

## Management Board

### Catering and Facilities Management in 14 Tothill Street

*Paper from the Director of Catering & Retail Services*

#### **Purpose**

1. This paper seeks the Board's agreement on options for catering services that might be provided in 14 Tothill Street. Despite current uncertainties in the House of Lords about the extent of their requirements in this building, it is necessary to agree the extent of catering services at the earliest opportunity to allow sufficient time for design, letting of contracts and fit-out of the ground floor and basement in time for occupation by HOC staff in 2009. It is already accepted that these facilities cannot be completed in time for the planned occupation by the HOL in autumn 2008, but arrangements are in hand to provide a temporary service to meet their needs.
2. Decisions about the scope of services to be provided on a shared basis and the cost split with the HOL will need to be agreed with their Management Board. The planning timetable needs to allow time for bicameral approval of requirements.
3. Agreement is also sought on the question of whether catering and/or FM facilities in Tothill Street should be contracted out, delivered in-house or delivered by a mixture of the two.

#### **Conclusions and decisions required**

4. Three options for catering services in Tothill Street are outlined. Despite the cost benefits, it is thought unlikely that the most basic provision (Option 1) would meet the Board's desired standards of staff welfare. Option 2 reflects the type of service now offered by the majority of employers providing subsidised catering facilities; this option is considerable less costly than providing a full-service staff cafeteria, but would mark a departure from the extent of catering provision available to staff working elsewhere on the Parliamentary Estate. Option 3, the provision of a fully-staffed cafeteria and supporting kitchen, reflects the current standard of provision made for staff working in other buildings, but the cost of the subsidy is significantly higher than in Option 2.
5. Any provision more extensive than the operation of a 'Despatch-Box' style coffee bar will add to the overall cost of catering services provided by the House and may jeopardise future achievement of the Commission's target to maintain the catering subsidy at or below 45% of annual operating costs.

6. There is healthy market interest in the provision of catering services at 14 Tothill Street, indicating that good value could be achieved if a contract was competitively tendered. Alternatively, the House of Commons catering service could extend its operations to manage catering facilities at 14 Tothill Street as a shared service on behalf of both Houses. The potential cost benefit of outsourcing the catering service increases in parallel to the scale of the service to be provided. The recommended solution thus depends on the extent of catering service to be provided.
7. There is little market interest in tendering for the provision of facilities management services required at 14 Tothill Street. Best value for money is likely to be achieved by extending or varying existing House-wide maintenance and service contracts, letting new contracts where necessary, and by using in-house resources where cost-effective to do so.
8. **The Board is invited to:**
  - (a) **agree which option or options for the provision of catering services should be taken forward for design development and investment appraisal;**
  - (b) **agree whether the catering service should be out-sourced and, if so, to instruct the Department of Facilities to prepare for the launch of a competitive tendering process for the provision of catering services at 14 Tothill Street;**
  - (c) **if the catering service is to be provided in-house, agree that this will be carried out by the House of Commons catering service as a shared service on behalf of both Houses for any period of time that part of the premises are occupied by the House of Lords;**
  - (d) **instruct the Department of Facilities to prepare for the necessary variations and/or extensions to existing contracts for the provision of maintenance and other building management services;**
  - (e) **delegate responsibility to the Director General of Facilities to decide whether other staffing requirements (reception, servicing of meeting rooms, etc.) should be met by inviting catering companies to bid for these 'hotel' services alongside the catering service, or whether these services should be staffed by in-house employees.**

## **Background**

9. The House has taken a lease on the premises at 14 Tothill Street for a period of 15 years, with an option to break the tenancy at 8 years. The building has 7 floors above ground level and will provide accommodation for as many as 500 staff, depending on the office configuration model eventually agreed.
10. The upper three floors will be occupied by the House of Lords, currently planned from late 2008 until summer 2010 during work on the 'Island Site' at 1 and 2 Millbank. As well as House of Lords staff, it is expected that a number of Peers will be re-located to Tothill Street during this period.

11. Commons staff, who will occupy floors 1 to 4, are unlikely to be re-located to 14 Tothill Street until Easter 2009 at the earliest. No decision has yet been taken on which staff would re-locate to this building.
12. The ground floor will be a communal space shared by both Houses providing reception, a catering facility, meeting rooms, and back-of-house support facilities (building management offices, attendants, mail room, deliveries, etc). Early agreement on the extent of catering facilities to be provided is required so that M&E services can be planned and space utilisation optimised at ground floor and basement levels.
13. In addition to considering *what* catering services should be provided at Tothill Street, it is opportune to consider *how* the catering service and other facilities management services should be provided. A market research exercise has been carried to ascertain the level of interest in the market if the House were to outsource either or both of these services. This paper summarises the findings of the research and makes strategic recommendations.

### Catering Service Options

14. There are two competing agendas to be balanced in considering the extent of catering services to be provided at 14 Tothill Street:
  - (i) Cost, in terms of both initial investment and annual operating cost; and
  - (ii) Staff welfare standards, and the issue of parity with staff employed elsewhere.

In order to consider these competing issues and to test the in-house operating costs against the order of cost if the service was to be outsourced, three service level options have been appraised:

**Option 1: Coffee Bar** offering premium quality teas & coffees, cold drinks, a limited range of bought-in sandwiches, boxed salads, pastries and snack items, etc. All foods pre-packed and suitable for take-away or eat-in at limited seating area. Service closely modelled on that provided by the Despatch Box in Portcullis House.

**Option 2: Coffee Bar Plus** offering everything as in Option 1 plus a made-to-order sandwich/deli bar, hot soup, filled jacket potatoes, pasties, a more extensive range of fruit, yoghurts and breakfast snacks. Mixture of bought-in and made-to-order foods, catering for both take-away and eat-in markets. No close comparator service currently offered on the Parliamentary Estate.

**Option 3: Full Service Cafeteria** providing cooked breakfast and lunch choices, as well as sandwich and snack items as outlined in Option 1 above. Dependant on space availability, may incorporate made-to-order sandwich/deli bar. Service closely modelled on that provided in the Portcullis Cafeteria in 7 Millbank.

*Costs*

15. In all cases, cost figures have been estimated on the basis of 8.30 a.m. to 6.00 p.m. opening (closing at 4.00 p.m. on Fridays). Details are set out in *Annex A*. A working assumption has been made that the costs will be split 60:40 between the Commons and Lords for the duration of the HOL shared occupancy of the building, but this is subject to formal agreement.
16. The only option to achieve nil subsidy or make a modest financial contribution from its annual operation is Option 1: a basic coffee/sandwich bar. The low level of staffing required for this option results in the in-house provision being more cost effective, as any contractor would also charge a management fee for operating the service. Including allowance for fit-out costs, total costs over five years for Option 1 are estimated at a little over £100,000 for the in-house service or £165,000 for an out-sourced service.
17. Costings for Option 2 show very little difference between an in-house operation and contracted-out service. Total investment and operating costs for Option 2 are estimated at £650,000 - £675,000 over five years.
18. The cost of providing a full cafeteria service rises steeply, particularly in the case of the in-house service. This is largely due to the significantly higher staff cost arising from higher rates of pay and more generous provision for pensions, sick pay, annual leave, etc. However, recent experience with the cleaning contract indicates that political pressure may be brought to bear to ensure that all contractor's staff were paid a "sustainable living wage"; this would narrow the gap between the cost of in-house provision (estimated at £1.7 million over 5 years) and an out-sourced solution (currently estimated at £925,000 over 5 years).
19. Both Options 2 and 3 would increase the cost of the catering subsidy and may jeopardise future achievement of the Commission's target to maintain the catering subsidy at or below 45% of annual operating costs.

*Staff Welfare Issues*

20. Contract catering companies participating in the market research exercise confirmed that Option 2 most closely represents the level of catering service that would be provided by the majority of employers that provide subsidised staff catering facilities.
21. As a good employer, the House places great emphasis on the importance of providing high levels of care and welfare for its staff and has traditionally taken a benevolent stance in the provision of catering for its workforce. Consequently, the vast majority of staff working on the Parliamentary Estate currently have easy access to at least one venue offering a full meal service. There is no doubt that staff greatly value the provision of subsidised meals, and previous attempts to reduce the subsidy by restricting the service level have met strong resistance from staff and the TUS. The cost of providing a full cafeteria service (Option 3) must therefore be weighed against the risk that staff based at 14 Tothill Street would feel that they were being treated less favourably than colleagues

based elsewhere if anything less was provided. This could make it much more difficult to persuade staff re-located to Tothill Street that they were valued equally with colleagues based closer to or on the secure Estate.

22. The House, like many employers, has a policy to promote the health and well-being of its workforce, and the ready availability of healthy and nutritious foods at an affordable price is a key part of this policy. The food offer available in Option 1, and that available from high-street competitors in the vicinity, is largely carbohydrate based snacks, and staff wishing to maintain a balanced diet would have to walk to a venue on the Parliamentary Estate. Although this in itself provides healthy exercise, time pressures and inclement weather are likely to prevent staff making the journey on a regular basis. It is unlikely that this option would meet the commitment articulated in the staff handbook to provide “a healthy .... working environment to help employees work to their full potential” (para 3.6)
23. The food offer provided in Option 2 has a more nutritious content, and meets the standards of care provided by many employers committed to the good health and welfare of their staff through the provision of a subsidised staff restaurant. However, it does fall short of the extensive catering facilities provided for staff in other buildings. There is no doubt that the range of foods offered in a fully-serviced cafeteria (Option 3) has the greatest capacity to promote healthy eating, and this is the standard that staff have come to expect. Both of these options are recommended for further development to enable the Board to make as informed a choice as possible between the two.

#### *Decision Required*

24. Any decision about the extent of catering services to be provided is a judgement call: a trade-off between cost and considering the expenditure as an investment in staff welfare. The Board is asked to agree whether it would like fully costed scheme designs to be worked up for each option, or whether any can be ruled out at this preliminary stage. Given the current burden of work on Estates Directorate resources, it would be helpful if the number of options taken forward could be kept to a minimum.

#### **Potential for Outsourcing the Catering Service**

25. All three contract catering companies invited to participate in the market research confirmed their interest in bidding for a contract to provide catering services in Tothill Street, irrespective of which of the three outlined catering service levels was to be provided. A fourth supplier became aware of the exercise and contacted the Director of Catering Services to express their interest. It can therefore be concluded that there is healthy interest at several market levels for the provision of catering services at 14 Tothill Street and a competitive tender would be likely to attract a good response from the industry.
26. If the catering service at Tothill Street is to be contracted out, the optimal time to do this is before there is any permanent in-house catering team on

site. This would enable the contractor to engage staff at market rates and industry standard terms and conditions. If an in-house team is engaged and it is subsequently decided to outsource the service, staff would be protected under TUPE legislation, and any staff transferring to the contract provider would retain the advantageous remuneration package provided to them as staff of the House.

27. Contracting out the catering service would minimise the risk of costly redundancies if the lease is terminated at the 8-year break point or at the end of the 15-year term, as a contractor would be more likely to be able to re-deploy staff.
28. The two most common reasons cited by companies outsourcing their foodservice are to reduce costs and to improve quality of food and service. However, these are also the two most frequently cited reasons for bringing an outsourced catering service back in-house, demonstrating that contracting out the service does not necessarily improve service delivery or reduce costs. The cost estimates set out in Annex A demonstrate that the case for contracting out the catering service is stronger as the complexity of the operation and the number of staff employed increases.
29. Consequently, there is little commercial incentive to contract-out Option 1, and only a marginal cost benefit to contract out Option 2. However, as well as requiring consistently high quality of food and service, the success of Option 2 will require constant product innovation and effective marketing, something that an external, commercial provider may have more expertise in than the in-house service. This could, therefore, provide a useful benchmarking opportunity. If a full cafeteria service is provided (Option 3), the cost benefits of outsourcing the catering service are significant, and, in these circumstances, it is recommended that the service should be contracted out.
30. The Board is asked to agree whether the catering service should be outsourced and, if so, to instruct the Department of Facilities (Catering and Retail Services) to prepare for the launch of a competitive tendering process for the provision of catering services at 14 Tothill Street.
31. If the catering is to be operated by an in-house team, it has been agreed with colleagues in the House of Lords that this should be carried out by the House of Commons catering service as a shared service to both Houses. The Board is asked to endorse this arrangement.

### **Facilities Management Services**

32. Full facilities management of the entire premises at 14 Tothill Street under a single contract is not a desirable option for a number of reasons:
  - existing contracts and/or warranties for some maintenance and buildings-related services can be extended without additional cost to include Tothill Street;

- it is unlikely that the House would wish to appoint a different service provider in Tothill Street for key House-wide contracts such as security and mail delivery;
- the level of interest from the contract catering market suggests there would be no point in incorporating catering into the FM contract, as the appointed FM supplier would in all probability simply sub-contract the catering provision to a catering firm that would be happy to bid direct;
- whilst decanted from 2 Millbank, the House of Lords intend to use their own staff or contractors to provide certain services to their own floors.

33. The FM services deliverable in-house or through existing contracts are listed at *Annex B, section 1.1*.

34. Those FM services requiring new in-house provision or contract are listed in *Annex B, section 1.2*. A parallel exercise was carried out to test market interest in a single contract for the provision of these FM services at 14 Tothill Street. Given the limitations in scope of services required and the relatively small size of the building, the market showed very muted interest. It is not recommended that this option is pursued.

35. Instead, the Board is invited to instruct the Department of Facilities to prepare for the necessary variations and/or extensions to existing contracts for the provision of maintenance and other premises-related facilities management services, to let new contracts where necessary and appoint in-house resources where cost-effective to do so.

36. This would leave a number of 'soft' FM services (i.e. the supply of staff and management expertise such as reception and meeting room services) that would need to be covered; these are listed at *Annex B, section 2*.

37. The most cost-effective way of covering the cleaning requirement is to extend the scope of the House-wide cleaning contract, which is currently being re-tendered. It is recommended that the scope of the contract be amended in due course to include cleaning of Tothill Street over a phased occupation period.

38. Other staff services could be provided in one of two ways: either by the engagement of a team of directly employed attendants and office keepers at an estimated annual cost of £165,000 (4 attendants, one senior attendant and one office keeper), or, if catering services are outsourced, to test the market by inviting tenderers to additionally bid to supply staff to cover some or all of these duties. The Board is asked to remit this to the Director General of Facilities for decision.

**Sue Harrison**  
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**March 2008**

## ANNEX A

**Estimated Cost of Catering Options for 14 Tothill Street –  
In-House Service Provision versus Outsourced Service Provision**

## (a) Cost of In-House Catering Provision

	<b>Option 1 Coffee/Sandwich Bar</b>	<b>Option 2 Coffee/Sandwich Bar Plus</b>	<b>Option 3 Full service Cafeteria</b>
Estimated fit-out costs	£165,000	£300,000	£425,000
Annual operating cost	<£12,000>	£70,000	£260,000
<b>Cost over 5 Years</b>	<b>£105,000</b>	<b>£650,000</b>	<b>£1,725,000</b>

## (b) Cost of Outsourced Service

	<b>Option 1 Coffee/Sandwich Bar</b>	<b>Option 2 Coffee/Sandwich Bar Plus</b>	<b>Option 3 Full service Cafeteria</b>
Estimated fit-out costs	£165,000	£300,000	£425,000
Annual operating cost	Nil subsidy	£75,000	£100,000
<b>Cost over 5 Years</b>	<b>£165,000</b>	<b>£675,000</b>	<b>£925,000</b>

## Notes:

1. A working assumption has been made that the above costs would be split 60:40 between the Commons and Lords for the duration of the HOL shared occupancy of the building, but this is subject to formal agreement.
2. Fit out cost includes allowance for catering equipment, furniture, carpeting, basic M&E installation, fees. No allowance made for structural work, complex M&E or VAT. ***It should be noted that these costs are "ballpark" figures only to inform the Board's consideration of catering service levels.***
3. In-house annual operating costs based on conservative estimates, using volume and average spend data for Despatch Box for Option 1 and data from Portcullis Cafeteria (7 Millbank) for option 3.
4. Outsourced operating costs based on worst case estimate submitted by companies participating in market research, adjusted to include costs omitted in estimates but included in in-house cost estimates (i.e. to provide a like-for-like comparison). ***It should be noted that these costs can only be fully tested through competitive tender.***
5. Cost split is shown at a straightforward 60:40 split between House of Commons and House of Lords over the full five years. No attempt has been made to anticipate when the House of Lords might vacate Tothill Street and how costs might be split from that point onwards.

**ANNEX B****Provision of Facilities Management Services at 14 Tothill Street**

## 1. Facilities to be shared by both Houses:

## 1.1. Facilities deliverable in-house or through existing contracts:

- Lift maintenance and trappings
- Cleaning
- Mail delivery (to Lords areas)
- Mail collection
- Security including staff, CCTV, alarms and access control
- IT and telephony
- Furnishings
- Office moves and portorage
- AV provision in meeting rooms
- Annunciators
- Intellikey provision
- Division bells
- Catering equipment

## 1.2. Joint Facilities requiring new in-house management and/or staffing provision or new contract to be let:

*(a) Building services:*

- Air handling
- Central boiler plant
- Hot and cold water services
- Drainage system
- Grey water system
- Plumbing
- Softened water plant
- Electrical services
- Standby generator
- Valves, pipework and gauges
- Lighting system controls
- Fire alarms, fire extinguishers, sprinklers
- Mechanical ventilation services
- Meter reading and logging
- BMS operation
- PDVN network cabling

*(b) Cleaning services:*

- Window cleaning
- General area cleaning
- Catering cleaning
- Waste management

*(c) Office services:*

- Reception/front desk
- Photocopier maintenance and repair
- Meeting room services (ground floor shared area)

2. Facilities where Commons only requires additional provision via FM service provider or in-house staff (HOL arrangements are noted in brackets):

- Janitorial cleaning (variation of existing Lords contract)
- Office cleaning (Lords housekeepers from 2 Millbank)
- Mail collection (Lords attendants from 2 Millbank)
- Photocopier refill (Lords attendants from 2 Millbank)
- Meeting room services\* (Lords attendants from 2 Millbank)  
(\*for HOC floors, if required) (for rooms on HOL floors)