

ECONOMIC DEVELOPMENT & CULTURE COMMITTEE

Agenda Item 8

Brighton & Hove City
Council

Subject:	Royal Pavilion & Museums Catering Review		
Date of Meeting:	21 June 2012		
Report of:	Strategic Director Communities		
Contact Officer:	Name:	Janita Bagshawe	Tel: (29)2840
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Key Decision:	Yes/No		
Wards Affected:	All		

FOR GENERAL RELEASE/ EXEMPTIONS

1. SUMMARY AND POLICY CONTEXT:

- 1.1 To set out the current position of catering provision across Royal Pavilion & Museums (RPM) and recommendations for future business development to maximise income for maintaining and developing the RPM service.

2. RECOMMENDATIONS:

- 2.1 To approve the seeking of tenders in respect of all catering provision for RPM under contractual arrangements which will subsist for a period of five years with an option to extend for up to a further two years.
- 2.2 To authorise the Strategic Director, Communities to consider and determine, with a view to driving efficiencies and value for money:
- how the tendered opportunities should be packaged eg. whether there should be division into lots;
 - whether the tender should take place jointly with Brighton Dome and Festival Ltd (BDFL) and if so, how best to structure the tender/ contractual arrangement.
- 2.3 To authorise the Strategic Director, Communities to accept tender(s) in accordance with officer recommendations following the tendering exercise and to approve the award of contract(s) accordingly.
- 2.4 To approve the use of external catering expertise in visitor attraction/venue market to assist with the tender process.
- 2.5 To note that a report on the result of the tendering process will be brought to Policy and Resources Committee for agreement.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 Current Catering Provision

Across the Royal Pavilion & Museums public catering arrangements have evolved on an ad-hoc basis as licence arrangements for each venue have arisen.

- The Royal Pavilion Tearoom was run by Ecovert South Ltd until the contract expired in 2004. A contract for tearoom services was then tendered but no suitable contractor was found. Therefore, in order to ensure continuity of this visitor service, the decision was taken to appoint an in-house catering team. A number of Ecovert staff were TUPE transferred to the in-house catering team. (Policy & Resources Committee 2004 – Royal Pavilion Catering, The Queen Adelaide Tearoom)
- The Gallery Café at Brighton Museum was tendered when the Museum re-opened in 2002 following major re-development. 'We Are Delicious' (formally the 'Delicious Food Company') won the contract. Their current contract expired in April 2012, though an extension of lease has been mutually agreed until January 2013 whilst the Council considers options. The operator pays a concession of 8% pa
- Hove Museum Tearoom was tendered when the Museum re-opened in 2003 following redevelopment. 'The 'Delicious Food Company' was awarded the contract and continued to operate there until November 2007 when the company pulled out of the contract. At that point, the decision was taken to re-open the Tearoom as soon as possible using the in-house catering team based at the Royal Pavilion.
- For functions and hires, Royal Pavilion & Museums use caterers from an approved list. This approved list is now due for re-tendering.
- Brighton Dome Festival Ltd (BDFL) operate a similar system of approved caterers for functions. A number of caterers on the BDFL approved list are also on the RPM Approved list.
- BDFL run the bar service in-house and since February 2011 have been opening the foyer bar during the day offering a selection of teas, coffees and cakes. The doors between Brighton Museum and the Dome are open, giving Museum customers the opportunity to use the café and encouraging café customers to visit the Museum

3.2 Current Catering Business Performance

3.2.1 The table below sets out sales net of VAT and overall net income achieved after costs since 2008/9.

3.2.2 Key points from the table are:

3.2.3 Losses at Hove Museum in 2008/9 are partly accounted for by initial set up costs of the in-house operation. However, it has since continued to operate at a loss.

3.2.4 The Royal Pavilion had begun to return a marginal profit although this diminished in 2011/12 with increases in staffing and goods for resale costs.

3.2.5 Concession income from the Gallery Café and Functions catering has increased marginally.

Overall, it is clear that the return from the catering business is poor. (See appendix 1 for break down of visitor numbers and tea room users). This is particularly challenging because catering services in almost all heritage environments are there to generate income. In Brighton & Hove at the moment, catering actually adds a budget pressure for the organisation with the losses offset by the improvements in admissions income.

	2008/09	2009/10	2010/11	2011/12
	NET INCOME	NET INCOME	NET INCOME	NET INCOME
	£,000	£,000	£,000	£,000
Royal Pavilion Tea Room	-14	4	8	-11
Hove Museum Tea Room	-47	-9	-24	-21
Gallery Café Brighton (commission)	7	7	11	13
Functions catering (commission)	3	3	5	3
total income	-51	5	0	-16
Net income target	43	51	37	39
profit /loss	-94	-46	-37	-55

3.2.6 RPM is responsible for all maintenance and replacement of equipment, as well as energy costs, of the in-house operations and existing contracts for Brighton Gallery Café and functions. This represents a considerable financial outlay because equipment in all the kitchens is out-dated and limited budgets are available for emergency repairs and replacement. There are no budgets for planned renewals and investment. Emergency replacement costs totalled £4,000 in 2010/11 and £5,000 in 2011/12.

3.3 2011 Catering Review

3.3.1 In September 2011, with funding from the national body Museums Libraries & Archives Council (MLA) under a programme called Renaissance in the Regions and the institutional transformation strand, and as part of RPM and BDFL's on-going partnership work, RPM embarked on a joint catering review with BDFL and appointed a consultant for that purpose. This was the first time the combined catering strands at RPM have been strategically reviewed. The terms of reference were:

- Assess current offer, facilities and performance

- Research and analyse the current food and drinks market in Brighton and Hove to help identify trends, target customer groups and competitors etc
 - Generate and assess options for future catering provision to generate the best model for future operations (e.g. joint venture, independent models, in-house versus outsourcing models, etc)
 - Develop a business case for the preferred model indicating levels of investment required and the return on that investment
- 3.3.2 After a competitive tender, the consultancy contract was awarded to Turpin Smale. Their recent clients have included The Natural History Museum, The Museum of London and Historic Royal Palaces, The Royal Society for the Arts, Birmingham Rep and Birmingham City Council on a joint redevelopment, Fulham Palace and the Royal Albert Hall.
- 3.3.3 The review for BDFL & RPM was completed in December 2011. The report is commercially sensitive containing financial information relating to BDFL. A copy of the Final Review can be made available to Members on request. Key findings and recommendations relating to RPM are outlined below.

3.4 Key Findings and Recommendations

- 3.4.1 The review found that the Royal Pavilion catering income falls well below the industry norms for visitor attractions, achieving in 2010/11 a spend per visitor of 54p. A major visitor attraction should expect in the region of £1. Part of the reason for this serious underperformance relates directly to the constraints of the building - the Tearoom is on the first floor, with no street access allowing for non-visitor custom. It is also sited in the middle of the visit as opposed to the end of the visit which, in general, visitors prefer. There is no lift in this part of the building which means no access to visitors using wheelchairs, for example.
- 3.4.2 In view of these serious impediments to generating a reasonable income, the review recommended exploring the potential of an additional on-street catering facility in part of the current retail/Visitor Information Centre (VIC) space. This would require an investment of approximately £85-100k to improve visibility and access for everyone, including those visitors who use wheelchairs, for example. This opportunity fits with Council budget papers from December 2011 that indicated that the Visitor Information Service will be altered in the budget year 2013/14 and re-provided to meet visitor needs at a lower cost to the authority. This will allow for the vacation of the existing premises and permit alternative uses relating to catering. While the options and work on the visitor information service is ongoing it is not expected that changes will be implemented until autumn 2013. The work on re-providing the visitor information service is on schedule, with options being developed, informal staff and partner discussions are also taking place'

3.4.3 At Hove Museum, sales have dropped since the catering has been taken in-house, partly due to falling visitor numbers which have now been reversed. However, the review acknowledged that it is difficult to make a café profitable, with a low level of sales and an associated labour cost nearly as high as the sales. In view of this, the review noted that it is not surprising that a £24k loss was recorded in 2010/11. However, the Museum has a strong children's programme which could be used to drive additional business in the café, and the review suggested extending into another room within the building and/or developing external decking and a play area to build the market. Investment required would be in the region of £50k.

3.4.3 At the Brighton Museum Gallery Café, the review was complimentary about the current offer. However, it felt that sales were constrained by the seating capacity of the café. It recommended investment in a kiosk offer in Brighton Museum foyer. Investment required would be in the region of £20k.

3.4.4 In terms of functions, the review found that, even allowing for the competitiveness of the Brighton market, the level of catering concession income generated from external caterers was low at 8% of catering profit per event, compared to an industry norm of 10%. It recommended consideration should be given to a closer working relationship with BDFL on the marketing, sales and packaging of the rooms across the Royal Pavilion estate for mutual benefit. It also recommended that caterers licensed to work on the estate should be required to introduce a certain amount of business in terms of room hire from their own sales contacts as part of their terms of contract.

3.4.5 The report set out a series of operational proposals in three broad stages:

- Immediate: can be implemented quickly with relatively small additional cost, but should have a positive impact on sales/profitability; work has already begun to address some of these issues, particularly around the review of menu options and signage within buildings;
- Medium-term: will involve some significant changes to facilities and services, with some expenditure;
- Long-term: involving major changes to spaces, facilities and services, with substantial expenditure

Both the medium and long-term recommendations require significant investment and whilst two areas of the business continue to be operated in-house, the return on investment would be limited, as laid out in Item 6 - Evaluation and Options Appraisal below.

3.4.6 The key recommendation of the report is that RPM & BDFL look at jointly tendering all of the day-to-day and functions catering to achieve maximum economies of scale, maximum income and to secure a contractor who is willing to invest in the business. It is advised that the

tender should be structured so that organisations can tender for all of the business, for individual outlets or for groups of outlets. Only when the tenders are received would it be possible to select the tender(s) that best meet the long-term requirements of organisations and their visitors, guests and customers. The evaluation would take account of both the financial and qualitative factors that make up a successful catering business. The new contract would run for 5 years with an option to extend for up to two years.

3.5 Other Considerations

3.5.1 RPM has four staff on permanent contracts, who would be subject to TUPE arrangements. There are limited career opportunities at present for catering staff within the museum/council organisations. The benefits of working for a specialist catering contractor would include broader training and development and improved opportunity for career progression.

3.5.2 Virtually no large museum services or historic attractions run in-house catering businesses, as they are difficult to operate effectively and can involve a lot of special arrangements. Most comparator services have found their strengths to be a focus on their core activities and harnessing external expertise to drive the catering specialism. To meet the demand for catering within the sector, a considerable number of specialist catering contractors have grown over the past decade. The main advantage of such an approach is that the financial and qualitative outcomes are more predictable without the host organisation having to employ specialists or becoming involved in the very time consuming minutiae of catering. A specialist contractor has the advantage of improved buying power, sector knowledge, the ability to attract skilled expertise, access to investment funding and commercial drive to improve the profitability.

The exceptions to museums and historic houses outsourcing tend to be when the business is too small and cannot be made profitable to a contract caterer, or if it is a very large organisation and can support a good in-house management/support structure to operate it effectively. One of the few examples of this is the Tate, but their catering operation is on a much bigger scale than will ever be required in Brighton & Hove.

3.5.3 As both BDFL and RPM management teams lack specialist catering knowledge and experience in a complex tender for visitor attraction/venue market, it is recommended that Turpin Smale be utilised again. They are now familiar with both organisations' operational needs, alongside corporate procurement and legal services, and will help to ensure that all issues around joint tendering/contracting (if deemed appropriate), structure of tender, selection criteria, Key Performance Indicators and monitoring procedures are effectively addressed. Although this will cost a certain sum, it is very likely that this will be recouped from the resulting contract or contracts that will be secured.

3.5.4 If the Committee agrees to these proposals, the proposed timetable for tendering and appointment of contractors is as follows

Briefing/Strategy/Evaluation Criteria	June
Advertisement	July
Pre-qualification questionnaires returned	July
Select Contractors	July
Finalise Tender Documents	July
Invitation to Tender issued	August
Tenderers' Briefing & Walk Round	August
Tender Return Deadline	October
Initial Evaluation Report	October
Presentation by Leading Bidders	October
Contract Award	November
Services commence	January

3.5.5 Both Brighton & Hove City Council's RPM and BDFL are committed to supporting the local economy and sourcing products from local suppliers and this commitment would be reflected in tender documentation.

3.5.6 Tenders will be considered from any form of bidding arrangement including - a social enterprise, a community interest company or a co-operative. [Independent support can be made available should staff wish to bid as a social enterprise.](#) The out come of the tender process will be brought to a future Policy and Resources Committee for agreement.

4. **CONSULTATION**

Discussions have begun with Trade Unions and the four members of permanent contracted staff working at the Royal Pavilion and Hove Museum regarding the likelihood of TUPE transfers. The Trade Unions and individual staff will continue to be consulted and kept informed throughout the tendering process.

5. **FINANCIAL & OTHER IMPLICATIONS:**

Financial Implications:

5.1 The 2012/13 budgets for these services amount to a target net surplus of £43k. However, there is an on-going forecast pressure of £55k should services remain unchanged from 2011/12, as detailed in paragraph 3.2.1

Based on the findings of Turpin Smale, it is estimated that by tendering the catering services, a net surplus of £69k to £190k per annum could be generated depending on whether the tender exercise was B&HCC

alone or jointly with BDFL. Compared to the current target budget of £43k surplus, this would provide an additional £26k to £147k pa. An increase in room hire income as a result of improved catering provision is also expected, amounting to approximately £39k per annum. The figures are based on a full year effect of the proposals and may require the relocation of the Visitor Information Centre.

Assuming these proposals were implemented with effect from January 2013, it is estimated that after allowing for initial costs, there would be a reduced pressure of approximately £20k in 2012/13 which would be managed within existing resources. With effect from 2013/14, it is estimated there would be a net surplus in excess of £26k, depending on the outcome of the tender process. This would enable the service to reduce the pressure for 2012/13 and ensure it makes a net contribution to service costs in future years.

The re-location of the VIC is already included in the budget strategy for 2013/14 and would be dealt with as a separate issue.

Finance Officer Consulted: Michelle Herrington date: 8.6.12

Legal Implications:

- 5.2 Depending upon how the offer is structured, the tender will be for the provision of catering services or for the granting of catering concessions or a mixture of both. Catering services are categorised as Part B services for the purposes of the Public Contracts Regulations 2006 and are not therefore subject to the full rigours of the procedural requirements contained in those regulations. Service concessions are exempt from the regulations. However, in both cases the Council must adhere to EU treaty principles of equal treatment and transparency in tendering and contracting.

TUPE will apply to some members of staff and the procurement timetable and process will need to allow for appropriate consultation.

Lawyer consulted: Sonia Likhari date: 21.5 2012

Equalities Implications:

- 5.3 In framing the specification, care must be taken to ensure that adequate provision is made for special dietary needs related to health and to ideological or religious observance. The terms of the contract tendering process will require potential service providers to demonstrate that they have policies in place to ensure that staff and customers are treated in such a way as to support their rights in equalities legislation.

The option of providing a second catering outlet in the Royal Pavilion on the ground floor with street access will significantly improve accessibility for visitors. The current first floor tearoom is inaccessible for visitors with mobility difficulties.

Sustainability Implications:

- 5.4 Commercial services at RPM exist to generate income in order to contribute towards the costs of the provision of core services. If the current catering provision for RPM is not addressed to enable it to generate more income and overcome its losses, the service to the public is placed at risk.

Sustainability issues will be addressed in the Pre Qualification Questionnaire and service specification documents. The specification and evaluation criteria will include reference to local and sustainable sourcing including food miles, food provenance and the use of seasonal ingredients and food produced using sustainable practices.

Crime & Disorder Implications:

- 5.5 None

Risk & Opportunity Management Implications:

- 5.6 Failure to address current catering provision will jeopardise the service's ability to meet income targets and efficiency savings.

Corporate / Citywide Implications:

- 5.7 The Royal Pavilion & Museums play a vital role in the cultural, learning and economic life of the city, and its visitor offer. Commercial income is essential to the business case for running these services.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 An options appraisal was conducted as part of the Catering Review

6.2 Options Financial Summary

	Option 1	Option 2	Option 3a RPM Outsource alone - no street access Pavilion tearoom	Option 3b RPM Outsource alone with street access Pavilion tearoom	Option 4 Outsource with BDFL
	£000	£000	£000	£000	£000
Current achievement to income target	-55	-55	-55	-55	-55
Income improvement	12	48	69	110	190
Investment payback	0	32	0	0	0
Achievement to target	-43	-39	14	55	135

6.3 Option 1: Continue as now with operational improvements

The current mix of in-house and contracted arrangements for RPM could continue as is. The catering review set out a number of short-term operational proposals for the in-house catering, such as menu changes, overhaul of kitchen and storage areas and extending café's

seating into a second space at Hove Museum. The business model predicts £12k increase in income on current levels as a result of these. For 2011/12 combined catering made a net £16K loss although the budget target was a £39k profit, the result to the service is a £55k income pressure. A £12k increase in profitability would not mean that catering achieves its income target. It would only reduce the income target pressure to £43k.

6.4 Option 2: Continue as now with operational improvements and investment

The current mix of in-house and contracted arrangements for RPM could continue as is with investment to allow for potential for business growth. The existing Royal Pavilion Tearoom looks 'tired' and would benefit from a new counter and furniture. The possible move of the VIC provides opportunity of development of catering offer with street access in part of the existing Pavilion retail space. Hove Museum & Art Gallery would benefit in investment in a decked outdoor seating area and improved counter display. Brighton Museum & Art Gallery also presents opportunity for a foyer kiosk offer. Total investment required is estimated at £160-£175k, however, the expected improvement in income in the year following such investment would be £48K above current levels.

For 2011/12, combined catering made a net £16k loss although the budget target was a £39k profit, the result to the service is a £55k income pressure. A £48k increase in profitability would result in achieving £7k loss against target. A capital investment of £160-£175k paid back over 5 years would be approximately £32-35k a year at the lower level pushing the business further into net loss of in excess of £32k pa. This does not make financial sense for an operation which is supposed to generate income for the service.

6.5 Option 3: RPM outsourcing alone

3a As the Brighton Museum Gallery Cafe contract and approved caterers list are now due for re-tendering, there is an opportunity to tender all catering functions to maximise possible efficiencies and economies of scale for potential contractors. Hove Museum Tearoom is not viable on its own, so would need to be linked to the Royal Pavilion. As part of a five year contract, the expectation is that a specialist contractor would aim to improve performance by approximately 20 %. With combined sales from the Royal Pavilion, Brighton Museum, Functions and Hove projected at approximately £690,000 this would be an attractive package. Even with an expectation on the successful caterer to commit to investment in Brighton Museum, Hove Museum and the existing Royal Pavilion tearooms. Based on the current £55k budget pressure, this would provide the service with an additional £14K over and above income target and remove the service's liability for equipment replacement and catering related energy costs.

3b If the contract was widened to include a new Tearoom with street access at the Pavilion, whilst there is a good business case for the investment, the number of caterers able to tender with the level of investment would be more limited. As part of a five year contract, with

the new outlet as well as existing outlets the level of business could be in the region of £1.1million. The expected commission would be 10% i.e. £110k. Based on the current £55k budget pressure, this would provide the service with an additional £55k over and above income target and remove the service's liability for equipment replacement and catering related energy costs.

6.6 Option 4: RPM outsourcing with BDFL

The size of this business opportunity will attract caterers with the ability to invest in capital improvements, including the recommendation for a new Tearoom with a street entrance in the Pavilion Shop/VIC space. The scale of business would amount to in excess of £3million pa across all sites and as such BDFL and RPM could expect a concession in the region of 17-18%. Even with investment required for the Royal Pavilion, on this level of business the higher concessions would realise in the region of £190k pa based on current levels. Based on the current budget pressure, this would provide an additional £135k of income over and above the current income target as well as removing the service's liability for equipment replacement and catering related energy costs.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 Recommendations are made on a financial basis. The Council cannot continue to underwrite what should be a service generating income to enable core museum services to operate. Even with investment, repayment costs would still mean that catering would not achieve income targets. Tendering the business jointly with the BDFL provides opportunity to maximise income and encourage much needed investment into areas of the service that lack investment and are not in keeping with the quality expected from major museums and heritage attractions.

SUPPORTING DOCUMENTATION

Appendices:

1. Museum Visitors and tea room users

