

# INTERNAL AUDIT REPORT

**TO:** Head of Cultural Services                      **SUBJECT:** Catering Concessions

**CC:** Chief Executive  
Deputy Chief Executive (AJ)  
Head of Finance  
Estates Manager  
Business Support Officer                      **MY REF:** CAT/JK/JW

**FROM:** Audit & Risk Manager                      **DATE:** 22 May 2013

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## 1. INTRODUCTION

- 1.1 As part of the 2013/2014 Audit Plan, an audit has recently been completed on the systems and procedures in place to manage the council's catering concessions.
- 1.2 This report outlines the approach to the audit and presents the findings and conclusions arising.

## 2. SCOPE AND OBJECTIVES OF THE AUDIT

- 2.1 The audit was undertaken in order to establish and test the management and financial controls in place over catering concessions.
- 2.2 The audit programme identified the controls that were expected to be in place and the possible risks arising from the absence of those controls.
- 2.3 The control objectives examined were as follows:
- a) All catering provided by outside contractors is governed by a formal, signed agreement.
  - b) Terms and conditions are clearly defined, adhered to and monitored.
  - c) Rents or other charges are appropriate, justifiable and comparable with other similar catering outlets.
  - d) Rents charged are accurate, complete, invoiced promptly, properly accounted for and pursued if necessary.
  - e) Rents are reviewed in accordance with the terms of the agreement and then correctly charged.
  - f) Budgetary control procedures are in place.
  - g) All risks associated with the function have been identified, recorded and assigned.

### 3. BACKGROUND

3.1 Catering is provided at a number of sites including:

- Jephson Gardens
- The Royal Pump Rooms
- Abbey Fields Swimming Pool
- St Nicholas Park and Myton Fields
- The Newbold Comyn Arms
- Victoria Park Bowls Pavilion

Catering is also provided by way of vending machines at a number of locations.

3.2 The estimated income from catering concessions in 2012/13 was £89,700.

3.3 A licensed bar is provided at the Royal Spa Centre and this is considered as part of the Spa Centre audit.

3.4 Catering is a very volatile activity that is affected by the national economy, consumer preferences and the uncertainty of the weather. It is quite common for leases to change hands during their term, as operators often struggle to make a viable living.

3.5 Income from catering at some sites is based on a straightforward annual rent, but at the District's most prestigious sites, namely the Royal Pump Rooms and the Jephson Gardens, the core income is a percentage of sales. This approach creates uncertainty and requires a much greater staff input to administer and monitor.

### 4. FINDINGS

4.1 In overall terms, the audit drew the conclusion that there are sound controls in place over the management of catering concessions. However, there is an issue concerning the agreement with Crown Holdings Limited, known informally and referred to from here on as Kudos, in that they owe the council a significant sum of money.

4.2 In terms of the control objectives listed at 2.3, the findings are as follows:

#### 4.3 **All catering concessions are covered by a formal, signed agreement**

4.3.1 In most cases there is a formal agreement in place. These range from the fairly simple leases for most sites, to the very detailed agreement with Kudos.

4.3.2 The catering provided by way of vending machines is fairly informal, not a great source of income to the council and consequently managed without any great formality. The arrangements are in accordance with The Code of Procurement Practice.

#### 4.4 **Terms and conditions are clearly defined**

- 4.4.1 All of the agreements are detailed when it comes to terms and conditions covering such areas as opening hours, staffing, access rights, cleanliness, food safety etc.
- 4.4.2 However, given the scale and nature of the activity, there is no formal or regular monitoring of the sites or the service provided. Staff from Cultural Services will visit the sites on an ad hoc basis as required and as a matter of course if there is a change in management.
- 4.4.3 Any areas of customer concern will be raised via the usual channels and customer feedback forms are provided at all of the Kudos sites.
- 4.4.4 It was always intended to monitor the agreement with Kudos on a formal basis by way of quarterly meetings with a standard agenda to include such items as past quarter performance, investment, health and safety, food safety etc. This has not been possible up to now as Kudos haven't had a stable management structure in place for longer than three months at a time.

#### 4.5 **Rents or other charges are appropriate.**

- 4.5.1 Most of the council's commercial rent deals are based on comparables and market conditions. In broad terms that still applies to catering concessions but the nature of the activity and the differences in the businesses and their locations means that a different approach is required.
- 4.5.2 Rents charged will be based on the location of the site, the likely level of trade and the history of the site. If an agreement cannot be reached between the council and a current or prospective lessee, the matter can be referred to an independent valuer.
- 4.5.3 In respect of the sites operated by Kudos, there is also the question of service charges and these are billed in accordance with the agreement.
- 4.5.4 The calculation of the service charges was not examined in detail but it was clear from the records produced that the information was comprehensive, extremely detailed and well maintained. It was reasonable to assume, and later confirmed, that the collation and maintenance of the information is an onerous task.

#### 4.6 **Rents and charges are accurate and invoiced promptly**

- 4.6.1 The invoicing and payment of rents for all concessions other than the Kudos operated sites is trouble free. Most invoices are raised through the periodic income facility and are paid promptly.
- 4.6.2 Kudos took over the operation of the Jephson Gardens Restaurant and Aviary, the Royal Pump Room and Newbold Comyn Leisure Centre on 1 January 2012. Under the terms of the agreement they were to pay the council a proportion of the service charges relating to each building and a percentage of sales and income from room hire.

- 4.6.3 This is quite a complicated process and it is well managed by the Business Support Officer in Cultural Services, but it has taken a while to establish and it is reliant on information supplied to him by other service areas.
- 4.6.4 Added to this, the necessary information required from Kudos on sales etc. has not been provided, meaning that invoices for service charges and commission for most of 2012 were not raised until the beginning of March 2013 (8 invoices raised between 1<sup>st</sup> and 12<sup>th</sup> March 2013).
- 4.6.5 These invoices total almost £99,000 (including VAT) and as at 15 May 2013 they were still outstanding. Naturally the normal recovery procedures have been actioned, together with personal contact with the company. A further meeting to consider the situation is imminent.
- 4.6.6 Raising invoices regularly every quarter is what should be happening in the interests of both the council and Kudos.

### ***Risk***

***Allowing debts to accumulate increases the risk that payment will not be received.***

***Raising invoices so late after the due date is damaging for the council's reputation.***

### ***Recommendations***

***Concerted and appropriate efforts should be made to resolve the situation concerning the outstanding debts due to the council from Kudos.***

***In future, invoices for service charges and commission should be raised regularly every quarter.***

- 4.7 **Rents are reviewed in accordance with agreements and then applied**
- 4.7.1 Where a rent review clause was in place it had been actioned and a new rent applied.
- 4.7.2 In the case of the Newbold Comyn Arms, a rent review was due on 1 April 2010 but the rent being charged had not altered and there was nothing on file to evidence that a review had taken place.
- 4.7.3 The explanation offered was that the matter had been considered but that the economic conditions at the time meant that there was no prospect of increasing the rent added to which the Council had good tenants in place paying the rent on time every month. A perfectly plausible explanation but not recorded or evidenced in any way.

## **Risk**

***The absence of any evidence could suggest that the matter had been overlooked and not actioned.***

## **Recommendation**

***Any decisions taken affecting the terms and conditions of an agreement should be recorded for future reference and not merely committed to memory.***

### **4.8 Budgetary control procedures are in place**

- 4.8.1 Corporate budgetary control procedures are in place to monitor performance. Income has, until recently, not been an issue with rents received being in line with estimates.
- 4.8.2 Income under the Kudos agreement was always going to be based on their forecasts of sales and therefore something of a risk that could have gone either way.
- 4.8.3 For 2012/13 the total income from catering concessions was estimated as £89,700 and the actual figure (based on invoices raised) is £71,030.

### **4.9 Risk Management**

- 4.9.1 Catering is an extremely volatile and uncertain business activity evidenced by the number of times that the catering rights at all of the relevant council sites have changed hands.
- 4.9.2 Closure of any of the catering outlets would be disruptive, time consuming to reinstate and result in a loss of income. The risk has been identified and is recorded in the Cultural Services Risk Register.

## **5. CONCLUSION**

- 5.1 The audit concluded that in overall terms there are sound systems and procedures in place to manage the council's catering concessions. However, the raising of invoices for Kudos and the current level of debt is a concern.
- 5.2 The audit can therefore give a **MODERATE** level of assurance that the systems and procedures in place are appropriate and working effectively.

**Richard Barr**  
**Audit & Risk Manager**