

# Procurement of a Catering Software Solution

Date: 12<sup>th</sup> August, 2021

Report of: Chief Officer Civic Enterprise Leeds

Report to: Director of Resources & Chief Financial Officer

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

## What is this report about?

### Including how it contributes to the city's and council's ambitions

- The Catering Primary school service forms part of Civic Enterprise Leeds (within the Resources directorate) and has an income budget in 2021/22 of £14.5m and in 2018/19 generated a net managed return of £1.1m (the last financial year not impacted by the Coronavirus pandemic). Catering generates a large amount of income for the Council but does not have a digital system in place to support such a complex operation.
- The lack of a digital solution makes it increasingly challenging to extract operational efficiencies, maximise income and reduce costs and limits the scope to both retain and attract new business. The administration function is largely carried out using paper based processes.
- In order to establish the potential benefits from the introduction of a digital solution, with the assistance of colleagues in DIS, the Catering service piloted an IT system in a handful of schools to establish both the financial and non-financial benefits this would provide and some of these findings have been used to inform the business case for funding and this report.
- Implementing a digital solution provides an opportunity to initially lower revenue costs by spreading the cost of financing over 6 years thereby increasing competitiveness and helping to maintain the Council's position in the marketplace for these services. This will assist with the inclusive growth strategy through maintaining competitiveness. Supporting this scheme will also aid the sustainable infrastructure ambitions of the Council by expanding the use of digital solutions across the catering operation. Pre-selection of menu choices will enable more accurate ordering of provisions, reducing food waste and helping to lower the Council's carbon footprint.
- The scheme will make it easier for the service to comply with Government Food Standards, make it easier to manage the health and safety risk of supplying 32,000 meals a day and help mitigate the risk of non-compliance with special diets especially resulting from a medical diagnosis or food intolerance. The service holds the vast majority of the catering

primary school market serving nutritious food to help support the City's child friendly aspiration (studies have shown serving of quality food helps with educational attainment).

- This report seeks approval for both injection into the capital programme and authority to spend of £389.6k which will be funded by borrowing. In addition to the annual financing costs of the capital expenditure there will also be estimated annual revenue costs of £187,344. The annual capital financing costs (£71,592 per annum over 6 years) will be funded by a combination of 1.5% uptake in meal numbers, back office efficiencies and a reduction in food waste.
- Catering generates a large amount of income for the Council but does not have a digital system in place to support such a complex operation and must be amongst the few business areas in the Council, with such large scale turnover, not supported by an IT system. The lack of a digital system potentially puts the service at a disadvantage against private sector providers who normally include the provision of an IT system as part of their overall package.
- This scheme provides an opportunity to initially lower revenue costs by spreading the cost of financing the capital expenditure element over 6 years thereby increasing competitiveness and helping to maintain the Council's position in the market place for these services.
- Approving this report will assist with the inclusive growth strategy through maintaining competitiveness and also the sustainable infrastructure ambitions of the Council by expanding the use of digital solutions across the catering operation. Pre-selection of menu choices will enable more accurate ordering of provisions, reducing food waste and helping to lower the Council's carbon footprint.

## **Recommendations**

The Chief Financial Officer is asked to:

- a) Inject a scheme into the capital programme for 2021-22 for an estimated value of £389.6k funded by borrowing and

The Director of Resources is asked to:

- b) Give authority to spend of £389.6k from within the approved Capital Programme 2021-22 for the procurement of a software solution for the Catering service.
- c) Provide authority to procure approval for a Catering digital solution and incur estimated annual revenue costs of £187,344 to establish a 6 year contract with options to extend for 6 x 12 months. The maximum value of the contract if all extensions are used will be £2,637,765 including capital costs.

## **Why is the proposal being put forward?**

- 1 The current operational systems which Catering uses rely almost exclusively on bulk paper processing which make it challenging to extract efficiencies and pose an operational challenge of efficiently managing and co-ordinating a vital service to 170 primary schools located across Leeds employing over 1,000 staff. Even before account is taken of the financial benefits of introducing a digital solution, we need to put into context the existing daily operational challenge. The service has to satisfactorily meet the needs of our customers (children, parents and schools) on a daily basis whilst serving in the region of

32,000 meals every day, with a daily requirement to comply with the Government's Food Standards and at the same time minimising the risk of health and safety non-compliance (especially with medical diets and food allergies) – this is a complex daily challenge without the support of an IT platform.

- 2 Given this current scenario colleagues in Catering, DIS and Finance have worked together to put forward a business case for a digital solution which will modernise and empower the service and fit with our Best Council ambitions and help the service to extract operational and financial efficiencies.
- 3 The aims of the digital solution which are broadly represented in the summarised financial business case (attached at Appendix 1) – as presented to Finance Performance Group (FPG) in December 2019 are:
  - Offer the best service to children and parents – provide parents with the ability to view menus, pre-order meals, provide a range of payment options allowing schools to become cashless and lowering their administration costs. It provides dignity for children in receipt of free school meals as their details are held anonymously.
  - Back office staff efficiency – reduce the amount of paper related processes freeing staff time in the back office to focus on priority areas of delivering quality nutritious meals.
  - Reduce food waste – pre-ordering of meals will enable the service to accurately estimate the amount of provisions needed thereby reducing food waste and the “spend on the plate” (the average provision cost for a meal).
  - Increase uptake – to demonstrate the benefits of introducing a digital solution and to make any business case more robust, colleagues in Catering worked with DIS to pilot an IT system within 5 of our primary schools. There was an average increase of 14% at these schools on meal numbers when compared to the meal numbers before a digital solution was piloted. To err on the side of caution this business case only assumes a 1.5% increase in meal numbers to make the introduction of a digital solution self-financing.
- 4 As noted earlier, a financial summary of the business case reviewed by FPG in December 2019 is attached at Appendix 1 (due to delays caused by the coronavirus pandemic the numbers in the appendix will have slipped a couple of years). Colleagues in DIS have estimated that the capital costs of installing a digital solution across 170 primary schools is £390k (installation is planned over the next 2 financial years). The annual revenue financing costs for the £390k capital expenditure over 6 years are £71.6k per annum and there are additional software licence costs of £187.3k (for all 170 schools) giving total annual costs of £258.9k which need to be funded. The total annual savings identified in a full year are £323k which leaves a net contribution of £64.1k after funding of the revenue costs. This equates to a net saving of just over £322k over the life of the initial 6 year scheme.
- 5 Savings from switching from a mainly paper based system include staffing, mail and print and software savings totalling £65k and, hopefully, these are self-explanatory from the financial Appendix 1. However, it needs to be acknowledged that the staff savings are

administration staff whose budget sits within Shared Services and we have a corporate Project Board tasked to deliver mail and print savings Council wide. Nevertheless, wherever the budget and savings sit should not deter from innovative initiatives which help support large scale operations, extract value for money and meet of Best Council objectives.

- 6 The switch from a manual system where provisions costs are ordered based on estimates to a digital system where meals are chosen by children (potentially with the help of their parents) beforehand makes it easier to accurately estimate what provisions are required which is expected to reduce waste and is forecast to save 1p against the current spend on the plate (72.8p per meal). Based on approximately 6 million meals per annum served this will save £60k in a full year through reduced food waste and better and more accurate pre-ordering of provisions. The 1p reduction is conservative and amounts to just over a 1% reduction against the current spend on the plate per meal.
- 7 Given the administration efficiencies that a digital solution will generate for schools, it is proposed to make an annual charge of £300 to each school where the system is installed and this will generate £51k in a full year. The service meets regularly with focus groups of head teachers and school business managers and in none of these meetings has the service received any negative feedback about the proposed £300 charge being prohibitive especially given the fact that we now have approval for investment in school heavy kitchen equipment to run alongside longer term service level agreements.
- 8 Following the introduction of a digital solution in all 170 schools, the business case forecast an increase in income growth of £147k which is based on a 1.5% increase in meal numbers from those achieved in 2018/19. To demonstrate that caution has been applied to the business case growth assumptions, we need to refer to the results of the pilot in 5 schools where an electronic solution was trialled – this demonstrated an average increase of 14% in meal numbers.
- 9 In addition, the Northumberland Council were contacted to establish what effect the introduction of an electronic solution had had on their meal numbers. The figures from Northumberland demonstrated a 13% increase in meal numbers. In line with a prudent approach, the business case acknowledges that the full 1.5% meal growth will not be achieved in year 1 for all 117 schools (due to lag in installation during the financial year) – only 80% of the growth for these 117 schools is assumed.
- 10 At Leeds, the assumption of 1.5% growth in meal numbers amounts to approximately an additional 3 meals per day at each school. Caution has been exercised in the figures because of the potential seasonal impact on meal numbers and also Northumberland Council have a much smaller share of the school catering market when compared to Leeds. However, there is scope for Leeds to increase meal numbers as a result of introducing an IT system, average take up of meal numbers across all our schools is around 60% (introducing a digital solution would enable accurate and timely production of such information). In addition, introduction of an IT solution would significantly improve the speed and, hopefully, accuracy of the income projections, reducing reliance on emails and spreadsheets to work these up. There is also the potential to automate and speed up the charging to these schools, which again would be a further back office efficiency.

## What impact will this proposal have?

### Wards affected:

Have ward members been consulted?

Yes

No

## What consultation and engagement has taken place?

- 11 This scheme enables the Council to modernise the provision of its catering service by strengthening its digital infrastructure. The Executive Member for Resources has been consulted and is supportive of the proposals. Colleagues in the FPG and Best Council Design Team have been consulted and both groups have provided support for the business case to be progressed. The service has been working in collaboration with colleagues in DIS to provide the necessary technical support.

## What are the resource implications?

- 12 The annual revenue financing costs for the £390k capital expenditure over 6 years are £71.6k per annum and there are additional software licence costs of £187.3k (for all 170 schools) giving total annual costs of £258.9k which need to be funded. The total annual savings identified in a full year are £323k which leaves a net contribution of £64.1k after funding of the revenue costs. This equates to a net saving of just over £322k over the life of the initial 6 year scheme.

## What are the legal implications?

- 13 Procurement will be undertaken in accordance with Public Contract Regulations 2015 and the Authority's Contract Procedure Rules.

## What are the key risks and how are they being managed?

- 14 A cautious approach has been taken with respect to the business case used as the basis for this decision report details of which are included within the main body of the report above.

## Does this proposal support the council's three Key Pillars?

Inclusive Growth

Health and Wellbeing

Climate Emergency

15

## Options, timescales and measuring success

### a) What other options were considered?

- 16 Implementing a digital solution was considered the best approach to improve the Council's catering offer to schools and make it easier to manage and mitigate risks and enable operational efficiencies in the delivery of a complex service to 170 schools.

### b) How will success be measured?

- 17 Once the digital solution has been implemented, success will be measured by comparing actual post implementation financial and operational performance against the figures provided within the business case.

**c) What is the timetable for implementation?**

18 The proposed timetable for delivery of this procurement is set out below:

<b>An indicative timetable for the proposed procurement process is set out below:</b>	
Issue Tender Documentation	Sept/Oct 2021
Tender Submission Deadline	Oct 2021
Tender Evaluation and Governance	Oct/Nov 2021
Contract Award	Dec 2021/Jan 2022
Contract Start	Feb/March 2022

**Capital Funding and Cash Flow**

<b>Funding Approval :</b>	<b>Capital Section Reference Number :-</b>						
<b>Previous total Authority to Spend on this scheme</b>	<b>TOTAL</b>	<b>TO MARCH 2021</b>	<b>FORECAST</b>				
	<b>£000's</b>	<b>£000's</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025 on</b>
			<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
LAND (1)	0.0						
CONSTRUCTION (3)	0.0						
FURN & EQPT (5)	0.0						
DESIGN FEES (6)	0.0						
OTHER COSTS (7)	0.0						
<b>TOTALS</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Authority to Spend required for this Approval</b>	<b>TOTAL</b>	<b>TO MARCH 2021</b>	<b>FORECAST</b>				
	<b>£000's</b>	<b>£000's</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025 on</b>
			<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
LAND (1)	0.0						
CONSTRUCTION (3)	0.0						
FURN & EQPT (5)	389.6		38.5	261.1	90.0		
DESIGN FEES (6)	0.0						
OTHER COSTS (7)	0.0						
<b>TOTALS</b>	<b>389.6</b>	<b>0.0</b>	<b>38.5</b>	<b>261.1</b>	<b>90.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Total overall Funding (As per latest Capital Programme)</b>	<b>TOTAL</b>	<b>TO MARCH 2021</b>	<b>FORECAST</b>				
	<b>£000's</b>	<b>£000's</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025 on</b>
			<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
LCC Departmental Borrowing	389.6		38.5	261.1	90.0		
	0.0						
<b>Total Funding</b>	<b>389.6</b>	<b>0.0</b>	<b>38.5</b>	<b>261.1</b>	<b>90.0</b>	<b>0.0</b>	<b>0.0</b>

**Appendices**

19 Appendix 1 – Catering ICT System Business Case – Expenditure and Financing (as supported by FPG December 2019)

**Background papers**

20 None

## Appendix 1 - Catering ICT System - Expenditure & Financing

No. Sites	117 Year 1 2020/21 £	53 Year 2 2021/22 £	Years 3-6 £	170 Total £	Notes
<b>CAPITAL COSTS</b>	299,590	90,047	0	389,637	Year 1 includes DIS costs of £38.5k
<b>REVENUE</b>					
Cap Financing Costs	55,047	71,592	286,368	413,007	Interest rate of 2.86% over 6 years
Annual charge	119,240	187,344	749,376	1,055,960	Software licence cost?
<b>Total Costs</b>	<b>174,287</b>	<b>258,936</b>	<b>1,035,744</b>	<b>1,468,967</b>	
Software Licence (Saffron)		2,000	8,000	10,000	
Staff savings		35,925	143,700	179,625	0.5 of B3 and 1 A3 - in Shared Services
Print Savings	13,765	20,000	80,000	113,765	M&P Programme
Postage	4,818	7,000	28,000	39,818	M&P Programme
Reduce Spend on Plate 1p	41,294	60,000	240,000	341,294	Based on 6m meals
Annual £300 Charge to Schools	35,100	51,000	204,000	290,100	
Business Growth at 1.5% on 18/19 outturn	81,006	147,126	588,506	816,638	Based on 2018/19 outturn meal no's. Assumes only 80% of year 1 growth achieved due to lag in installing in all 117 schools.
<b>Total Savings</b>	<b>175,983</b>	<b>323,051</b>	<b>1,292,206</b>	<b>1,791,240</b>	
<b>Surplus</b>	<b>1,696</b>	<b>64,115</b>	<b>256,462</b>	<b>322,273</b>	