

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: 14 October 2020

1 Introduction

- 1.1 In accordance with the Audit Plan for 2020/21, an examination of the above subject area has recently been completed by Jemma Butler, Internal Auditor, and this report presents the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.
- 1.3 The audit was undertaken during the COVID-19 pandemic. This has meant a slightly different approach has been taken to complete the audit. Rather than observing staff members and meeting staff face-to-face, interaction has been via email, telephone and virtual meetings.

2 Background

- 2.1 Catering is provided at a number of Council-owned sites. In most cases, the sites are leased with annual rental income being paid.
- 2.2 Some sites, however, are operated as concessions. In January 2019 a three-year catering and events contract was agreed with Complex Development Projects (CDP), the creative quarter development partner. This contract included the catering concessions, essentially making them sub-contracts, with CDP as the main contractor. Previous to this the catering contract was held by Kudos.
- 2.3 Until November 2019 concessions were operated at two of the Council's most prestigious sites, the Royal Pump Rooms (housing the Assembly Rooms and Café) and the Glasshouse in the Jephson Gardens. Since then, after following a formal contract amendment process, the Royal Pump Rooms was removed from the contract. The management of the Assembly Rooms was tasked to the Arts team and the Café was offered as a leasehold. This left the Glasshouse as the only catering concession, where a percentage of their income is paid to the Council.

- 2.4 The concession within the Glasshouse covers 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.
- 2.5 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.
- 2.6 The Arts team have been unsuccessful at recruiting to the new Events Officer role to manage the Assembly Rooms and, although a caterer was selected to take on the lease for the Café, the lockdown halted the process.

3 **Scope and Objectives of the Audit**

- 3.1 The audit was undertaken to test the management and financial controls in place.
- 3.2 In terms of scope, the audit covered the following areas:
- Contract award
 - Service provision and monitoring
 - Contract amendments and variations
 - Finance
 - Contingency planning and risk management.
- 3.3 The control objectives examined were:
- The contract was awarded to the most appropriate company following an appropriate tendering exercise
 - Staff are aware of what the Council aims to achieve in relation to the services that are being provided
 - Contractors are aware of the services to be provided
 - Works are undertaken to agreed standards
 - Permanent changes to the contracts are formally agreed
 - The Council only pays for work that has been previously agreed
 - Budget variances are limited as the budgets are set appropriately in line with known areas of income and expenditure
 - The Council is aware of any potential budget variances
 - Payments are valid and accurate and processed in accordance with the appropriate conditions of contracts
 - All income due to the Council is received
 - Contingency plans exist to ensure that the service continues to be provided
 - The Council would not be financially disadvantaged should the contractor fail to provide a service
 - The Council will not be liable for any claims received due to the work of the contractor
 - The Council is aware of the risks in relation to the services provided (where it retains responsibility) and has taken steps to address them

- The contractor is aware of the risks in relation to undertaking the contracted services and has taken steps to address them.

3.4 The audit scope focused on the concessions and the changes since the last audit of Catering Concessions (December 2019). The controls in place over the leases are covered in the audit of Corporate Property & Portfolio Management.

4 Findings

4.1 Recommendations from Previous Report

4.1.1 The current position in respect of the recommendations from the previous audit, undertaken in December 2019, was also reviewed. The 2019 audit was given a moderate level of assurance due to a number of concerns, although no recommendations were made. There have been no changes to the concerns raised in the previous audit due to the ongoing pandemic and this is explored further below.

4.2 Contract Award

4.2.1 A formal ten-year contract for the creative quarter agreement was procured under OJEU terms in November 2017 with Complex Development Projects Ltd (CDP). In 2019, after the catering contract with Kudos had come to an end, CDP took on the agreement for both the catering and events on a 3-year contract. With CDP as the main contractor and Just Inspire as the sub-contractor for the catering concession. The contract includes various key performance indicators (KPI's) and the concession charges. These will be covered below in the Monitoring and Finance sections of the report.

4.3 Service Provision and Monitoring

4.3.1 The Service Area Plan in place for Cultural Services refers to providing support and the monitoring of both the Just Inspire contract and the Royal Pump Rooms (RPR) catering and events. Although the main contract is with CDP the Council has tasked the Arts Manager with providing the support and monitoring of the catering concession. The CDP contract is monitored by the Development Services Manager.

4.3.2 There are no monitoring measures expressed in the Service Area Plan but there are various KPIs included within the signed contract with CDP and Just Inspire. The KPIs include: prompt service times, food temperature tolerances, customer surveys and other measurable qualities.

4.3.3 Formal meetings are held with Just Inspire and the Arts Manager on a quarterly basis. Informal monthly contact has also been made with them since it became apparent they were having difficulties six months into the contract. The meetings are an opportunity to review the KPIs and discuss any additional issues.

4.3.4 Customer satisfaction surveys are carried out by Just Inspire and the results are reported back to the Arts Manager on an annual basis, usually in

October. Any complaints are dealt with directly by Just Inspire, usually by the director.

4.3.5 There is an improvement notice process set out in the contract for instances where substandard work is identified but this has not yet been needed. The Arts Manager's focus has been supporting Just Inspire, getting their business model to work and helping them to begin operating again. Just Inspire, along with many other businesses, had to close earlier in the year due to the pandemic. In this time all of the existing bookings have been cancelled and the staff have all been furloughed. The aim is to have them open and fully operational by Spring 2021.

4.3.6 A lease is in place for the RPR café so it is not subject to any contract monitoring. The only income from the RPR café will be through the rent. The lease for the RPR café is signed by The Larder, a local company who also hold the lease for the Aviary in Jephson Gardens. This lease was originally due to be signed earlier in the year but was halted due to the current pandemic. It is hoped that The Larder will be in a position to open the RPR café within the next few weeks.

4.4 **Contract Amendments and Variations**

4.4.1 Early into the contract with Just Inspire it was noted that they were experiencing difficulties managing all of the catering concessions (i.e. the Glasshouse, RPR café and Assembly Rooms). In October 2019 it was agreed at Executive Committee to allow Just Inspire to exit from the RPR café and Assembly Rooms, with the Arts Team taking back the management of the Assembly Rooms and the café being offered as a leasehold.

4.4.2 The Arts Team also gained approval to recruit to a new post for an Events Officer. Unfortunately, they were unsuccessful at recruiting to the role and have postponed a second recruitment attempt until Covid restrictions have lifted.

4.5 **Finance**

4.5.1 The charges for the concession are 5% from catering and 15% from events and hire (gross revenue). These are to be paid quarterly along with service charges.

4.5.2 The concession has been unable to be open this financial year due to the pandemic therefore no concession payments are due. It has been agreed by CMT and the Portfolio holder for Cultural Services that service charges will be deferred until early 2021, due to the restrictions in place preventing Just Inspire from operate effectively.

4.5.3 The budget position is reviewed frequently and discussed at the quarterly meetings between Just Inspire and the Arts Manager. Just Inspire currently owe the Council approximately £38,000 for the 2019/20 financial year. They had a repayment plan in place which was due to start in April 2020 but it has been agreed that this will now start in the Spring 2021 when the concession is up and running again. Just Inspire have provided a business case to

support this and the plan has been approved by CMT and the Portfolio Holder for Cultural Services.

- 4.5.4 Kudos, the previous catering provider, currently owe the Council £34,000. This was covered in the previous audit and there has been no change or further developments since then.
- 4.5.5 As no income has been collected since the last audit, further financial testing could not be carried out.

4.6 **Contingency Planning and Risk Management**

- 4.6.1 There are no contingency plans in place if the catering concession fails. This is because the contract is not directly with the caterers but with CDP who would be tasked to find new caterers.
- 4.6.2 Copies of the insurance for Just Inspire are normally held by the Council. However, the copies on file at the moment relate to expired policies. The Arts Manager has viewed the recent documents and confirmed the correct cover is held, but copies have not yet been obtained. This is because recent meetings have been held via virtual methods rather than face to face. The Arts Manager will aim to copy the documents when restrictions lift to enable him to physically obtain copies.
- 4.6.3 The risk register includes all relevant risks and mitigations for the catering concessions but may require an update regarding the RPR café and Assembly Rooms.

Advisory

A review of the risk register could be carried out to ensure the identified risks are still appropriate.

5 **Summary & Conclusion**

- 5.1 It is difficult to provide a single level of assurance for an audit area which has not been fully operational for almost a year. Various audit tests could not be completed due to the restrictions in place and because no income has been received since the last audit. Monies owed by the previous concession and the current catering provider have not been collected and the reputational damage caused by the closures, even before the pandemic, still remain. However, the regular contact with Just Inspire and the support offered to them will allow the Arts Manager to identify issues as they arise, enabling solutions to be established in a timely manner.
- 5.2 Following our review, we feel it is appropriate to give a MODERATE degree of assurance that the systems and controls that are currently in place in respect of Catering Concessions are appropriate and are working effectively. Due to the inability to carry out testing of the controls in place and there being very little change since the last audit, we feel we cannot give an overall level of substantial assurance at this time.

5.3 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

5.4 Although there are no formal recommendations, one issue was identified where an advisory note has been reported. In these instances, although there is no risk if the action is not taken, making the suggested changes will enhance the existing control framework.

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