

Senate Finance and Public Administration Legislation Committee —Supplementary Budget Estimates Hearing—October 2016

Answers to Questions on Notice

Parliamentary departments, Department of Parliamentary Services

Topic: **ANAO Performance Audit Report – Managing Contracts at Parliament House**

Question: **21**

Written: **Senator Wong**

Date set by the committee for the return of answer: 2 December 2016

With reference to the Australian National Audit Office Performance Audit Report *Managing contracts at Parliament House* (No. 19 of 2016-17) and the information circular sent to occupants of Parliament House on 2 September 2016 advising that the Department of Parliamentary Services will establish a new in-house catering operation that will launch from 1 January 2017:

1. Given the Australian National Audit Office states that the Department of Parliamentary Services “has not developed a business case to demonstrate how it will improve the standard of catering or deliver value for money” and the absence of “a strong evidence base underpinning the consideration of these options”, on what basis was this decision made?
2. Can a copy of the Food Strategy report referred to in paragraph 15 of the Australian National Audit Office report be provided?
3. How much did this report cost?
4. Who produced this report?

Answer

1. While the ANAO completed their fieldwork before DPS finalised the preferred operating model for catering services, consideration of the appropriate model for delivery of improved catering services at Parliament House by DPS commenced in 2015. This process was lengthy, and included the review of food and beverage services, and subsequent development of the Food Strategy report. Implementation of the recommendations from this report required a substantial body of work to be robust and credible. At the completion of fieldwork, DPS was in discussions with the incumbent catering contract provider, and a final model had not been decided. DPS clearly articulated the status of this activity, and also made clear that our key driver was to improve the quality of the food and services offered to Senators, Members and building occupants.
2. The Food Strategy report contains sensitive information, including commercial and security aspects, so has not been provided in full. The Executive Summary to this report, which outlines recommendations and key findings, is attached.
3. The report cost \$55,174.55 (incl. GST).
4. The Maytrix Group.

AUSTRALIAN PARLIAMENT HOUSE FOOD STRATEGY

15 January 2016



THE MAYTRIX GROUP



1 EXECUTIVE SUMMARY

1.1 Recommendations in Brief

The following summarises key recommendations for the Food Strategy

1. Continue with an out-source model. Note that some members services may be effectively managed in-house however there are risks in doing this in the short term.
2. Split the food service products under separate contracts; member services and functions (subsidised) vs. commercial products.
3. Go to market with a flexible procurement strategy which allows for the contracting of single or multiple products.
4. Adopt two contracting methods – Management Agreement (for subsidised products) and Licence Agreement (commercial products).
5. For member services products adopt a 3 year term to allow for an in-house model to be fully developed noting the risks associated with bringing it in-house now.
6. Assess cost and risks of delivering special suite catering in-house now. Assess costs and benefits against tendered offer (separated in tender) to determine whether this product is brought in house now.
7. Improve contract and contract management resources and practices to enable DPS to more effectively manage performance of the contracts, to minimum standards.
8. Develop service standards and measures to more effectively gather and analyse revenue and cost information to manage and improve performance and gather information to effectively assess future contract options.
9. Restructure access and venue hire to industry standard including offering a scaled discounted hire and catering for venue to internal markets. Eliminate equipment hire for use of external courtyards.
10. Review opportunities to growth demand for commercial functions without compromising access for internal use.
11. Complete and implement recommendations from equipment conditions and compliance audits for all food service areas.
12. Invest in the upgrade kitchen and service areas for service efficiencies, ensure compliance to Food Safety standards, and to extend menu and improve service.
13. Invest in new fitouts for commercial operations. Note some investment may be provided by operators for commercial operations.
14. Support food service operators through absorbing some of the increased operating costs associated with operating in a security policy environment.
15. Improve equipment and management of Loading Dock to improve processing and reduce costs of operating in a secure environment and improve food safety.
16. Introduction of other commercial activities including:
 - Develop a permanent coffee service at 2 service points on Level 2 to replace existing service;
 - Exclusive supply contract for audio visual services; and
 - Re introduction of a limited bar service and sale of packaged alcohol.



17. Improved access to some services for Parliamentarians and staff including:
- Access to private event catering equipment without hire charge;
 - Offer of discounted rates for food and beverages to Parliamentarians; and
 - Discounted venue hire for all Parliamentary bookings establishing a minimum ratio of commercial to internal hires.

1.1.1 Member Services

The following table summarises the products offered as member services and the proposed operating model and term for contracting arrangements.

Food Service	In house contract model	Outsource contract model	Recommended contract type where out sourced	Contract
Members Club	Possible. Further investigation required.	Yes	Management Agreement (subsidised by DPS)	Contract 1
Members and Guests Dining	Possible. Further investigation required.	Yes	Management Agreement (subsidised by DPS)	Contract 1
Committee Room catering	Possible. Further investigation required.	Yes	Management Agreement (subsidised by DPS)	Contract 1
In-room catering	Possible. Further investigation required	Yes	Management Agreement (subsidised by DPS)	Contract 1
Special suite catering	Possible. Further investigation required	Possible. Further investigation required.	Management Agreement (subsidised and managed by DPS)	Contract 1
Members functions	Possible for smaller function rooms with a limited menu.	Yes	Management Agreement (subsidised by DPS)	Contract 1
Staff Dining Room	Not recommended	Yes	(Management Agreement (subsidised by DPS)	Contract 1

1.1.2 Commercial Operations

The following table summarises the products offered as commercial operations and the proposed operating model and considerations.

Food Service	In house contract model	Outsource contract model	Recommended contract type where out sourced	Contract
Equipment Hire	Not recommended	Yes		
School Group Catering	Yes	Yes	Management Agreement	Contract 1
Vending	Yes	Yes	Management Agreement	Contract 1
Commercial events	Not recommended	Yes	Management Agreement	Contract 1
Queens Terrace Café	Not recommended	Yes	Licence Agreement	Contract 2
Aussies Cafe	Not recommended	Yes	Licence Agreement	Contract 2
Coffee Cart or additional Kiosk/s	Not recommended	Yes	Licence Agreement	Contract 2



1.2 Key Findings

Food services at Australian Parliament House (APH) are licenced by the Department of Parliamentary Services (DPS) which has responsibility for oversight of retail and food services. Food services at APH are currently provided by Intercontinental Hotels Group (IHG), with the exception of Aussies Café which is operated under an independent outsourced commercial arrangement. Both contracts are structured as Licence Agreements and the IHG contract is due to expire on December 31 2016, whilst the Aussies Café contract expired on 31 March 2015 and is running on a month to month basis. Food services are defined under three key service areas across a range of environments within APH: These are:

- Member food services;
- Function operations; and
- Commercial retail food services.

The Food Strategy is informed by high level stakeholder consultation, engaging with representatives across four departments located at APH and key areas of Parliamentary Services. This Food Strategy informs the range and level of services, locations, interdependencies and commercial arrangements for the delivery of future food services at APH. It also highlights opportunities to address service delivery and efficiencies to improve the operational and financial performance of food service operations which will serve to attract high quality service providers where the contract(s) are out-sourced and provides recommendations around contract options for service delivery and methods of approaching the market to test these options. Identified service delivery options include:

1. Option 1 – Outsource all food services (single contract);
2. Option 2 - Deliver member services in-house, outsource all retail food services and function operations (as single or multiple contracts);
3. Option 3 - Deliver member services in-house, outsource some retail services, and all function operations, licensing, Aussies and other commercial food service operations under a separate contract; and
4. Option 4 - Operate all food services in-house.

The Food Strategy is supported by a high level action plan identifying key recommendations within the context of the strategic intent and objectives. The Action Plan outlines a process for further consultation and analysis of key service areas particularly Special Suite and Member Dining Room to inform the development of a targeted service and delivery model to meet the needs of the market and to document minimum service standards for these and all other food service areas.

Food services at APH impacts a wide number of stakeholders and critically must meet the needs of and be responsive to Parliamentarians and staff, as well as meeting the needs of and being an attractor for visitors to APH. The Food Strategy is underpinned by a strategic intent and objectives for food services at APH. These are:

'To provide value adding, high quality food services which are responsive to the need and demands of Parliamentarians, staff and visitors to Australian Parliament House.'

The objectives for the Food Strategy are to provide:

- An efficient, market responsive, quality service driven offer which provides 'value for money' to current and future commercial and internal market;
- A contemporary, variable food and beverage offer and experience which responds to changing market environment;
- Maintain assets, service areas and performance standards and provide transparent reporting through a robust framework for pro-active contract monitoring and to support effective and compliant contract delivery management; and to
- Create a sustainable operating environment to ensure value for money, market aligned and market competitive services

In considering the option to bring part or all food service operations in-house, the complex operating environment, the scope and range of service delivery and limited information regarding operating costs of the current operations make effective risk management in the transitioning to an in-house operating model challenging. Limited exemplars for the transitioning of complex, multi-faceted food service operations to an in-house model point to some of the challenges in pursuing this option. To reduce the risk associated with bringing part or all food service operations in-house, it would be desirable to establish transparent financial reporting including disclosure of key operating costs and the obligation for the



operator to document all internal systems and process for lodgement with DPS.

It is however noted that some aspects of food services, specifically Special Suite catering requires very specific and discrete service delivery and the effective management of these food services may be more effectively delivered through a modified service arrangement. In this instance, service delivery is expected to come at increased cost to DPS which will need to be offset by increased access for commercial functions or increased budget allowance for this service.

Through adequate resourcing of contract management and the establishment of robust performance measures, similar controls over service quality can be achieved through outsourcing food services under a management agreement or licence agreement. In this situation, it is not uncommon to allow for a number of options when approaching the market.

Factors which need to be considered in determining the preferred contract and service delivery models include:

- Contract priorities including requirement for investment, maintenance levies and associated contract servicing requirements; and the
- Need to manage commercial risk;
- Level of control required to manage operational quality and protect reputational risk;
- Demand, relative turnover, growth potential and other factors likely to impact the commercial attractiveness of the contract to a third party operator;
- Complexity of the operating environment and the need to gain cross-institutional support;
- Internal capability including access to systems, processes and resourcing; and
- The degree of competitive tension considered optimal to deliver quality and return.

This Food Strategy includes wide ranging recommendations that are expected to support effective service delivery, support the delivery of a targeted food service offer and the delivery of an effective and compliant operating environment, and to support continuous performance improvement across all food service areas. If adopted these recommendations are expected to support the reduction of operating costs and increased revenue and profitability of food service operations. Recommendations consider the contracting of food services through a flexible procurement strategy, where food services are offered as a single or multiple contracts. This approach to market provides the opportunity to test options and commercial interest across a range of contract configurations. Based on a preliminary market assessment of potential operators, this approach is expected to test a full range of options and engage strong interest from the market. Key recommendations detailed in the Food Strategy are supported by a high level Action Plan with nominated key steps for implementation of the outlined recommendations including:

- a) Continue with an outsourced model in a combination of Licence Agreement and Management Agreement contracting arrangements;
- b) There are some aspects of food services which require a personalised and discrete service and may, in time be effectively delivered through an in house managed model. The complexity of food service operations and limited sales increase the risk associated with bringing some or all food services in house. Increased disclosure and intellectual property gained through new contracted arrangements with inform future analysis and risk mitigation to inform planning for in house service option. The option to assess the cost implication of in house Special Suite catering is consolidated in the recommended procurement strategy.
- c) Implement a flexible approach to market with clearly defined service and commercial expectations under 2 contracts based on member services and function operations (contract 1), and commercial retail services (contract 2).
 - Contract 1 should be offered for a minimum term of 3 years for member services (contract 1) contracted under Management Agreement; to allow sufficient time to collect data and assess the option for bringing member services in house This contract should include a 2 year extension at DPS option to align the term of contract 2.
 - Contract 2 for commercial retail operations should be contracted as a Licence Agreement for 5 years to allow the operator sufficient time to offset the establishment and investment costs for the contract.
- d) Analyse Special Suite catering immediately, undertaking this at the same time as the procurement process. In tendering, include this as an optional (separately costed) service. Tender responses will allow effective assessment of the costs of delivering the service which can be compared with the internal assessment to determine approach for this product.



- e) Contracted services should include industry standard contract and reporting framework including performance controls and measures to ensure market responses and effective service delivery and to support empowered contract management including
 - Maintenance contract for all service equipment;
 - Annual conditions report following full review and servicing of all equipment to be undertaken prior to tendering food services;
 - Review and development of systems and processes for all service areas to maximise service efficiencies and to be lodged with DPS , where ownership of Plans resides with DPS;
 - Robust service standards and measurable performance standards for all food service areas to be developed through detailed review of all service areas including frequent standardised customer surveys to establish variance reporting for customer satisfaction and reporting on room utilisation and forward function bookings aligned to budget forecasts;
 - Implementation of annual business planning process including external market assessment and benchmarking of service costs and to inform capital planning and asset renewal program;
 - Alignment of menu offers and retail concepts to identified target markets;
 - Integration of service standards with operator branded as APH;
 - Transparent financial reporting including reporting of operating costs against budgeted KPIs; and
 - Some investment in to capital infrastructure and/ or front of house fitout for retail tenancies where DPS retains ownership of equipment.
- f) DPS should have sufficient dedicated resources to monitor and manage reporting where this is aligned to the number of contracts and range of reporting areas. Initial contract support may be required through a 6 to 12 month transition period to ensure the development and effective implementation of all systems, processes, reporting and monitoring templates;
- g) Investigate options to increase return from commercial functions including increased access to areas for delivery of commercial functions to offset the level of subsidy for food services and the subsidisation/streamlining of security costs for events to improve event bookings/revenue;
- h) Assess the cost and operational implications of operating Special Suite catering as an in-house service. The option to deliver Special Suite catering as an in house service should be offset by increased return from commercial functions and informed by the assessment of operating costs;
- i) DPS funded upgrade of kitchen and service areas infrastructure rationalising service areas to maximise service efficiencies, ensure compliance to Food Safety standards and align to menu offer and servicing requirement;
- j) Upgrade and/or expand fitout of retail service areas funded by DPS and the Operator including the redesign of counter areas to align to menu offer, maximise service flow and improve customer engagement and amenity aligned with target markets, where the extent of operator investment is impacted by tenure and the commercial terms of engagement;
- k) Support food service operators through absorbing some of the increased operating costs associated with operating in a security policy environment including:
 - Absorbing the cost of and facilitating the time effective application of staff security passes; and
 - Introduction of additional scanning equipment to improve the efficiency of Loading Dock management
- l) Development of a permanent coffee service at 2 service points on Level 2 to replace existing service;
- m) Nominating of a future retail area (Reading Room Café) to service the private market, subject to future demand assessment following the rationalisation and refurbishment of other retail food service tenancies;
- n) Introduction of other commercial activities including:
 - Exclusive supply contract for audio visual services; and



- Re introduction of a limited bar service and sale of packaged alcohol.
- o) Improved access to some services for Parliamentarians and staff including:
 - Access to private event catering equipment without hire charge;
 - Offer of discounted rates for food and beverages to Parliamentarians; and
 - Discounted venue hire for all Parliamentary bookings establishing a minimum ratio of commercial to internal hires.