



## Summary: Contract Catering in the UK

May 2021

Contract catering is a vital part of the UK's critical national infrastructure. The sector serves millions of people every day across the UK, including school children, the Armed Forces, patients, NHS and social care staff, as well as those working on construction sites, in offices, factories and offshore locations. Commercially, it is a diverse sector with a myriad of funding routes and commercial models across different settings.

Our experience, highlighted by the COVID-19 pandemic, is that understanding of contract catering, how services operate and the additional value they can bring, is inconsistent and could be improved. This paper aims to play a part in improving understanding of contract catering services in the public sector. It looks at the importance of catering across public sector settings, the characteristics of contract catering services, and the typical commercial considerations in each sector. Improved understanding of contract catering services and the market itself will help to bring change in the market. It will help contracting authorities to engage with suppliers and improve procurement and contract management, in turn enabling the sector to perform at its best and support the country to build back better.

We hope that this paper clearly demonstrates contract catering to be essential to the UK economy and a vital part of the UK's critical national infrastructure. It should, therefore, play a key part in the Government's National Food Strategy.

In addition, as the Sourcing Playbook is updated and extended to the wider public sector, we hope that this paper demonstrates the need to highlight the distinctive aspects of contract catering, such as the specific standards and regulations that are adhered to, the retail-style aspect of delivery models and income from sales to customers, and the risk associated with volume fluctuations. Recognising the unique characteristics of this sector will further the sourcing programme's goals to get more projects right from the start; develop robust procurement strategies; engage with healthy markets; contract with suppliers that want to work with government; and be ready for the rare occasions when things go wrong.

The COVID-19 pandemic has had a significant impact on the contract catering sector. In the private sector, much of the sector closed during lockdown. In the public sector, many settings continued to operate at a significantly reduced level in order to support key workers and children still attending school. Even as the economy reopens, many settings have not yet returned to normal capacity due to ongoing measures, such as restricted visiting in hospitals and office workers working from home. Looking ahead, it is expected that the pandemic will have long-term implications for the sector in terms of demand and the way services operate, with greater focus on technology.



## Overview

- The public sector spends around £2 billion annually procuring food and catering services across school meals, further and higher education, Defence, Government Department's offices, prisons and NHS hospitals and care homes<sup>1</sup>.
- Contract catering encompasses many areas of public policy and public interest, including food security; sustainability, reducing waste and transitioning to net zero; public health and obesity; school feeding; and hospital food. All these topics require careful consideration, especially for public sector contracts spending taxpayers' money, alongside operational and commercial considerations, making it a complex sector to be in.
- The sector comprises a variety of skilled roles, from chefs and nutritionists to front-of-house staff. It offers real career progression and invests heavily in skills and training, including upskilling and Apprenticeships.
- The sector relies on a large, sophisticated, global supply chain, in turn supporting jobs and businesses of all sizes, from food producers and manufacturers to transport and logistics.
- The National Food Strategy, being led by Henry Dimbleby, is likely to have a significant impact on the food system in the UK, including contract catering provision.

## Public sector settings

### Healthcare

Across the NHS, over 300 million meals are served every year to patients, staff, and visitors.

Nutrition is vital in aiding recovery from illness or treatment in hospital, and for those with long-term conditions. Catering services are also an important part of the patient experience. Contract caterers strive to offer a range of options and change menus on a regular basis.

### *Characteristics*

- Includes patient feeding, staff and visitor canteens and retail-style outlets.
- Alignment with Hospital Food Standards, including a focus on sustainability and local procurement.
- Staff and visitor catering often requires 24hr services and a focus on healthier eating. E.g. CQUIN 1b<sup>2</sup> restricts sales volumes and promotions, placement and advertisement of less healthy foods. Adherence with the CQUIN means additional funding for the NHS Trust.
- For patients, specialist products often required but in low volumes.
- Focus on nutrition and allergens, with sign-off coming from Trust dietitians.
- No standard NHS menus.
- Independent review of NHS hospital food reported in October 2020. The BSA fed into this report.

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<sup>1</sup> A Plan for Public Procurement, Department for Environment, Food & Rural Affairs, July 2014

<sup>2</sup> [https://www.foodforlife.org.uk/-/media/files/hospitals/cquin-2017-19\\_briefing\\_ffl.pdf](https://www.foodforlife.org.uk/-/media/files/hospitals/cquin-2017-19_briefing_ffl.pdf)



### *Service delivery*

- Dependent on NHS Trust's contract specifications. Varies from roles and responsibilities to how food is served and the food offer (i.e. bulk versus plated). Playbook does not currently apply to the NHS.
- Varies at ward level dependent on the specification. NHS staff often undertake the very last element of delivering meals to patients.
- Mix of central kitchens and ward kitchens/pantries.
- Staffing roles vary from dedicated patient dining roles to housekeeping roles covering patient dining and domestic duties.
- Retail units, coffee shops and canteens support staff wellbeing. Rely on volumes and often compete for footfall.

### *Commercial considerations*

- Fixed fees paid for patient meals.
- Staff meals in canteens are sometimes subsidised by the Trust.
- Retail units, coffee shops and canteens operate as they would on the high street and bring in third party revenue. Reliant on volumes from staff and visitors. In some cases, profit from these units offset cost incurred where a fixed fee is paid for other services.
- Catering is mainly delivered as part of an integrated facilities management model, either alongside other facilities management services by the same provider or subcontracted to another provider.

### **Education**

For schoolchildren, food and nutrition is vital for their development. Food and drink have also been shown to have an impact on students' concentration levels and behaviour and, therefore, their ability to learn. Studies have shown that children who eat well perform better at school.

Many contract caterers offer breakfast clubs and can offer additional social value through initiatives such as cookery lessons in schools or with families - increasing cooking skills and promoting healthy eating.

In universities and colleges, food services can be a revenue stream, provide training and job opportunities for students or local people, and are a significant part of the student experience.

### *Characteristics*

- Highly fragmented system consisting of local authorities; Multi Academy Trusts; groups of schools; single schools; universities and colleges/college groups; frameworks; and PFI's.
- For schools, as well as lunchtime meals, provision can include breakfast clubs, mid-morning snacks, snacks/meals at after-school clubs.
- Adhere to School Food Standards<sup>3</sup>, which set standards and rules for daily and weekly menus.
- Requirement to cater for large numbers of medical diets (allergens and intolerances).
- For universities and colleges, offer is tailored to staff and students and can include events, formal dining settings, coffee shops, retail outlets, canteens, bars, and restaurants.

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<sup>3</sup> <http://www.schoolfoodplan.com/actions/school-food-standards/>



### *Commercial considerations*

- Mixed funding through Universal Free School Meals (applies to Key Stage 1 only), eligible Free School Meals and paid-for meals for pupils and staff. Provision of a commercially viable offer is dependent on the combined volumes of both Free School Meals and paid-for meals.
- Commercial and contractual arrangements driven by local authorities, frameworks and consultancies. The Playbook does not apply to this sector.
- Austerity measures have led to a drive towards lowest cost and diluted margins. Members report that they often see price as over 50% of evaluation (up to 80% in some bids).
- This is a particular concern where external consultants run the tenders. The consultancy will invite a selection of contractors to bid against set criteria and pricing metrics, and manage the process, including shortlisting, presentations, financial evaluation and choosing the winning bid. This process of trying to drive lower prices to meet an external consultant's pricing metrics can consequently price out good quality and local SMEs.
- Lower emphasis on qualitative evaluation is leading to a gap between what is sold and what is delivered, loss of trust in providers and therefore tougher conditions and financial penalty arrangements.
- Risk transfer includes volume risk, change risk, inflation risk, social policy risk, uncapped liability.
- Local Government Pension Schemes (LGPS) are a key factor. The procurement process can seek to transfer structural defined benefit pension fund deficits, associated with long serving employees, from the Public to Private Sector. This risk can be unquantifiable and far outweigh the potential reward of a contract. Consequently, this reduces the competition and the quality of procurement choice.
- Increased use of frameworks seen as a more affordable path for contracting authorities but leaves little strategic intent in procurement or contract governance.
- Contract tenure is short term (generally 3 years) which leaves little strategic intent in the procurement process or the opportunity for supplier investment.

### **Defence**

Nutrition is a vital part of maintaining the physical fitness required of military personnel, for training exercises and operational readiness. Mealtimes are also an important part of the lifestyle and lived experience of service personnel, which are linked to recruitment and retention.

### *Characteristics*

- Alongside traditional mess-style dining services, contract caterers deliver more flexible retail and leisure options which support military personnel, and the whole force, in their free time.
- Mess Catering, commonly referred to as Pay As You Dine (PAYD), is heavily regulated by Joint Service Publication (JSP) 456, Armed Forces Food Based Standards and Government Buying Standards. There are two primary classifications of meal type: Core and Retail.
- Retail and leisure typically encompass convenience shops, coffee shops, bars (outside of messes), casual dining environments away from PAYD facilities and retail concessions with high street brands.
- The MOD has recently begun to engage more with industry on the future of the military dining experience. Some of this is driven by a recognition that subsidies represent the majority of the Soft FM spend. There is also recognition that the dining experience is a key component of their lived experience.
- The Hestia programme, under which soft FM services including catering are delivered, comes to an end in the next couple of years. Now is an ideal time to start thinking about how contract catering services are delivered. The BSA is engaging with DIO on this.



### *Commercial considerations*

- **Mess Catering:**
  - Core Meals must conform to dietary and nutritional standards set out by the Institute of Naval Medicine. The price charged for meals is set by the Armed Forces Pay Review Body and catering providers must make no profit from the sale of these Core Meals.
  - Retail offers must include an attractive range of meals proportionate to the size of the military unit they are serving. Providers must adhere to Government Buying Standards but are relatively free to determine the menu and price at which meals are sold; profit can be made on this category of meal.
  - Work with DIO to improve the quality of the Core Meal in recent years has seen an increase in the proportion of Core Meals being sold at 0% gross margin. In recognition that providers will generate insufficient food margin, a Catering Provision Payment (subsidy) is paid by the MOD to support the provision of mess meals.
- **Retail and Leisure:**
  - Commercial model varies dependent on the age of the contract; older contracts typically include a greater degree of subsidy.
  - The current generation of Soft FM and Catering contracts assume that Retail offers an opportunity to generate a higher margin, which can cross subsidise the more traditional Soft FM and Mess Catering services.
  - This cross subsidy is in the form of a payment to the DIO, termed Fixed Rent. A proportion of this is shared with each of the branches of the Armed Forces for them to invest in welfare initiatives.
  - There is recognition that in remote locations a supplier may not be able to make a reasonable level of profit, and a subsidy is often paid. This is rare.
  - When submitting tenders, bidders are invited to provide Retail Business Cases setting out how their proposed offering will self-sustain over the contract term and how much profit will be shared with the DIO and the Front Line Commands.
  - Volume reductions that occur organically are to the risk of the provider; increases in revenue are shared based on a ratio set out at the time of the tender.
  - To date, very long and complex tender process.

### **Government Departments**

In many respects the catering needs of a Government Department are comparable to a private sector office environment. Through on-site restaurants, cafes, retail-style outlets and canteens, contract catering provision impacts on workplace culture and productivity, offers employers a range of foods to meet their preferences as consumers, and can generate revenue for clients.

Studies have shown a clear link between a healthy diet and improved concentration, alertness, problem-solving skills, and productivity.

### *Characteristics*

- The “A Brilliant Civil Service” vision statement recognises a need for the Civil Service to compete with the Big 4, Big Tech, and traditional Blue-Chip firms in order to attract and retain the best graduates. Recent catering specifications are aligned to this vision.
- Needs to be balanced against those who may prefer more traditional catering services. A viable catering service therefore needs a broad appeal.
- Provision required to meet Government Buying Standards for food and catering services.



### *Commercial considerations*

- Dependent on volumes and sales.
- Big Tech firms that Government Departments are looking to compete with often offer subsidised catering options to staff. If Government Departments are not able or do not desire to subsidise catering, they could end up paying more for services often provided alongside catering to offset this.
- This tension between providing an attractive employee offering at nil cost is difficult to resolve. Whilst recognition of this tension is becoming more commonplace it remains far from universal.
- Catering is sometimes delivered as part of an integrated facilities management model, either alongside other facilities management services by the same provider or subcontracted to another provider.