securing the financial viability of the service and to generating funds to reinvest in an improved service.

CASE STUDY TWO

Hospital food

Hospital meals are a vital part of the medical treatment of patients, contributing both to their nutritional needs and to their morale. Hospital catering is also important to the working lives of the one million staff who work in the NHS. There are growing pressures on those responsible for NHS food procurement to simultaneously increase efficiency, patient satisfaction, sustainability, and nutritional quality. These policy agendas are not incompatible, but in practice they pose significant challenges for organisations at all levels of the delivery chain.



Summary of the key points and overall potential financial impacts

- The NHS Purchasing and Supply Agency has delivered savings on national framework deals, though NHS food purchasing is still fragmented, with Trusts opting in and out of national frameworks and few engaging in joint purchasing with other Trusts
- 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 – therefore work needs to continue to guarantee lower prices in return for Trusts that join together to commit to using frameworks
- The NHS Purchasing and Supply Agency is encouraging joint procurement and increased take-up of frameworks through measures such as the introduction of Collaborative Procurement Hubs (although this programme is still in its early stages), and greater cross-government activity such as work to be done on a joint Food Safety Code. While one of the pathfinder Hubs has conducted an initial trial to investigate the opportunities of consolidated food procurement for the Trusts that make up that hub, the pathfinder Hubs have not so far done any major joint food procurement exercises
- There is a potential conflict between the aim of increasing take-up of national frameworks and the aim of increasing sustainable procurement – therefore it is important that the NHS Purchasing and Supply Agency explores the optimum combination of these approaches for the new Collaborative Procurement Hubs
- There is significant scope for hospital catering departments to reduce costs without reducing quality, by: (i) increasing the professionalism and efficiency with which they receive, store, and use food; (ii) adopting a more commercial approach, to increase revenues from hospital restaurants and cafes; and (iii) increasing energy and water efficiency
- As a conservative estimate, wider application of the good practice identified in this study could result in national savings of at least £43 million

The scale and organisation of hospital food provision

1 Each year the NHS spends around £500 million on catering (including around £300 million on food alone), serving over 300 million meals in 1200 hospitals. Hospital catering managers are given an average of £2.60 to spend on three meals, snacks, and drinks, per patient, per day.⁹ With hospital finances tight, especially with many Trusts currently in deficit, food procurement budgets may come under further pressure.¹⁰

2 At the national level, four main bodies hold significant responsibilities for hospital food:

- The **NHS Purchasing and Supply Agency** negotiates national framework contracts with suppliers, which NHS Trusts may then use to buy a range of food items, and assures the food safety of these suppliers (**Box A**).
- The **NHS Logistics Authority** buys certain food items in bulk through national NHS contracts, receives orders from individual Trusts, and makes deliveries to them from its network of six regional warehouses.
- The **National Patient Safety Agency** has responsibility for some operational aspects of hospital food delivery. The emphasis is on nutrition whilst maintaining close attention to food quality and delivery.
- Within the **Department of Health**, the Chief Nursing Officer has overall responsibility for patient experience, including the user experience of hospital food.

BOX A

NHS Purchasing and Supply Agency (PASA)

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 is in a key position to advise on policy and the strategic direction of procurement, and its impact on developing healthcare, across the NHS.

Intended to function not just as an advisory and co-ordinating body but also an active participant in the ongoing modernisation of purchasing and supply in the health service, 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.

3 At the local (hospital) level, in almost all cases, the catering department will cater for both patients and non-patients. Beyond this, however, different hospitals will take different approaches to the ways in which the catering service is operated and meals are prepared (**Figure 8**). NHS Trusts are free to:

- buy from NHS Logistics;
- buy directly from suppliers through the framework contracts negotiated by the NHS Purchasing and Supply Agency (PASA); or
- negotiate their own deals with suppliers or contract caterers. In practice, many Trusts employ a mixture of these, depending on where they can find the best prices for different items, although the majority of spending goes through PASA frameworks (**Figure 9**).

9 Department of Health survey of 300 NHS Trusts, 2004.

10 National Audit Office and Audit Commission joint report, *Financial Management in the NHS*, 2005.

8 At the hospital level the approach to catering can be broken down under three categories

Service provider: 33 per cent of Trusts outsource their catering to a private firm, which buys and cooks the food, and in some cases will be responsible for serving it as well. The majority of Trusts run an in-house service, in which they are directly responsible for buying, cooking, and serving food. In some cases Trusts use a hybrid model which combines elements from both.

Cooking method: 60 per cent of Trusts use the traditional method of cooking from scratch ("prime cooking"), in other words cooking from raw ingredients in the hospital kitchen to be served on the day. 30 per cent use chilled or frozen 'ready meals'; either made on site, bought from commercial manufacturers, or bought from a neighbouring hospital (which itself has made them on site). 10 per cent use a hybrid of these methods, which in some cases will mean that one hospital site might cook from scratch while others within the same Trust buy in ready meals.

Serving method (for patients' meals): 37 per cent of Trusts serve meals on wards from bulk containers or trolleys; this allows for greater flexibility as to portion size, but can lead to more waste (since portions are not so carefully controlled). 35 per cent use a plated service, in which meals are individually plated in the hospital kitchen before being delivered in a trolley to the wards. 28 per cent use a hybrid of the two.

Source: Audit Commission report on 'Catering – Review of National Findings, Acute Hospital Portfolio 1' (September 2001)

NOTE

Irrespective of these differing forms of catering, the 2001 study of hospital catering by the Audit Commission found no relationship between the quality of the service and its cost; nor between the cost and the type of cooking method; nor between the cost and whether the service was in-house or contracted out.

9 Food spend by NHS Trusts in England

	£m
Via NHS PASA frameworks	172
Via contract catering firms	100
Via own suppliers, outside PASA frameworks	28
Total NHS spend on food in England	300

4 Hospital catering departments need to work closely with dietitians if they are to meet the specific needs of patients. For example, up to 40 per cent of adult patients are either admitted to hospital with malnutrition, or become malnourished during their stay, while up to 25 per cent of patients require special meals to meet their dietary needs.¹¹ Hospitals must cater for those patients who require assistance to feed themselves, or who need special types of meals such as dysphasic meals (meals which are entirely smooth, for patients who have difficulty swallowing). Hospitals must also take into account the tastes of patients, particularly if there are large numbers of elderly patients (who may, for instance, prefer more plain food), or those from minority ethnic groups (who may, for instance, require vegetarian or Halal options).¹²

5 Overall hospital catering departments need to remember that as the Department of Health Food and Action Plan states, "it is a Corporate Social Responsibility of the NHS to offer healthy and nutritious food to staff and patients". It further encourages the NHS to: "look beyond the initial price to consider the wider benefits to the organisation and the taxpayer as a whole. Providing more nutritious food to improve patient recovery times can achieve savings far in excess of those achievable from trying to cut the cost of food and catering services. Tastier food is also likely to result in less waste from leftovers and thus reduce disposal costs."

11 *Catering – Review of National Findings, Acute Hospital Portfolio 1*, Audit Commission, September 2001.

12 The NHS Purchasing and Supply Agency has negotiated national frameworks, both for such special dietary meals such as dysphasic meals, and for authentic ethnic meals.

The action being taken to improve the procurement of hospital food and its impact to date

6 At the national level there are four main initiatives currently in place to improve the performance of hospital food procurement in England:

- **NHS Supply Chain Excellence Programme.** Following a review of the NHS supply chain, the Commercial Directorate of the Department of Health concluded in 2003 that annual savings of over £500 million (of which £11.2 million was targeted to come from food procurement) could be achieved by 2007-08 through improving NHS procurement and supply chain activity. The NHS Supply Chain Excellence Programme was launched in March 2004 to realise these projected savings. The Programme has four strands, of which two are most relevant in this context: improving National Contracts Procurement and creating Collaborative Procurement Hubs.
- **Multi-Temperature Choice contract.** The contract has been developed by the NHS Purchasing and Supply Agency, and is administered by the NHS Logistics Authority, to streamline food purchases and reduce transaction costs. By consolidating products from four major wholesalers, as well as NHS Logistics' own catalogue, into one web-based list, it enables Trusts to order items from different suppliers in one single transaction, and to receive one single invoice in return. By using four major suppliers, the Agency aims to ensure price competition as well as offering Trusts a variety of choices. In addition, the contract utilises some Small and Medium-sized Enterprises, whose products are available through the NHS Logistics list: this applies in particular to items such as yoghurt, where the NHS is an especially big customer in the market, and where it is more economical for the Agency to secure a deal directly with a specialist yoghurt supplier, rather than with a major wholesaler.

- **Better Hospital Food Programme** was established in 2001, under the lead of NHS Estates. The Programme arose from the NHS Plan, published in July 2000, which set out a long-term strategy for modernising and improving health services around the needs and expectations of patients, specifically including hospital food. In aiming to improve patient experience of hospital food, the Programme also has a role to play in improving the efficiency and effectiveness of spending on hospital catering. The Programme has focused on both improving the quality of meals (by, for instance, launching "Leading Chefs" meals, many designed by celebrity chefs), and on ensuring that patients are able to get enough nutritious food to eat (by, for instance, promoting a culture of "protected mealtimes" so that patients can as far as possible eat without being disturbed by medical visits and procedures). The Department of Health is planning to launch a new "Eating Well in Hospital" programme, which will replace the Better Hospital Food programme and build on its successes, also incorporating the work currently being taken forward by various stakeholders including the National Patient Safety Agency.
- **NHS Food Procurement Action Plan** was initiated in 2003, under the joint lead of the NHS Purchasing and Supply Agency and NHS Estates,¹³ jointly to co-ordinate the incorporation of the objectives of the Public Sector Food Procurement Initiative into NHS food procurement, with progress to be reviewed quarterly.¹⁴

Our assessment of the progress and impact of these initiatives to date, the risks to successful delivery, and actions that are being or could be taken to mitigate these risks is summarised in **Figure 10 on page 20**.

Priority areas for improving hospital food procurement

7 We identified six main areas where the efficiency and performance of hospital food procurement can be improved (**Figure 11 on page 22**).

13 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.

14 The broad aims of the Public Sector Food Procurement Initiative are to help increase the sustainability of both public food procurement and the UK food and farming industry.

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

8 Increased joint purchasing by Trusts. As our survey indicates, there is less joint purchasing within the NHS than in other sectors of the public sector, in particular Higher Education. While the NHS Purchasing and Supply Agency negotiates national framework contracts with suppliers, Trusts are under no obligation to buy their food through them (in contrast, for example, to HM Prisons, which since 1999 have been mandated to buy solely through HM Prison Service contracts). In addition, the possibility of Trusts being mandated to use Agency contracts in the future would appear to be diminishing, in that the Government has announced that by 2007-08 all Trusts are to be offered the opportunity to become Foundation Trusts. Instead, the Agency has the role of actively seeking and promoting opportunities for Trusts to make joint purchasing commitments.

9 Currently, Trusts buy around 57 per cent of their food items through Agency frameworks. If Trusts were to buy all their food through such frameworks, the Agency estimates it could negotiate price reductions on the items available through these frameworks of a further 10 to 20 per cent. Based on overall NHS spend on food items of £300 million, this would result in annual savings of around £30-60 million. One of the difficulties in achieving such savings is that Trusts are unlikely to increase their purchasing from frameworks where they can source certain items more cheaply through their own deals, while framework prices are unlikely to be reduced further until the volume of sales channelled through them goes up. This suggests that an effective way forward would be for the Agency to increase its promotion of a service it has offered to some Trusts, whereby, in return for guaranteed commitments to a certain volume of purchasing, it has negotiated direct discounts on national framework prices (**Case Example F**). The Agency might consider organising such commitments from, and negotiating resulting discounts for, the Trusts involved in the Pathfinder Collaborative Procurement Hubs, to draw lessons about building joint purchasing arrangements, and the potential savings available from them, throughout the NHS.

10 Overall, we estimate that it should be possible for the public sector as a whole to make savings of 4 per cent through increasing aggregated purchasing; **if this were applied to the NHS it would result in savings of around £12 million.**

CASE EXAMPLE F

Central negotiation of discounts for groups of Trusts by NHS Purchasing and Supply Agency

Solihull Hospital, part of the Heart of England NHS Foundation Trust, utilises a central production unit to make ready meals for its own use and that of neighbouring hospitals. In 2005 Solihull's catering manager reviewed the hospital's procurement of meat, in an attempt to increase value for money. He found that he was able to obtain better prices than were available from the NHS national framework contracts, by negotiating his own deal.

However, he then found he was able to obtain even better reductions, after speaking to the NHS Purchasing and Supply Agency: on his behalf, the Agency directly negotiated a seven per cent discount with a national framework supplier. The Agency was able to secure the extra discount in this case because Solihull was both a procurer of large volumes, and because they were here making a firm commitment to a certain volume of purchases over a set period. The further advantage of this deal to the wider NHS was that, by channelling this procurement through the national framework, the Agency helped to preserve its leverage in attracting competitive bids in future tenders.

Source: National Audit Office

b) Developing food buying and cooking skills, and catering infrastructure

11 Our survey indicates that only 14 per cent of Trusts have used catering consultants to successfully reduce their costs, far less than the average for the public sector as a whole. A 2005 study commissioned as part of the Better Hospital Food Programme found there was significant potential for efficiency savings in NHS catering, and, in a pilot project at one Trust, 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).¹⁵ Trusts can also look to follow the example of other public bodies, particularly some schools, in contracting expert advice from outstanding practitioners within the public sector; this might be facilitated by the new collaborative procurement hubs. Overall, we estimate that it should be possible for the public sector as a whole to make savings of 2 per cent through increasing the efficiency with which they receive, store, and use food, and savings of 4 per cent through improving their market knowledge and buying professionalism; **if this were applied to the NHS it would result in savings of around £18 million.**

15 Better Hospital Food Programme study, 2005 (unpublished).

10 Progress and impact of national initiatives

Initiative

Supply Chain Excellence Programme: (i) National Contracts Procurement

The aim of the National Contracts Procurement strand is to reduce costs and improve the sourcing of national products through new national framework agreements

Progress and Impact

In relation to food procurement, this has so far led to a major tendering exercise which achieved savings of £11.9 million.¹

Because of the size of the market for those food contracts being tendered (around £130 million), and because different contracts were being tendered together (meaning that large suppliers were able to make a single bid to supply the NHS, rather than making individual bids to supply different items), the NHS Purchasing and Supply Agency (PASA) was able to obtain more competitive starting bids than previously. PASA was then able to achieve further reductions by holding e-auctions to decide the final value of successful bids.

On this major tendering exercise, PASA was set a target of achieving savings of £11.2 million, and in practice exceeded this by £0.7 million. In its use of e-auctions, it not only succeeded in lowering prices but also complied with its objectives on sustainability by giving active support to smaller suppliers which had no experience of e-auctions.

More generally, Trusts which use PASA frameworks benefit not only from centrally-negotiated prices, but also from the due diligence protection gained by the food safety audits which PASA performs on all the suppliers on its frameworks.

Supply Chain Excellence Programme: (ii) Collaborative Procurement Hubs

Groups of Trusts, which will 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. Findings on progress made by these Pathfinders, including savings made to date and lessons learned, are expected to be published in early 2006.

The NHS Purchasing and Supply Agency aims to bring all Trusts together within a total of 11 regional Collaborative Procurement Hubs by 2007-08.

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.

Better Hospital Food Programme

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.

NHS Food Procurement Action Plan

Following the Action Plan's inception, PASA has developed sustainable food procurement in a number of ways, for example:

- researched understanding of sustainability from catering managers;
- provided guidance on the PASA's website, and within a training programme at Bath University;
- included regional suppliers on national frameworks;
- made the Agency's own catering provision more sustainable.

Source: National Audit Office

NOTE

¹ 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.

NAO Assessment

Competitive pricing: By negotiating on behalf of the NHS as a whole, PASA is able to use this purchasing power to ensure the frameworks offer very competitive prices. Indirectly, the frameworks also help Trusts to secure good prices even where they do not buy from the frameworks, but use the prices listed on them as benchmarks in their own negotiations with suppliers. Were hospital catering managers to commit themselves to using these national frameworks more, the increased sales volumes would allow PASA to negotiate yet 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.

Food safety: One aspect of using frameworks which Trusts may sometimes overlook in searching for the best available prices is the additional assurance provided in terms of food safety. PASA has developed the NHS Code of Practice, identifying the requirements that all contracted food suppliers should fulfil in order to offer a defence for due diligence; as part of this PASA oversee unannounced food safety audits and product testing, the latter element covering testing for microbiological content, nutritional content and quality compared to specification. All NHS Trusts using PASA's food frameworks can rely on this requirement for their contribution to a defence for due diligence; an added bonus for the Trusts requires the NHS PASA technical support contractor to be their expert witness should an incident require this input. Food safety complaints are also managed by PASA's technical support contractor to identify any early trends and thereby minimise the potential for escalation of an incident; to date, there has been no need for litigation for any PASA contracted food line.

Sustainability: PASA has included a number of regionally-based suppliers in almost all its direct-delivery food supply frameworks, in order to combine the benefits of increased aggregation of purchasing with some of the objectives of the Public Sector Food Procurement Initiative. Beyond a certain point, however, the aim of increasing aggregation may come into conflict with that of increasing sustainability.

Aggregation with the wider public sector: Only one food framework – the NHS sandwich framework – allows organisations from the wider public sector, not simply NHS bodies, to buy from it. Where other sectors within the public sector (for instance, schools or local authority social services) are able to take advantage of deals struck by the NHS, this should increase the potential sales volumes for these frameworks, and thus the potential savings available to public sector as a whole.

Our survey indicated that currently Trusts do less joined-up purchasing than organisations in other areas of the public sector, especially universities which extensively use large purchasing consortia; Hubs have the potential to emulate such levels of joint purchasing in the NHS.

The key to this will be whether individual Trusts do not simply administratively form part of a Hub, but genuinely commit to aggregating their purchasing. In this respect, one of the most important aspects will be whether a Hub's central procurement team has the expertise to most effectively lever such joint purchasing power, in order to deliver appreciably lower prices, at comparable quality, for those Trusts that commit to it.

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.

While the system does include some smaller suppliers, for the most part it utilises a handful of major wholesalers, and thus may conflict with the ability of some Trusts to purchase locally.

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.

PASA has been active in developing and promoting sustainable food procurement throughout the NHS; the Action Plan, which had to be agreed by the chief executives of both NHS Purchasing and Supply Agency and NHS Estates, has almost certainly made a major contribution to this.

The Action Plan is updated quarterly (although, as of January 2006, the last published version dated from 12 months earlier).

11 Key main areas where the efficiency and performance of hospital food procurement can be improved

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

- Increased joint purchasing by Trusts, including increased negotiation of special deals for groups of Trusts which commit to purchasing from national framework contracts

b) Developing food buying and cooking skills, and catering infrastructure

- Greater use by Trusts of external expertise to improve efficiency and increase local procurement
- Greater consideration of using central production units, to increase competition among providers of readymeals and the sustainability of catering services which use them

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

- Greater joining up between hospital caterers and dieticians, to maximise the value for money of expenditure on food
- Greater focusing on the long term implications of procurement decisions, especially relating to the construction of catering facilities

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

- Increased development of collaborative but robust communication with suppliers, especially relating to: a) goods deliveries; and b) the charges of catering firms

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

- Greater drive to increase sales and revenues from staff and visitors' facilities, to invest in improvements to catering overall, but especially in patient feeding
- Greater responsiveness to patients' needs and tastes, to increase their nutrition and satisfaction, and to reduce waste

f) Improving efficiency by streamlining transaction processes and reducing overhead costs

- Greater monitoring and control of costs through more frequent stock reconciliations and increased use of e-procurement
- More attention to resource efficiency, to reduce costs and increase sustainability

12 While in our survey NHS Trusts performed at around the public sector average for local procurement, with 56 per cent of Trust purchasing between 2 and 20 per cent of food items from local suppliers, one group of Trusts we visited performed well above this level. The Cornwall Food Programme, a team which supports a consortium of the five NHS Trusts in Cornwall, has succeeded in increasing the proportion of its food budget spent with local suppliers to around 60 per cent. Key to this success has been its provision of an extra staffing resource, enabling the consortium to expand the number of potential suppliers and to work with suppliers in detail to lower the costs and environmental impacts of their products (**Case example G**). The NHS Purchasing and Supply Agency might look at the potential for dedicated teams like this to operate at the level of the new regional collaborative procurement hubs.

13 **Greater consideration of using central production units, to increase competition among providers of readymeals and the sustainability of catering services which use them.** Most Trusts which use chilled or frozen readymeals buy them from commercial manufacturers. In many cases, these meals are transported a considerable distance, especially given that the largest two manufacturers, Tillery Valley and Anglia Crown, between them have only three manufacturing plants. However, some Trusts are making use of their own central production units to make their own chilled readymeals; in some cases they are also able to supply neighbouring hospitals. This gives them the potential to make greater progress towards the objectives of the Public Sector Food Procurement Initiative by both taking greater control over the raw ingredients used and where these are sourced from, and by minimising the transport involved in delivering the finished meals (**Case example H**). The NHS Purchasing and Supply Agency could help to maximise the potential of these central production units by promoting their existence to neighbouring Trusts, and by adding their products to national framework contracts.

CASE EXAMPLE G

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. The key to its success in raising the proportion of its food budget spent with local suppliers 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. As Nathan Harrow, one of the team's Sustainable Food Development Managers, puts it: "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."

In addition to proactively 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. Meanwhile, 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 at the nominal sum of £100 a tonne; the Cornwall Food Programme was able to buy them at an economical price which benefited both parties.

Source: National Audit Office

CASE EXAMPLE H

The potential of central production units to increase the sustainability of readymeat services

Cornwall Food Services are building a central production unit which will produce cook-chill readymeals for all five Trusts located in Cornwall. When this is built, the Trusts will be able to increase the proportion of produce they buy locally, as they will then have the equipment to prepare vegetables bought directly from local producers, rather than the vegetables they currently buy, ready peeled and chopped, which come from further afield.

Source: National Audit Office

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

14 Greater joining up between hospital catering and pharmacy budgets, to maximise the value for money of food expenditure. Improving the nutritional value of food for patients may reduce the time they need to remain in hospital, thereby improving the efficiency of a hospital's overall in-patient service. Nationally, the NHS Purchasing and Supply Agency (PASA) has developed a nutritional database to help caterers and dieticians identify the nutritional content of the food items on PASA national frameworks, which should enable them to improve menu design. However, within many hospitals there is potential for a greater recognition of the clinical impacts of hospital food; this might, for instance, lead to greater co-ordination between the catering and pharmacy budgets, so that more patients were able to meet all their nutritional needs from the core hospital catering service. As an example, during a pilot project Leicester Royal Infirmary was able to reduce the need to give patients "sip-feed" dietary supplements, and with that the costs to its pharmacy budget, by giving patients two extra snacks per day.¹⁶

15 Greater focusing on the long term implications of procurement decisions, especially relating to the construction of catering facilities. Trusts need to be aware of the opportunities and risks involved in either losing the capability to produce their own meals (for instance, through not having full kitchen facilities and relying on buying in readymeals) or acquiring the capability to provide meals to other Trusts (for instance, through constructing a central production unit). In both cases, there is a risk that Trusts lose an extent of control over their own provision, and become dependent on external parties over which they have no ultimate control. As an illustration, following a change in the procurement arrangements in a number of local hospitals, the central production unit at a hospital in Reading was forced to close in 1995, without ever having served a meal (**Case example I overleaf**).

16 National Patient Safety Agency, 2005 (unpublished).

CASE EXAMPLE I

The risks of making catering provision dependent on external parties

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

CASE EXAMPLE J

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 2500 beds, 11,000 staff, and spends around £5 million a year on catering. Its catering department is exceptional in being accredited with ISO 9001:2000. This is 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 is 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 receipt and storage and changing suppliers.

Regarding goods receipt, for instance, the catering department log every complaint they have 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

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

16 Increased development of collaborative but robust communication with suppliers, especially relating to: a) goods deliveries; and b) the charges of catering firms.

Our survey indicated that Trusts are above the public sector average for routinely checking food items for weight, quality, and quantity on delivery. However, there may be room for improvement in gathering and using information on the performance of suppliers in delivering goods as ordered. The Northern General Hospital in Sheffield gives a successful example of using such information to drive up supplier performance (Case example J).

17 The majority of Trusts in our survey which outsourced their catering believed that the food provided by their catering firm was good, the service inexpensive, and their working relationship good. At the same time, their responses suggested that catering firms are being less transparent in itemising their charges to Trusts than in other areas of the public sector. Ensuring that contractors' charges are as transparent as possible would necessarily enable Trusts to more accurately monitor the value for money received during a contract. The standard contract, developed by the NHS Purchasing and Supply Agency for Trusts to use when outsourcing catering services, should be revised to state that catering firms must itemise expenditure under such headings as food items (priced individually), management fee, staff costs, and sundries

(such as uniforms and laundry), and that they should 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. Overall, we estimate that it should be possible for the public sector as a whole to negotiate savings of around 30 per cent in contract caterers’ charges through increased transparency and monitoring of charges; **if this were applied to the NHS it would result in savings of around £5 million, based on our estimation of the size of volume-based discounts and rebates currently earned by major contract caterers in supplying hospitals.**¹⁷

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

18 Greater drive to increase sales and revenues from staff and visitors’ facilities, to invest in improvements to catering overall, but especially to patient feeding.

In addition to boosting profits made in staff and visitors’ restaurants through increased marketing, raising the quality of service, and taking a more commercial approach to pricing, Trusts could also seek to increase returns from other areas such as vending machines, hospitality, and coffee and sandwich shops; Nottingham City Hospital (**Case example K**) highlights the potential to increase sales revenue from these areas. The key to this may be for catering departments to assume closer control: for instance, where Trusts rent vending machines and directly purchase the items to stock them, rather than outsourcing the provision of vending machines as a complete package, they are able to retain all the revenue and enjoy full control over what is stocked in them. Equally, where Trusts assume the management of coffee and sandwich shops, they can run them more professionally and so increase both service quality and sales, while employing both paid managers and hospital volunteers to combine professionalism with cost control. It is difficult to estimate the potential savings available across the NHS from boosting demand and profitability of catering services for staff and visitors, due to lack of baseline data, but our examination would suggest that there is significant untapped potential here.

CASE EXAMPLE K

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 1 per cent, reducing its spend on food per patient per day to £2.09. Its funding from the Trust for patients’ food 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; 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

¹⁷ We estimate that major contract caterers supply roughly 200 million meals to the NHS annually, expending around £100 million on food, on which we estimate they may earn in the region of 12 per cent volume-based discounts and 3 per cent year-end rebates from their suppliers.

19 Greater responsiveness to patients' needs and tastes, to increase their nutrition and satisfaction, and to reduce waste. Trusts need to focus both on customer satisfaction and on nutritional standards, in essence providing customers (in particular, patients) with both what they want to eat and what is good for them; this is not just good for customers but also decreases waste, by reducing the amount of unwanted meals. Where Trusts do not already do so, they could emulate practices of catering departments such as at Sheffield Teaching Hospitals NHS Foundation Trust, of which Northern General Hospital is the largest. All the catering departments within the Trust conduct regular patient meal service quality audits, sampling food and canvassing feedback both from patients and ward staff. This feedback is used to monitor and identify any trends with regard to patient meal quality – to take one example the catering department at Northern General Hospital discovered that, after making a change to the regeneration process, vegetables were not cooked sufficiently to meet the likes of the patients. This was quickly addressed and resolved.

20 A number of catering departments have taken a lead in successfully reducing 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 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 often mean that patients order their meals more than a day in advance. The catering department at Southampton University 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.¹⁸ As estimated by the Audit Commission, the annual cost to the NHS of food wasted from unserved meals is £18 million; if all hospitals were to reduce their rates of wastage down to the levels achieved by the top 25 per cent, **this could result in savings across the NHS of £8 million.**¹⁹

f) Improving efficiency by streamlining transaction processes and reducing overhead costs

21 Greater monitoring and control of costs through more frequent stock reconciliations, and increased use of e-procurement. Our survey indicated that Trusts perform stock reconciliations less frequently than the public sector average, suggesting that they have below average control of catering costs and above average losses through fraud and natural waste. The survey also indicated that only half of all Trusts have reduced transaction costs through speedier processing of invoices, including the use of e-procurement. This is despite the fact the NHS Logistics Authority offers an e-direct purchasing system, which it expects would reduce the average Trust's transaction costs.

22 More attention to resource efficiency, to both reduce costs and increase sustainability. Only a quarter of Trusts in our survey had separate metering to allow them to monitor the amount of energy and water their kitchen operations consume, while Trusts were particularly below the public sector average for working with suppliers to increase recycling. Trusts should aim to improve this performance, as achieving this should not only save money without impacting on the quality of service, but also improve environmental sustainability. For example, the Northern General Hospital as part of its ongoing replacement programme, switched to a different type of regeneration oven for its chilled plated meals system. The new ovens operate from a 13-amp power supply rather than the 3-phase used by the original ovens. The new ovens not only provide the same meal quality after regeneration, but are cheaper to purchase, more energy efficient and hence cheaper to run.

¹⁸ National Patient Safety Agency, 2005 (unpublished).

¹⁹ "Catering – Review of National Findings", Acute Hospital Portfolio 1, Audit Commission, September 2001.

ANNEX

Results of the NAO food procurement survey as they apply to the NHS

Key Messages

- Trusts could make significant savings by making more use of external expertise to increase their efficiency.
- Trusts compare well with other public bodies in checking goods deliveries, but could increase efficiency by doing more joint purchasing and performing more frequent stock reconciliations.
- Trusts which outsource their catering believe they are receiving good value for money, but could improve their monitoring of catering firms' charges.
- Trusts have more awareness of the Public Sector Food Procurement Initiative than other public bodies, and perform around the public sector average for local procurement. More Trusts could help to increase their resource efficiency by fitting separate energy and water meters in their kitchens, and by recycling more.
- Nearly all Trusts have set formal nutritional standards for the meals they serve, and many Trusts are employing a wide range of measures to encourage healthy eating.

We issued a survey to 146 public bodies, including central government departments and agencies, local authorities, universities, armed forces bases, and 36 NHS Trusts (including both Acute and Mental Health Trusts). Of these 36 Trusts, 24 had in-house catering, and nine used outsourced caterers (including three had a hybrid of both in-house and outsourced provision). For the year 2004-05, the average spend on catering (for patients, staff and visitors) reported by these Trusts was £4.14 million. The key results, regarding the NHS, are as follows:

On efficiency (Box B)

- **Trusts could make greater use of expertise to reduce their costs.** Only 14 per cent of Trusts report ever using catering consultants to successfully reduce their costs (compared with 36 per cent of central government bodies, and 63 per cent of universities), even though, of the three Trusts that could give a figure for resulting savings, the average cost reduction was 4.7 per cent.
- **Trusts perform stock reconciliations less frequently than the public sector average.** 23 per cent of Trusts carry out stock reconciliations only once a year (compared to 7 per cent for all sectors),²⁰ with

only 28 per cent performing monthly reconciliations (compared to 49 per cent average for all sectors). This means it is more likely that Trusts do not have good control of their catering costs, and increases the likelihood of losses through fraud and natural wastage.

BOX B

Working with suppliers to increase efficiency

Activity	% NHS Trusts that stated they carry out these actions	% for all sectors
Reducing the number of individual goods deliveries through smarter ordering	74	69
Reducing payment transaction costs, by paying invoices faster and/or using electronic invoicing and purchasing	54	61
Reducing prices by offering longer contracts	46	46

20 Central government departments and agencies, NHS Trusts, armed forces bases, universities, and local authorities, taken together.

- **Trusts which outsource their catering could improve their monitoring of the catering firms’ charges.** 25 per cent of Trusts that outsourced catering stated that they do not monitor the competitiveness of the prices which the catering firm reports it pays for ingredients. Additionally, 25 per cent of Trusts reported that they did not receive itemised bills for the food and beverages bought by their contract caterers, 37 per cent did not receive itemised bills for sundries, and 50 per cent did not receive itemised costs for caterers’ management fee or sales income.
- **Trusts could do more joint purchasing.** Only 17 per cent of Trusts said they did any joint purchasing with other public bodies, compared to 48 per cent for all sectors (and 84 per cent for universities). Joint purchasing can reduce costs by both reducing overheads and incentivising suppliers to offer discounts.
- **Trusts compare well in checking goods deliveries.** 77 per cent of Trusts reported that they routinely checked 81-100 per cent of food items for weight, quality, and quantity on delivery, compared to the 54 per cent average for all sectors. A methodical goods received system is important in order to get value for money from suppliers.
- **A higher proportion of Trusts save money by not subsidising staff meals more than the public sector average.** 77 per cent of Trusts reported that they do not subsidise the prices in staff and visitors’ restaurants (compared to 42 per cent in central government, for instance).
- **A significant number of Trusts have worked with suppliers to increase efficiency** (this performance is similar to the public sector average):

On sustainability (Box C)

- **More Trusts could fit separate energy and water meters in their kitchens.** Only 23 per cent of Trusts have separate metering that allows them to keep a record of how much electricity, gas and water their kitchen operations consume – this is the same as the average for all sectors, but worse than universities (33 per cent). Fitting separate meters is an important first step towards reducing energy and water usage, and with it annual utility bills.

BOX C		
Working with suppliers to increase sustainability		
Activity	% NHS Trusts that stated they carry out these actions	% for all sectors
Increasing the recycling of waste	37	54
Reducing the packaging of products	26	30
Reducing consumption of energy and/or water	26	30

- **Trusts had more awareness of the Public Sector Food Procurement Initiative than had other public bodies.** 80 per cent of Trusts said that they were aware of the Initiative, compared to the result for all sectors, which was 61 per cent.
- **Trusts performed around the public sector average for local procurement.** Of those Trusts that were able to state a figure, 56 per cent procured 2-20 per cent of produce from the local area (compared to 53 per cent for all sectors), with 17 per cent procuring over 40 per cent of produce from the local area (compared to 14 per cent for all sectors).
- **Trusts were below the public sector average for working with suppliers to increase sustainability, particularly on recycling.**

On nutrition

- **Trusts performed well in setting formal nutritional standards for the meals they serve.** 100 per cent of Trusts that outsourced their catering had formally agreed nutritional standards with the catering firms, compared to just 45 per cent for all sectors. Of Trusts which ran catering in-house, 90 per cent had established minimum nutritional standards for the meals they serve.
- NHS PASA have developed a nutritional database to enable caterers and dieticians to: identify the nutritional content of contracted food lines; identify products for specific patient requirements (e.g. nut free, gluten free); compare products against each line and against the Foods Standards Agency nutrition model; and calculate nutritional delivery by entering their own menus into the database.
- **Trusts are employing a wide range of measures to encourage healthy eating (Box D).** 74 per cent of Trusts responded that they had successfully influenced customers to choose more healthy options:

BOX D

Sample of measures reported by NHS Trusts as successfully increasing the take-up of healthy meal options

- Promoting a “healthy workplace” campaign, involving the promotion of the healthy options served in the staff restaurant over a four week period, with weigh-in, blood pressure and cholesterol checks at the start and end of the campaign.
- Winning the Heartbeat Award (a national scheme, recognising caterers who promote good health), through the provision and promotion of healthy options.
- Extending the range of “healthy options” in staff and visitors’ restaurants to 33 per cent of all meals and snacks.
- Offering freshly prepared salads and sandwiches made to customers’ orders
- Working with suppliers to provide healthier products (i.e., less salt).
- 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 ward staff to give guidance to patients to help them make an informed decision as to what to choose.
- Providing easy access to fresh fruit salad in take away containers for staff and visitors, and offering fresh fruit salad on the children’s menu instead of whole fruit as this is generally more popular.
- Highlighting healthier options on the menu by marking these with a special “(H)” symbol.
- Introducing vending machines stocked with healthy options.
- Highlighting low fat and sugar-free options on menus.
- Offering a reduced price for complete meals that include fruit (for example, a sandwich plus a piece of fruit plus a drink for an inclusive price).
- Providing theme days on healthy eating, and promoting healthy options, both on the menus and using large promotion boards and colourful displays.

Source: National Audit Office survey

Use of catering firms

- **Trusts believed they were receiving good value for money from their catering firms.** Of those Trusts which outsourced and expressed an opinion on the service provided by the catering firm, 86 per cent thought the quality of food was Good or Very Good, 71 per cent thought the service Inexpensive, and 71 per cent stated that they had a Good or Very Good relationship with the firm.²¹
- **Trusts had difficulty providing us with price information from catering firms (Box E).** None of the nine Trusts in our survey that outsourced their catering gave us price information for any items in a basket of 10 food items which we requested, compared to 34 per cent for all sectors which used outsourced catering. Catering firms were less transparent in itemising their costs for NHS Trusts than for other bodies in the public sector.

BOX E

Categories under which catering firms itemise their costs

Category	% of catering firms which itemise charges under these categories (serving NHS Trusts)	% of catering firms which itemise charges under these categories (serving all sectors)
Staffing costs	75	83
Food and beverage items	75	81
Sundry costs (such as cleaning materials, laundry, uniforms, disposables)	63	70
Sales income	50	80
Management fee	50	74

21 These questions could only be answered by those identifying themselves as being an in-house member of staff, rather than an employee of the catering firm.

CASE STUDY THREE

Armed Forces food

The provision of food to Armed Forces personnel is crucial to the morale, nutritional requirement and overall effectiveness of the armed forces. The Defence Logistics Organisation of the Ministry of Defence is implementing significant changes in its approach to food procurement, balancing the need to maintain armed forces effectiveness with security and consistency of supply at good value, while also addressing human resource issues and the need for improved efficiency.



Summary of the key points and overall potential financial impacts

- A centralised focus on food provision has led to a high degree of aggregation across the Ministry's food procurement meaning that it has a good understanding of what it pays for its ingredients and delivery; there is less of a focus on cost once food has been delivered.
- A Category Management approach to food supply has identified new areas for potential savings; these potential savings will need to be realised following the awarding of the food supply contract in 2006.
- The move to a 'Pay-As-You-Dine' system has been trialled with varying degrees of success; facilities contract management skills will need to be developed within the Ministry to realise the proposed benefits of 'Pay-As-You-Dine'. To ensure its success as a personnel measure, costs to junior staff will need to remain affordable while also providing adequate nutrition.
- Open book accounting allows partnering principles to be followed by promoting trust and providing an audit trail to allow savings to be calculated and agreed.
- The delivery and storage of food is a key cost driver in food provision.
- 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.

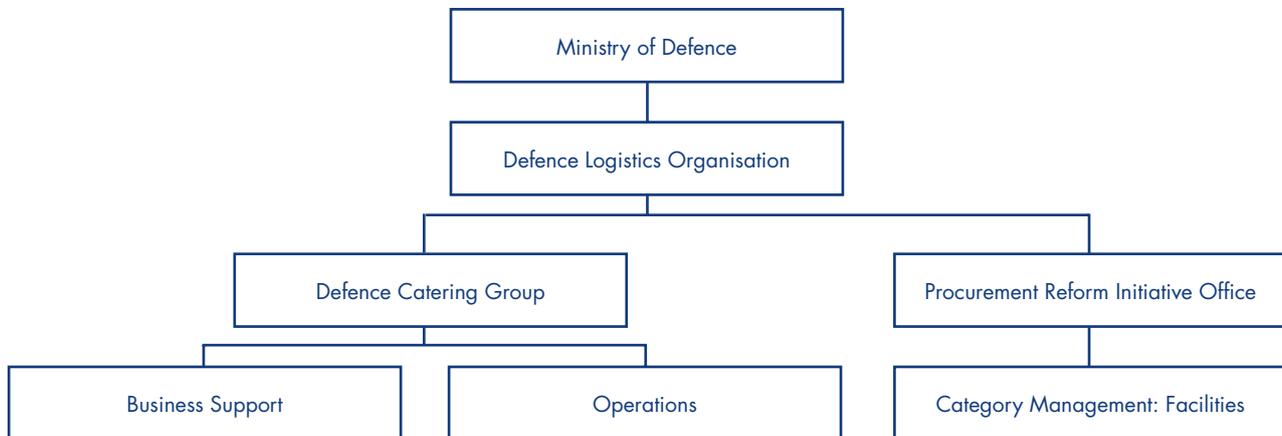
The scale and organisation of armed forces food procurement

1 The Ministry of Defence (the Ministry) estimates that 127 million meals were served in 2004-05.²² Approximately £135 million was spent on the procurement of food for the armed forces during financial year 2004-05.²³ Food procurement in the Ministry can be divided into three main areas: non-operational, operational and civilian. Non-operational feeding covers staff at UK armed forces bases. Approximately £100 million was spent in 2004-05; over a quarter of the cost is accounted for by frozen meat and fresh produce. Food is distributed to 1190 permanent drop-points in the UK and Germany. Operational feeding covers locations such as the Balkans and Belize, plus active theatres such as Iraq. Approximately £35m was spent in 2004-05. Ground forces usually deploy on 24 Hour Operational Ration Packs,²⁴ and move to a mixture of fresh rations and 10 Man Operational Ration Packs as chefs and equipment arrive in theatre, possibly with some local procurement of food dependent on the standards and capacity of local markets and security risks. Additionally, the Ministry provides

civilian feeding at departmental buildings such as the Main Building Whitehall and some armed forces bases where civilians work. Our examinations focused predominantly on the biggest area of spend – non-operational food procurement – because we assessed this as the area of greatest interest to other public sector organisations.

2 Armed Forces food procurement is the responsibility of the Ministry’s Defence Logistics Organisation (the DLO) (Figure 12). The DLO is responsible for keeping the armed forces equipped and ready to act. Within the DLO, the Defence Catering Group (the Group) is responsible for military catering and food supply in support of the Front Line Commands. The Group manages the food supply to military establishments and units in the UK and overseas theatres. The Procurement Reform Initiative Office of the DLO is part of the Defence Logistics Transformation Programme,²⁵ engaging with industry through over 30 Category Management Teams. The Facilities Category Team includes the Food Supply Team, which is responsible for identifying how food procurement can be improved through implementing procurement best practice.

12 Food procurement in the Ministry of Defence



Source: Ministry of Defence

22 NAO survey result.

23 This is the food cost plus the delivery and storage costs of the Ministry’s main food supplier. The figure excludes the broader catering costs involved in preparing and serving food, such as staff and other costs such as cleaning and laundering.

24 Transportable food designed to sustain troops on operations and during field exercises.

25 The Defence Logistics Transformation Programme incorporates all logistic transformation activities across the Ministry of Defence, such as deployment on operations, equipment acquisition, and disposal. The goal is to improve the operational effectiveness, efficiency and flexibility of logistics support to the armed forces.

The Defence Logistics Organisation's approach to food procurement

3 A mandatory daily food charge is deducted from the salaries of non-operational personnel who live on base to provide their meals. The Armed Forces Pay Review Body annually reviews and recommends the amount, currently £3.55 per day, which is managed by the Group.²⁶ Of this, approximately £1.85 per entitled person per day is provided to offer a day's meals. The £1.70 surplus is retained by the Group to cover its overhead costs and the costs of those entitled to eat at Crown expense. In practice, because non-operational meal uptake according to the Group averages around 50 per cent, £2.10 or more is available per day's meals' ingredients.

4 The majority of non-operational and operational food has been provided since 1997 through a single contract with a national wholesale and delivery company, 3663 First For Foodservice (3663). Under this arrangement 3663 procures and delivers food to over 1,000 permanent drop points, mainly in the UK but also overseas. Food is ordered by bases individually from their Core Range of approximately 1200 products to the Ministry's specifications. The top 150 products constitute 60 per cent of the total annual spend. In determining which products will feature in the Core Range the Group considers seven criteria:

- **Shelf-life:** a minimum of two years is desirable, where appropriate, for transit and storage.
- **Packaging:** strong packaging is required to meet the shelf-life criterion and survive transit.
- **Value for Money:** not the cheapest option, but the best quality at the optimum price.
- **Security of supply chain:** providing all year round availability and suitability to be exported to third countries.
- **Salt, sugar and fat content:** the Ministry is attempting to follow Government guidelines in reducing salt usage and sugar and fat consumption, on the understanding that in some circumstances or environments armed forces personnel will need to consume higher than average levels of salt.

- **Surge capacity:** items can occasionally be required in much greater volumes at short notice.
- **Sustainability:** the Ministry's main wholesale food supplier is mandated to buy British products whenever appropriate.²⁷

For example, the Armed Forces' original bottled water supply had a shelf life of one year; a longer shelf life was needed. Two suppliers were identified, one from the UK and a non-EU supplier. After benchmarking against the Group's criteria, the UK supplier was selected because the shelf life was two years, the packaging was stronger, it was a recognised brand, the supply chain was secure as it was within the UK for short-notice commitments, and being a UK supplier was also in accordance with the Government's Food Sustainability Policy.

5 The Group has recognised that sourcing products from the UK can not only improve the security of supply but also contribute towards the Government's wider aims for sustainable food procurement. In some cases the Group has supported the purchase of UK products even where these are not necessarily the cheapest but bring wider value for money benefits, such as the decision in 2004 to increase its purchase of UK pork (**Case Example L overleaf**). In other cases it has been able to switch to more sustainable products while also reducing costs, for example:

- **Freeze-dried coffee:** Two suppliers were selected to replace the current supplier. The product selected to replace 100g jars was a fair-trade item,²⁸ and will result in a saving of some £15,500 a year.²⁹
- **Reduced product packaging for the Navy:** The Navy reassessed its packaging requirements for its specific items on the Core Range, resulting in some items having their packaging being reduced, or the specific item being replaced with a more generic item where 3663 standard packaging was robust enough to allow supply. This resulted in savings of some £15,000 through less packaging, plus improved sustainability through reduced creation of waste packaging.

26 The food charge is reduced to £2.60 per day for married unaccompanied personnel.

27 Adam Ingram (Minister of State for Armed Forces) in response to a written question stated 'Under the terms of Article 30 of the Treaty of Rome, which prohibits quantitative restrictions on imports between member states and all measures having equivalent effect, the Ministry of Defence must treat fairly and evenly all potential EC product suppliers. However, the Ministry's contracted food supplier, 3663, is specifically required to source British products whenever they are competitive and when they meet the required quality standard. The Ministry is working with Department for Environment, Food and Rural Affairs and industry to establish ways in which British producers can become more competitive. The Meat and Livestock Commission has chaired a forum involving the Ministry, 3663 and farming union representatives. These meetings have been highly productive and through them, the Ministry has increased volumes of British meat purchased at competitive prices and of a quality standard consistent with the requirements of the British armed forces.' (Hansard written answer, 10 Nov 2005).

28 Fair-trade products vary widely in scope, but generally focus on agreeing voluntary standards with Third and Second World producers of products to establish minimum conditions or prices.

29 Savings assume that the same level of consumption continues in future years.

CASE EXAMPLE L

The increased purchase of UK pork

The Ministry’s non-warlike procurements are subject to the EC Public Procurement Regulations, which require advertisement in the Official Journal of the European Union; however, the terms of the Ministry’s current food supply contract mandate 3663 to give full consideration to the supply of British products where they meet the necessary contract specifications, provide best value for money and meet the requirements for overseas supply. The Ministry has worked with the Meat and Livestock Commission and the Red Meat Industry Forum to maximise the amount of British meat that can be supplied competitively.

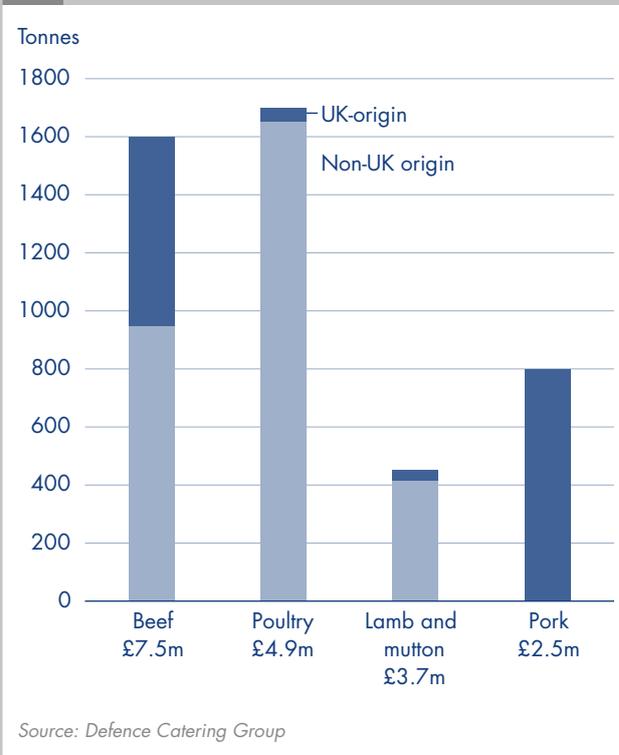
Non-UK EU pork can be up to 10 per cent cheaper than UK pork (although the price fluctuates with market demand). Against an annual spend of some £2.3 million, savings of £230,000 could be realised from the purchase of non-UK pork; however, the Ministry considered the purchase of UK pork to represent better long term value because of the following points:

- The product met the EU processing specifications;
- The product met the requirements necessary to export the product;
- The UK has outlawed the use of tethering stalls for sows, meeting stricter animal welfare standards;
- The security and reliability of supply was better guaranteed by purchasing the product for UK forces from the UK.

Source: Defence Catering Group

6 The UK market is not able to fulfil the Group’s requirements in all cases. For example, the main difficulties in procuring UK lamb include meeting a requirement for year round availability, which requires frozen meat and there is not sufficient supply of frozen UK lamb to meet the Group’s demand. Price is also a barrier: Welsh lamb costs in the order of 85 per cent more than lamb imported from New Zealand, even after taking account of storage, packing and shipping costs. More generally, the Group estimates that purchasing all UK-origin meat products for UK-based forces would cost over 30 per cent more than currently spent, costing approximately an extra £6 million per year. UK-produced meat accounts for one third of the Ministry’s £18.6 million annual meat purchases (Figure 13).

13 The Ministry’s approximate annual meat purchases for the period 2000-2005



NOTE

The majority of non-UK beef and poultry is sourced from South America; the majority of non-UK lamb and mutton is sourced from South America and Australasia.

7 The Ministry recognises the strategic importance of food, considering it an important component of morale. The wider benefits of good food – and good health generally – play an important part in the training of service personnel. Core Catering Manpower prepare and serve the food in three separate messes, divided by rank. A standardised approach to catering is taken across the armed services, with guidance provided to Core Catering Manpower in their *Defence Catering Manual*. This acts as a point of reference for service caterers, listing regulations, instructions and advice. The Ministry annually holds a Combined Services Culinary Challenge, which helps Core Catering Manpower highlight and develop their skills and encourages pride. At the in-house catered armed forces base that we visited, the whole of the catering services were managed in a very structured, effective and disciplined manner, with room to improve its efforts in sustainability (Case Example M).

CASE EXAMPLE M

The in-house catering provision at a typical armed forces base

Good practice

- Management were effective in driving internal discipline within all of the catering outlets.
- Service counter presentation and food displays were very good.
- The menu design and content met the needs of the base with regard to overall substance and nutritional balance.
- Food safety and storage systems were well maintained, with equipment and food items stored correctly and in appropriate places.
- Labelling of food products was adhered to, with effective wrapping and repackaging of food items stored in fridges, freezers and storerooms.
- Unit monitoring systems were in place and effective in the majority of recorded areas.
- Cleaning schedules were in place, and the disciplines of adhering to them were being practiced correctly.

Practices that could be improved

- It is estimated that less than 15 per cent of food and beverages purchased were from a local or regional source; this figure could be increased.
- Energy efficiency was low regarding the use of gas and electrical appliances.
- The volume and mix of items regarding waste management and recycling were minimal compared to the majority of other catering establishments within the UK.
- Stock reconciliation and accounting systems met the needs of the base, but the systems were slow, labour intensive and produced results slower and less comprehensively than some of the more modern systems available.

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

The improvements to efficiency and service delivery achieved through the current contracting arrangements

8 The development of a close relationship with their main supplier has provided benefits to the Group, including:

- **Food selection panels** provide members of the 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 allows requirements to be better understood and challenged, and allows 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 criteria³⁰ with the resultant leading products compared against technical requirements and price, providing a clear view of cost. Products are then chosen using the seven criteria listed at paragraph four. This has generated some £1,435,000 of savings in 2004-05, and £271,000 in 2003-04 (**Case Example N overleaf**).³¹
- **The use of open book accounting combined with the benchmarking of prices** requires 3663 to report on a monthly basis to the Group. This has enabled the Group to monitor the competitiveness of their contract in a transparent manner. Analysis by the Pricing and Forecasting Group and 3663 outlines costs, and also highlights changes in market conditions so that different products can be ordered if desired. This can help build trust as costs are more clearly laid out. Further comparison by commercial price monitoring reports from Mintec provides independent verification of the service that the Group receives.

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

31 Savings assume that the same level of consumption continues in future years.

CASE EXAMPLE N

Examples of savings generated through the use of food selection panels

A flexible specification for products and regular engagement with the supplier allows the supplier to seek new sources for similar products that better meet the Defence Logistics Organisation’s criteria, and can also allow cost savings. Examples include:

Sausages: The supplier for Pork & Beef sausages was changed after testing, because the product scored higher on the organoleptic criteria, had lower levels of saturated fat and salt on the technical criteria, and would produce an annual saving of £234,200.

Freeze-dried coffee: The product selected to replace the supplier for 500g tins scored highly on the organoleptic criteria, and would produce an annual saving of £186,900.

Tomato ketchup: The current tomato ketchup brand was tested against a range of other brands, with a different brand chosen on the basis that it scored highly on the organoleptic criteria, had strong packaging, a good shelf-life, and would produce an annual saving of £60,000.

NOTE

Savings assume that the same level of consumption continues in future years.

The action being taken to improve the procurement of Armed Forces food and its impact to date

9 The DLO has more recently undertaken a range of initiatives and actions to improve further its food procurement (Figure 14). Further details are set out below.

14 Four key initiatives undertaken by DLO to improve food procurement

- a) Category Management analysis of the DLO’s approach to food procurement and competitive tendering of the contract;
- b) The ‘Pay-As-You-Dine’ initiative;
- c) The introduction of new nutritional guidance;
- d) Reverse auctions.

a) Category Management analysis of the DLO’s approach to food procurement and competitive tendering of the contract

10 The DLO’s Procurement Reform Initiative Office is increasingly encouraging an intelligent customer approach to defence procurement. Category Management is the analysis and management of areas of spend that are required for or intrinsic to the operation of an organisation. Each separate area of spend – such as Munitions, Fuels, or Facilities (which includes food supply) – constitutes a category. The category can then be aggregated and managed as a whole across an organisation. Market expertise and good relationships can be developed and retained. The Ministry’s category teams are independent from the current procurers, fostering an independent viewpoint to challenge established knowledge and current requirements.

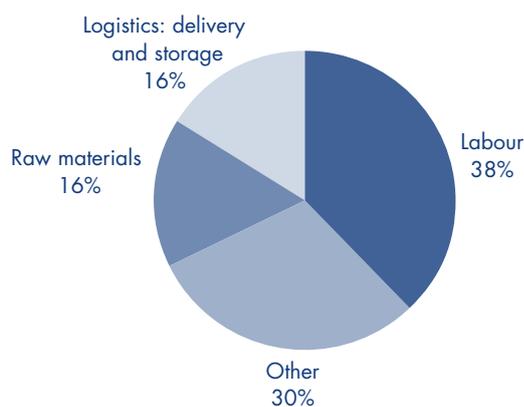
11 The Category Management Food Supply Team is responsible for analysing the current food procurement contract as it approaches renewal; a decision on the successful contractor is expected in May 2006. The team identified opportunities within the competitive re-tendering of the contract (Figure 15). The Food Supply Team worked with the Group and current suppliers to understand the existing requirement and supply chain, and construct a cost model based on a set amount of food. The three main areas identified as impacting on costs and prices were labour, logistics, and raw materials (Figure 16); logistics was identified as the main area where savings could be made by reassessing current requirements (Case Example O). The funding of a dedicated Food Supply Team is expected to provide a return on investment of 18 to 1 by 2010, giving an expected cumulative savings total of £19.4 million.

15 Competitive re-tendering of the food supply contract

- **Engaging with the market to improve suppliers' understanding** of the DLO's requirements, to encourage competition and diversity among suppliers, and improve their confidence that the competition will be genuine. As a result the number of possible bidders for the contract has been increased to include companies who would not have been involved in supplying food to DLO.
- **Identifying and developing opportunities for increased competition by optimising contract sizes and requirements.** 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. This would allow smaller companies to tender that otherwise would not be able to compete, giving the Ministry more price comparisons. Despite a small number of bids being received, the improved understanding of the market allowed a greater appreciation of the bids.
- **Encouraging innovation and identifying the opportunities for gain-share.** A requirement in the new contract is to attend regular meetings to discuss areas of improvement and gain-share initiatives. This allows that if the provider is innovative, they can share the benefits through an agreed gain-share mechanism with a focus on growing their profit margins. The baseline will be redrawn each year, and the benefits shared.

16 The main food procurement cost drivers

DLO's food cost model



Source: Defence Logistics Organisation

CASE EXAMPLE O

Reassessing deliveries

From analysing the supply chain and requirements, logistics – delivery and storage – was identified as the key cost driver, as the unit cost of the food varied very little. The unit cost of the food varied very little by quantity. Understanding how delivery schedules impact suppliers allowed the team to reassess the contract's delivery requirements. The savings from the reassessment of delivery schedules will not be realised until the new food supply contract is introduced in 2006. Reducing the number of deliveries also improves sustainability, as less fuel is used.

b) The 'Pay-As-You-Dine' initiative

12 When the Military Salary was introduced in 1971 a mandatory daily food charge was also introduced for forces personnel who lived at Armed Forces bases. As approximately only half of forces personnel take-up meals provided, removing this charge is considered a way to improve the terms and conditions of service. From September 2005, the Defence Catering Group is responsible for implementing 'Pay-As-You-Dine'. This will remove the £3.55 food charge and allow non-operational personnel to purchase food from catering facilities on military bases or from any other outlet. The introduction of a charging mechanism additionally allows the possibility of second party income from others at the bases, such as the families of personnel, personnel who do not live on the base, and Ministry civil servants.

13 Besides the wider personnel issues, 'Pay-As-You-Dine' aims to create a more efficient integration of outsourced services. Under the initiative, it was decided that a broader market opportunity than just catering needed to be offered to attract capital investment in the catering infrastructure. The scope was extended to include retail and leisure services, plus services such as cleaning, waste management, and laundry. The contracts are aggregated into regional multi-activity contracts to improve economies of scale (in addition to the bundling of services), and are let, in the main, over a minimum seven year period. By locating services under one roof and multi-skilling the staff to, for example, run both the bar and shop together, costs can be reduced. 'Pay-As-You-Dine' has been piloted at 11 sites since 2002, such as Albemarle Barracks (**Case Example P overleaf**). The key results and lessons from the pilots are:

- **Wastage and queuing.** In the food charge system, accounting for money spent and stock used required the books to balance and allowed waste, as the cost of meals was guaranteed. The introduction of a charging mechanism requires a greater focus on preparing only what will be bought. This has reduced wastage, and meals are more often cooked to order; however, this can increase queuing and waiting times at the counter.
- **Effective incentives to encourage innovation and improve service.** A mechanism in the contract encourages contract caterers to make greater profits through increasing their volume of sales, rather than increasing their mark-up. Lessons for the contractors were the need to use strict portion control, reduce wastage, carefully plan menus, and buy cost effectively.
- **Encouraging healthy eating.** ‘Pay-As-You-Dine’ allows greater choice for the individual, but emphasis must be placed on the nutrition guides’ messages to ensure that recruits are eating healthily as an ongoing approach to food selection.

c) The introduction of new nutritional guidance

14 The Expert Panel on Armed Forces Feeding UK – a Tri-Service Ministry Panel consisting of catering and medical staff plus external experts – has produced a *Recruits’ Guide to Nutrition*. This encourages recruits to eat more healthily, and identifies practical tips to support this (Figure 17). This is supported by the *Commanders’ Guide: Nutrition for Health and Performance* and the *Commanders’ Guide to Fluid Intake*, which aim to reinforce the message to Commanders by helping provide guidance on meeting operational, nutritional and safety requirements, and the operational efficiency benefits. Additional guides specific to caterers and servicewomen will both be issued by the end of summer 2006.

CASE EXAMPLE P

Albemarle Army Barracks, Newcastle-upon-Tyne

Albemarle Army Barracks in Newcastle was selected as a Tranche 2 ‘Pay-As-You-Dine’ trial site from June 2005, implementing the lessons learnt from Tranche 1. Eurest Support Services (part of Compass Group) were selected as the contractor, investing approximately £250,000 at the site.

The surroundings of the catering facilities have been improved, as have the opening hours. The Junior Ranks’ mess was open 07:00 – 07:30, 12:00 – 12:45, and 17:00 – 17:45; the main servery in the Junior Ranks’ mess is now open 07:00 – 08:00, 12:00 – 13:30, 17:00 – 18:00. Meals are available from the bar 18:00 – 23:00, and a café is available 08:00 – 17:00. In a November 2005 survey of the food quality at Albemarle Barracks, 44 per cent of people surveyed gave a positive rating, 28 per cent negative and 28 per cent neutral.

d) Reverse Auctions

15 The Group, with the DLO Auctions Team, has applied reverse auctions to good effect on food procurement. In reverse auctions (also known as e-auctions) tenderers place bids of lower prices over the internet until nobody places a lower bid. The starting price is determined by the lowest price received in response to the invitation to tender. Reverse auctions require a clear and definitive specification to bid against, a known volume, and a strong field of competition (even if only a small field of suppliers exists). Significant savings have been achieved compared to the price that would have been paid using conventional methods of procurement. Examples of savings achieved to date for Operational Ration Packs include:

- Chocolate bars: a saving of 6 per cent off the previous price, generating £29,500;
- Coffee: a saving of 15 per cent off the previous price, generating £19,400;
- Hexamine Cookers:³² a saving of 64 per cent off the previous price, generating £285,600;
- Hexamine Cooker Refill Packs: a saving of 31 per cent off the previous price, generating £33,600.

32 Small, transportable solid-fuel cookers.

17 Excerpt from *Recruits' Guide to Nutrition*



These foods should only be eaten in small quantities. Foods in this group include butter and margarine, mayonnaise and oily salad dressings, biscuits, cakes, puddings, ice cream, chocolate, sweets, crisps, sugar, sweetened drinks, and takeaway food, such as chips, fish in batter, fried chicken, takeaway burgers, pasties and meat pies.

Foods in this group should be thought of as TREATS!



This group includes meat (beef, pork, bacon, lamb, poultry (chicken, turkey), fish (fresh, frozen and canned), fish products (fish fingers, fish cakes), offal (liver, kidney), eggs, cheese, yoghurt, milk, nuts and nut products, tofu and other meat substitutes.

You need these foods in your diet, but not in large amounts.



Foods containing CARBOHYDRATE provide you with energy. They include bread, unsweetened breakfast cereals, rice, pasta, noodles and potatoes. Fruit and vegetables (fresh, frozen and canned) and salad, beans and lentils should also be eaten frequently. They provide you with vitamins and minerals to keep you strong, healthy and fit.

Your diet should be based on foods in this group.

Source: '*Recruits' Guide to Nutrition*', Expert Panel on Armed Forces Feeding (February 2005)

A further £390,000 of savings is predicted for the above four products. Examples of projected savings on other products include:

- Sugar: a saving of nine per cent off the previous price, to generate £43,000;
- Drinking chocolate: a saving of 17 per cent off the previous price, to generate £29,500;
- Black tea: a saving of seven per cent off the previous price, to generate £10,500;
- Matches: a saving of 75 per cent off the previous price, to generate £685,000.

Priority areas for improving Armed Forces food procurement

16 Sustainable and further improvement within the Defence Logistics Organisation's procurement of food is dependent on continuing to improve their performance in the following areas:

- **Securing the consistent and long-term quality and affordability of meals to service personnel through 'Pay-As-You-Dine' a personnel-led response to help recruit and retain personnel.** For 'Pay-As-You-Dine' to be successful it must improve Armed Forces personnel retention through improving the choices and lifestyle of personnel. Depending on how close the sites are to alternative food providers will influence how effectively the Junior Ranks can exercise choice. Additionally, personnel must consider the changed catering proposition as good value, and it must provide the level of nutrition they require. The Armed Forces' Pay Review Body has detected growing support for the initiative among personnel, which is tempered by the detection of a growing recognition of the value for money that the food charge provided.³³ A Core Menu is provided that must match the food charge's £3.55 per day: breakfast at £0.96, lunch at £1.14 and dinner at £1.45. There is a need to ensure that this cost does not become prohibitive for the Junior Ranks who are being targeted.

³³ Armed Forces' Pay Review Body, *Thirty-Fourth Report 2005*. This is partly the result of the introduction of VAT: the mandatory food charge is not linked to actual consumption so VAT is not applicable, whereas 'Pay-As-You-Dine' is a transaction-based system and so VAT is payable. Additionally, the mandatory food charge covered only the cost of the procurement of the food, not the preparation, serving and other associated costs, which are now included in the contractors' prices.

- **Category Management.** Having identified £19.4 million of savings, these will now need to be carefully monitored to ensure that they are realised. The scope of the Food Supply Team's remit could be expanded to analyse 'Pay-As-You-Dine' catering, and facilities provision more generally, to aggregate appropriately, and analyse and manage the category's spend across the Ministry as a whole.
- **Sustainability.** With the introduction of 'Pay-As-You-Dine', the Ministry has greater scope to include sustainability targets in its Multi-Activity Contracts without impacting the services required by the Armed Forces. For example, whereas the Ministry currently requires all of its meat to be frozen, non-operational feeding does not need to meet the priorities of operational feeding, and so more flexible sourcing could be encouraged. By monitoring and billing energy consumption on site, the results of energy, water and waste efficiency can be gain-shared. Operational feeding still has room to further increase the visibility of its support for the Government's Food Sustainability Policy by indicating any sustainable benefits on technical information sheets for products during Food Selection Panel consideration.
- **Improve stock control capabilities.** The Ministry's current accounting systems are old and somewhat dated, and could be regarded as more labour intensive than some of the recent IT systems available on the market. Currently orders must be phoned or faxed, to then be entered into the computer system. The forecasting of catering performance is measured through the monitoring of purchases only, rather than the alternative and more accurate system of calculating the consumption levels.

Key Lessons

a) Central focus and clear communication with suppliers and clients

- **A centralised focus on food provision and high degree of aggregation.** A centralised model of food procurement can allow individual sites the flexibility to purchase a range of items that suits their needs. Such a model can offer a regular forum in which to discuss the service, rearticulate requirements, and consider initiatives for improvements.

b) Challenging requirements

- **Collaborate with suppliers to inform decisions on requirements.** Flexible quality standards allow flexibility for suppliers to provide the best value for money.
- **Reassess packaging requirements, for financial and sustainability benefits.** Reducing packaging can reduce the item cost and amount of waste to process, and can improve sustainability.

c) Analysing and optimising supply chain

- **Introduce a clear and effective delivery chain.** Clearly defined points of expertise allow communication between the organisation, the provider and the clients.
- **Logistics is a key cost-driver.** The number of deliveries and delivery sites should be rationalised and deliveries optimised wherever possible. (But care must be taken not to offset any savings with increased storage costs.)

d) Encouraging growth and innovation

- **Reverse auctions can lead to savings where there is a clear specification, a known volume and a strong field of competition.** Savings are possible where purchasing power is aggregated within a clearly defined scope.

e) Wider benefits

- **Recognise the strategic importance of good food to the organisation.** The wider benefits of good food – and good health generally – should be considered in catering provision.
- **Competition to instil pride in provision of food to the sector.** This can both highlight and improve the skills of the sector.

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