

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager
TO: Head of Cultural Services
C.C. Chief Executive
Deputy Chief Executive (AJ)
Head of Finance
Arts Manager
Portfolio Holder – Cllr Grainger

SUBJECT: Catering Concessions
DATE: 19 December 2019

1 Introduction

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2 Background

- 2.1 Catering is provided at a number of Council-owned premises, the operations in most of these being run by external parties under lease agreements generating fixed rental income to the Council. Catering at the Council's sports and leisure venues are now subsumed within the respective outsourced management contracts.
- 2.2 This leaves only two sites where the Council has maintained a measure of direct commercial control through concession contracts – the Jephson Gardens 'Restaurant' in the Park' (also known as the 'Glasshouse' by which it will be referred to from here onwards) and the Royal Pump Rooms (public Café and events in the Assembly Rooms/Annexe).
- 2.3 At the time of writing, the Royal Pump Rooms Café has ceased operating pending new arrangements expected to be lease-based. This leaves the Glasshouse as the sole remaining Council catering premises operating as a concession for the foreseeable future.
- 2.4 The concessions were executed under a single three-year contract in January 2019 with a preferred supplier nominated by the Regeneration Partner for the Creative Quarter. Arguably this makes it a sub-contract with the Regeneration Partner as main contractor, and has been referred to as such in relevant Executive reports. The proposals leading to the final concession contract had been approved by the Executive in May 2018 subject to negotiation on further details under delegated powers.

- 2.5 Originally for both premises, the concessions cover day-to-day operations and special events. The provisions governing recharges for premises and equipment service, along with the criteria for determining concession charges remain unchanged from the previous contract with Kudos.
- 2.6 Recent years' budgets indicate the Council's expectations for income generation to be around £75,000 per annum made up as follows:

	<u>Amount (£)</u>
Glasshouse – service charges	12,000
Glasshouse – concession charges	43,000
Pump Rooms Café - service charges	12,000
Pump Rooms Café - concession charges	<u>8,000</u>
	<u>75,000</u>

- 2.7 The closure of the Royal Pump Rooms Café was an inevitable consequence of an agreed scheme (approved by the Executive in October) to detach both the Café and Assembly Rooms/Annex event operations from the concession contract. This has had the effect of eliminating the involvement of the Creative Quarter Partnership in catering solutions for this site in the foreseeable future.
- 2.8 At the time of this report, two key initiatives are being progressed:
- marketing of Royal Pump Rooms Café availability for lease – vetting of expressions of interest are in progress;
 - recruitment of an events officer to handle Royal Pump Rooms events subject to approval by Employment Committee.

3 **Scope and Objectives of the Audit**

- 3.1 The audit examination was undertaken for the purpose of reporting a level of assurance on the adequacy of controls for managing catering concessions operating at Council premises to ensure the realisation of relevant business objectives and compliance with the agreed conditions.
- 3.2 The examination was programmed based on a light-touch version of the standard Contract Management Audit Programme to evaluate in overview the structures and processes for managing the 'client' side of concessions currently in place. In view of the aforementioned developments, a limited evidential review of the background to the original proposals in the context of 'provider' business strategy and planning was introduced into the scope.
- 3.3 In all, the areas considered in the examination were:
- business strategy and planning
 - award of concession
 - service provision and monitoring
 - contract amendments and variations
 - financial administration
 - contingency planning and risk assessment.
- 3.4 The findings are based on discussions with David Guilding (Arts Manager) and examination of available public and internal Council documentation and records.

4 Findings

4.1 Recommendations from previous report

4.1.1 Both recommendations from the audit reported in March 2017 were made in the context of the former concession contract with Kudos and are therefore disregarded for the purpose of this examination.

4.2 Business Strategy and Planning

4.2.1 As the business strategy and planning elements were handled directly by the Regeneration Partner jointly with their nominated supplier, source information from which to evaluate the process was not available without direct approach to the external parties. This was not seen to be justified within the scope and resource for the audit.

4.2.2 The bulk of the evidence available to gain any picture here is contained in the submission to the Executive in May 2018, along with its attached appendices. These make references to business planning processes by the Regeneration Partner and the nominated supplier which indicate a sound basis behind the revenue projections offered.

4.2.3. By way of comment, however, comparison with actual revenue history indicated by concession outturn over a five-year period gave the impression that the projections offered were inordinately ambitious at best (even in the context of circumstances at the time of the submission). This observation is not suggested as the sole factor behind the financial shortfalls under the concession, as it is recognised that other unforeseen factors have manifested themselves.

4.3 Concession Award

4.3.1 The process leading to the award of the concession was bound up in the pre-existing Collaboration Agreement for the Creative Quarter. The Council is a direct signatory to the Deed of Agreement for the concession along with the Regeneration Partner and the supplier.

4.3.2 The Agreement comes across as properly executed with appropriate specifications and key performance indicators. A formal, sealed original Agreement is held in the Document Store.

4.4 Service Provision and Monitoring

4.4.1 The aims and objectives of the concessions have become bound up within those of the wider Creative Quarter project.

4.4.2 The subsequent detachment of the Royal Pump Rooms with new management and lease arrangements does not appear to have impacted on the aims and objectives for that premises in relation to Fit for the Future and supporting strategies.

4.4.3 The key terms and specifications show as essentially unchanged from the previous contract. Evidence trails show that contract management arrangements were in the process of being established from the outset with attention starting to be given to performance outturn with the aid of customer feedback information.

4.4.4 However, the financial shortfalls began to overshadow all other considerations only a few months into the contract and the ongoing management processes have to be seen as in abeyance at the time of this report.

4.5 **Contract Amendments and Variations**

4.5.1 The detachment of the Royal Pump Rooms from the concession is well documented and warrants no further comment here.

4.6 **Financial Administration**

4.6.1 No meaningful process review of this area was possible with the relevant budgets based on already-outdated projections and an effective moratorium on income collection still in place at the time of the audit.

4.6.2 To date, only rates and some utility recharges under the current contract are in evidence and, even then, only up to June 2019. No concession charges have been raised to date under the current contract, nor the initial deposit required under the contract terms.

4.6.3 In addition, settlement of charges under the former contract totalling around £44,000 is still being pursued with the involvement of County Legal Services. It was advised that repair cost recharges included in the amount are in dispute and attempts at resolution are still ongoing at the time of this report.

4.6.4 Settlement of outstanding charges under the current contract is subject to a payment plan which is in the process of being agreed with the supplier at the time of this report.

4.7 **Contingency Planning and Risk Management**

4.7.1 This has not been seen as an area where formal contingency plans can add impact mitigation value to existing monitoring processes. It is recognised that these processes have themselves proved successful in averting a complete break-down of operations under the concessions by facilitating agreement on a viable alternative.

4.7.2 Proof of up-to-date supplier's insurance has been reviewed and found to be in accordance with the contract terms.

5 **Conclusions**

- 5.1 It is difficult to give a single assurance opinion in respect of the audit as the circumstances noted in the report do not fit conveniently the prescribed assurance definitions. In particular, the issues arising are not, in the main, controls-based but perhaps more to do with judgements and events. In spite of this, Internal Audit is bound professionally to issue an assurance opinion. In arriving at an appropriate level of assurance, the following is being taken into account: On the one hand, there are concerns in respect of the closure of facilities and the reputational damage that is causing. Other concerns include factors such as the over-estimate of income projections and the legal situation the Council is now facing. On the other hand, much comfort can be gained from routine contract monitoring arrangements that identified the issues promptly so that a compromise solution could be worked out for the concessions in future. The legal situation also provides some reassurance in that attempts are being made to mitigate the losses.
- 5.2 With the requirement to issue an assurance opinion it would seem that a MODERATE level of assurance is suitable, reflecting an appropriate compromise between the areas of concern and the causes for comfort.

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