

Governance, Risk and Best Value Committee

10.00am, Tuesday 31 October 2017

Edinburgh Catering Services

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| Item number | 7.4 |
| Report number | |
| Executive/routine | |
| Wards | |
| Council Commitments | |

Executive Summary

The Edinburgh Catering Service is a significant trading organisation (STO) of the Council and has remained in a deficit position over the last 3 years, as reported in the Council's Annual Report and Accounts. The report outlines measures being taken to bring the service into a balanced and, in the longer-term, profitable position.

Edinburgh Catering Services

1. Recommendations

- 1.1 Members of the Governance, Risk and Best Value Committee are requested to note:
- 1.1.1 the identification of the reasons leading to the underlying deficit position delivered by the service.
 - 1.1.2 the actions proposed as part of a general turnaround and improvement plan for the service and to receive a further report outlining progress made in March 2018.

2. Background

- 2.1 The Edinburgh Catering Service is a significant trading organisation (STO) of the Council and has remained in a deficit position over the last 3 years, as reported in the Council's Annual Report and Accounts.
- 2.2 The statutory obligation to achieve a breakeven position over the three-year period concerned has primarily arisen due to a continuing downturn in turnover being generated by internal catering, as well as an increase in underlying staffing and equipment costs. The summary financial performance of the service during the last 3 years is shown below:

Summary 3 Year Financial Performance

| | 2016-17 | 2015-16 | 2014-15 | Cumulative |
|-----------------|----------------|----------------|----------------|-------------------|
| | £000 | £000 | £000 | £000 |
| Turnover | 901 | 980 | 1,297 | 3,178 |
| Surplus | 0 | 0 | 0 | 0 |
| Deficit | -191 | -232 | -66 | -489 |

- 2.3 The Month five trading position for the 2017/18 financial year is showing an approximate £98k deficit against a £28k contribution, an adverse variance of approximately £127k. The current full year forecast, shows a significant trading improvement to a £28k deficit. However, further work is required to validate and reprofile the forecast income figures for the full year, to ensure greater accuracy and achievability.

3. Main report

- 3.1 The Edinburgh Catering Service combines both the Council's corporate catering and school meals services under a single management structure within the Property and Facilities Management Service of the Resources Directorate. The service provides in the order of 18,000 meals per day as well as corporate catering support for the Council's main operational buildings and neighbourhood offices.
- 3.2 The service has continued to underperform financially during the last 3 years and there have been a number of factors contributing to this historic trading deficit as follows:
- 3.2.1 The reduction in income is partly attributable to significantly enhanced levels of choice and competition, resulting in reduced internal spend on catering. For example, there are now seven establishments within one minute of Waverley Court where people can purchase a coffee, the opening of Costa Coffee opposite these offices is proving to be a specific challenge. This has had an adverse effect on the Waverley Court staff restaurant and coffee bar income levels, resulting in a drop of income of approximately £45k, compared to 2015/16, and a drop in income of approximately £125k compared to 2014/15.
- 3.2.2 During the past 3 years there has been a significant reduction in Directorate/Service expenditure on teas, coffee and biscuits for meetings as part of the Council's efficiency arrangements, with such provisions now being deemed the exception, rather than as standard.
- 3.2.3 The former integrated Property and Facilities Management (FM) model led to difficulties with a lack of strategic, professional and operational management with catering expertise and experience, when the service was first integrated into the wider FM function. Effectively, Facilities Managers were, at that time, made responsible for properties with catering facilities without having the necessary knowledge to lead this effectively. Combined with the challenging and competitive trading conditions for both gross and net margins, this has resulted in a poorer trading performance over the past 3 years.
- 3.2.4 Income generating activities, such as hospitality and events services at the City Chambers have historically been run at a low profit margin with, in some

cases, internal events failing to cover total costs. Proposals are currently in development with the Place Directorate's Culture Service to enhance event revenues and implement more realistic and effective costing and cost recovery for the future.

- 3.3 At the same time as facing greater competition and reduced management capability, additional revenue pressures have had to be absorbed by Edinburgh Catering Services year on year. This has been due to the increase in the percentage of allocated central support costs and management team overhead costs that are included in the yearly trading figures. These costs increased from 8% in 2014/15, to 21% in 2015/16, despite the closure of a number of coffee shops.
- 3.4 The local government pay award in September 2017 has further increased operating costs by 1%. For example, the current staffing budget for Waverley Court is £259k per annum, which will transition to a new staffing model, subject to a full organisational review approach and will reduce these costs to £198k, to reflect the better management of agency worker costs and the falling revenue levels. Further resourcing reductions may need to be considered from Year 2 of the outline action plan being developed, which would further impact the speed of delivering a turn-around in operating costs and generating a break even, or surplus position.

Outline Action Plan

- 3.5 Through the current Facilities Management Transformation Review, the Edinburgh Catering Service has returned to a single line function, no longer aligned with building management or cleaning services. Consequently, this is receiving the required investment and dedicated management resource and capability to enable improvements, both in terms of the catering products and the financial trading performance. The new Edinburgh Catering Service management team is now fully in post and includes the Catering Manager, with commercial catering experience and the 4 Catering Locality Team Leaders. The short to medium term focus of the Catering Manager's role, with support from the Team Leaders, is to focus on corporate catering and to create a detailed priority plan to address the ongoing budget deficits.
- 3.6 It is envisaged that these service improvements will start to accrue financial benefits part year during 2017/18 and thereafter. The profiled financial improvement plan is being developed at present, with the relevant Finance support and challenge. The outline improvement action plan will include the following steps:
- Reducing costs and maximising income generation by way of increasing uptake of meals by staff, through the provision of better quality and choice of meals and a new pricing strategy;
 - Aligning the staffing profile to income generation, maintaining a robust focus on managing down levels of sickness absence and reducing backfill agency costs and reliance;
 - The renegotiation of Brakes (food supply) pricing for the corporate estate;

- Assessing the smaller catering outlets in the East and West Neighbourhood Offices to consider their long-term commercial viability;
- Considering extending opening hours at staff restaurants / coffee bar, and enhancing the current product offer;
- Realigning central support costs to actuals as opposed to estimates and seeking to reduce overhead allocations where appropriate;
- Renegotiating vending machine contracts to ensure value for money and increasing income opportunities for the Council;
- Considering the introduction of a trolley service across certain sites, with initial estimates indicating the potential for a £50,000 uplift in annual sales;
- Reviewing tariffs in line with inflation. Tariffs have not been altered since 2015 and have failed to keep up with the average inflation of 4-5% year on year. This tariff increase is proposed at 8% to align with previous years of missed increases, whilst not wishing to unduly reduce pricing competitiveness;
- Investment in new equipment which will enable further staffing savings and will reduce waste, e.g. the enhancement of the City Chambers kitchen facilities will now be able to accommodate large events, rather than relying upon products generated from Waverley Court; and,
- More detailed management information reporting at site level to include a suite of key performance indicators and management information reports to include gross and net profit reporting at site level, average spend per customer, stakeholder consultation, numbers of meals served, sickness absence etc.

4. Measures of success

- 4.1 The production of a clear and time bound action plan for improvement, which sets out the financial, quality, performance, marketing and workforce improvements that are required to be achieved.
- 4.2 Moving the Edinburgh Catering Service into a balanced or profitable financial position within the period of the improvement plan.

5. Financial impact

- 5.1 The financial impact arising from this report is the negative performance of the Edinburgh Catering Service, which requires to be addressed and the need to offset financial under performance relative to the contribution made.

6. Risk, policy, compliance and governance impact

- 6.1 The risk arising from this report remains that the service does not achieve an improved financial position and continues to present a negative position as part of the Council's annual report and accounts and external audit opinion.

7. Equalities impact

- 7.1 There are no specific equality impacts arising from the report.

8. Sustainability impact

- 8.1 There are no specific impacts arising from the report.

9. Consultation and engagement

- 9.1 Ongoing engagement with the staff within the Catering Service is being undertaken to ensure the improvement plan is well understood and owned by more staff than just the management team.
- 9.2 Customer engagement in respect of any proposed changes to the service for corporate catering purposes will be undertaken at appropriate points in the improvement plan being delivered.

10. Background reading/external references

- 10.1 None.

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