

SMARTER FOOD PROCUREMENT IN THE PUBLIC SECTOR



The public sector in England spends some £2 billion annually on food and catering, mainly in schools, hospitals, armed services bases and prisons. The quality and value for money of food are of concern to the millions of adults and children who consume it. Healthy and appetising food also has an important role to play in the long-term health of school children (including the need to reduce levels of obesity), improved NHS patient recovery rates and maintaining the operational effectiveness of the armed services.

In recent years there have been a range of initiatives to improve standards in public food and catering services. In particular, the Department for Education and Skills (DfES) has established new standards (mandatory from September 2006) specifying the types of food to be served for school lunches. To help implement these new standards the Department has committed additional funding to local authorities and schools (£220 million over three years from September 2005, and a further £240 million over three years from 2008-09).

Public bodies can significantly improve the efficiency of their food procurement, freeing up resources for reinvestment in higher quality food and catering services. Over £220 million in savings are achievable by 2010-11 through a range of actions including obtaining more competitive prices for the same food items, increasing levels of joint purchasing, developing frontline procurement and catering expertise, and increasing levels of take-up (particularly in the school meals sector). It is also possible to improve standards and efficiency, while sourcing ethically and enhancing sustainability.

**Figure 1:
THE FOUR MAIN AREAS OF PUBLIC SECTOR
EXPENDITURE ON FOOD AND CATERING**

SECTOR	ANNUAL EXPENDITURE
Schools	£1 billion on food and catering
NHS Trusts	£500 million (of which £300 million is on food)
Armed Forces	£135 million on food
Prison Service	£94 million (of which £43 million is on food)

Source: National Audit Office

PROCURING HEALTHY AND APPETISING FOOD AT BETTER VALUE

Besides raising standards, public bodies need to improve the efficiency of their food procurement and reinvest the resources in the provision of higher quality food and catering services to customers. Annual savings across the entire public sector in the order of £220 million (11% of the total currently spent by the public sector on food and catering) are achievable by 2010-11. This figure includes £66 million and £43 million in the schools and

health sectors respectively, where the DfES and the NHS Purchasing and Supply Agency (PASA) accept that substantial progress towards better value can be made within the next two years.

On 1 October 2006 the Ministry of Defence awarded a main food contract to Purple Foodservice Solutions (a three-company consortium). The contract is worth £300 million over five years. The Ministry expects the value of the contract to reduce each year as the Pay As You Dine contract catering initiative is rolled out (replacing the traditional canteens operated by the Defence Catering Group with a contract caterer). The Ministry expects to generate savings of £19.4 million from the new contract by 2010 based on its analysis of the key factors impacting on costs and prices of food procurement, and the use of the insights gained in the establishment of gain-share arrangements as part of the contract letting negotiations.

Also, from 1 October 2006 NHS Logistics and part of NHS PASA (including the purchasing of food and kitchen supplies) were outsourced to the German company DHL and its main sub-contractor, the American firm Novation, under a ten-year £3.7 billion deal negotiated by the Department of Health's Commercial Directorate. The deal is expected to deliver in excess of £1 billion net savings to NHS trusts over the life of the contract, mainly through increased use of centrally negotiated contracts and achieving greater price competitiveness. NHS PASA recognises that the benefits are dependent on NHS trusts using the DHL service, and the firm achieving rapid and sustained growth in centralised purchasing (NHS trusts are not mandated to use the services), and that it will take at least two years to start to be realised.

There are wide disparities in the prices paid by public bodies for the same food items. For example, the price paid for a standard 800g loaf of wholemeal bread varies between 32p and 84p for NHS trusts, between 55p and 97p for local authorities and between 45p and £1.10 for higher education institutions.

While there are reasons in some cases for the variations, many organisations are paying high prices reflecting differences in the professionalism of their food purchasing. The Ministry of Defence has used price benchmarking services to gauge the competitiveness of the prices they are paying for food.

e-Procurement methods can also be used to stimulate greater transparency of prices and increased competition through, for example, e-auctions.

Aggregating demand and joining up purchasing activity can generate better value in food procurement. Four primary schools in Essex have demonstrated the benefits by standardising and aggregating their food requirements to achieve better deals, reduced overheads and higher quality food.

Despite the fact that food procurement is common to many public bodies and that in almost every location there will be other public bodies nearby, the potential for public food procurers to join together and increase their purchasing power is significantly under-realised, particularly in health trusts and the schools sector.

NHS PASA has established national frameworks for food and catering services for use by NHS trusts, should they choose to use them. The DfES recognises that it could learn from NHS PASA about securing improved value from framework arrangements for schools, and the two bodies are in discussion about securing access for schools and local authorities to the NHS PASA frameworks now being operated by DHL under the NHS outsourcing contract.

As at 31 March 2006 there were 3042 Chartered Institute of Purchasing and Supply qualified staff in the public sector. Frontline procurers need professional and commercial skills and knowledge of the specialist food and catering market to strike good deals with wholesale food and contract catering companies effectively. Departments accept that more can be done to make use of commercial expertise across sector boundaries and share good practice, as well as exploring innovative approaches such as how they might work with the national supermarket chains to supply food to frontline organisations.

Contract catering firms could be earning as much as £95 million from volume discount and year-end rebate payments from their suppliers based on the volume of their public sector business, but there is limited awareness of this issue among public procurers.

While full transparency about such payments will be difficult to achieve, frontline organisations can legitimately request and obtain a share of these payments. (Shell, for example, requests 100% return of discounts and rebates earned as a result of any catering contract with them.)

The DfES is providing £2 million in funding in 2007–08 to establish a network of training kitchens to act as centres of excellence and raise

catering skills. It has also introduced new catering qualifications from September 2006 as part of the Support Work in School qualification. Frontline organisations have obtained considerable benefit where they have appointed a commercially experienced on-site chef or manager (or by drawing on similar existing expertise in other peer bodies) so that they can receive and store food efficiently, and design menus and prepare meals that get the most from the ingredients and reduce waste.

Many schools and hospitals have in recent years been constructed or refurbished without fully equipped kitchens. The DfES is investing £8 billion by 2010–11 in renewing and refurbishing the school estate. While it is ultimately for schools and local authorities to determine how best to spend this capital investment, the Department has made improvement of school meals services a priority in its guidance. It will also target capital support (from 2008 onwards) specifically for local authorities who cannot otherwise afford to introduce kitchens in schools from existing capital resources.

Some 77% of public sector catering operations do not have separate metering in the kitchens to allow them to measure electricity, gas and water consumption. Where they have outsourced their catering there is also little evidence of public bodies passing on responsibility for the payment of kitchen utility costs to their contract caterers thereby incentivising them to use kitchen facilities more efficiently.

SUSTAINABLE AND ETHICAL FOOD SOURCING

The Government's objectives for sustainable food procurement include increasing the capacity and opportunities for smaller and local producers to meet public sector demand. In practice there is widespread confusion among public bodies and suppliers of food and catering services about what sustainable food procurement means, and as a result they often provide incoherent and inconsistent specifications to their food and catering suppliers.

Aggregation of demand should not necessarily mean aggregation of supply; departments recognise the need to strike the right balance between the use of centralised contracts to get better deals, and encouraging public bodies to work more closely with local markets. The DfES, working jointly with the Department for Environment, Food and Rural Affairs, is encouraging local authorities and schools to look in so far as is possible to local, smaller and sustainable sources which offer value for money. The MoD has worked with the UK meat industry to increase the amount of UK produce that can be supplied competitively. NHS PASA has achieved an increase in some of its frameworks by breaking them into lots and encouraging bids from local and regional suppliers.

It is possible to increase the proportion of food purchased competitively from local or regional producers while complying with EU competition rules. For example, Shropshire County Council has brought together local producers for the provision of school food by simplifying procurement processes and breaking up contracts so that smaller, more geographically isolated suppliers can bid to supply clusters of local schools in their immediate area.

Frontline procurers can increase the proportion of food purchased from 'Fair Trade' sources, particularly where these offer the same standard and competitive prices. For example, the Ministry of Defence has used food selection panels to identify Fair Trade coffee of the same quality as a lower cost replacement for its existing brand.

Frontline procurers need to satisfy themselves that the animal welfare and food production practices of their supply chains adhere to UK standards. NHS PASA conducts unannounced external audit spot checks of its supply chains, and overseas audits where appropriate. The Ministry of Defence too inspects its suppliers of meat to check the conditions in which animals are kept and slaughtered. In the schools sector the responsibility for inspection and spot checks rests with local authorities and schools or their catering contractors.

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