

Catering Market Testing/Tender Report

Facilities

24th March 2009

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1. Introduction

To support the continuous improvement, modernisation and investment in Catering Services, a catering market testing/tender exercise has been ongoing since August 2008. The tender process has been used to identify the most appropriate catering service operator for the new City Space building that opens in September 2009. The catering services tendered excluded the existing Greggs and O'Briens outlets for which concession lease arrangements are already in place with the University.

Outsourcing options available for the catering service have been benchmarked against the current in-house service provision. In addition vending and hospitality services which are already provided by external catering companies, have also been tendered.

Following a formal process of evaluation, tenders were issued to 7 companies in December 2008. The seven were shortlisted down to two catering companies during January 2009. In February 2009 a summary of the two short listed company's bids were presented to Shirley Atkinson, Phil Williamson and Ian Gray, which enabled a decision to be made to discount one company due to unfavourable financial terms. Appendix 1, "Table of Comparisons" details the key differences between the tender offers.

A final proposal by the remaining shortlisted company, Aramark, was presented to the University in mid March. This report summarises the results of the tendering process, comparing outcomes against the alternative in-house options in order to enable a decision to be made with regard to the way forward for catering service provision for the University.

Appendix 2, "The Tender Process and Consultation" details progress to date and includes an overview of consultations with catering staff and Unison.

In order to ensure successful mobilisation of catering services to coincide with the opening of City Space for September 2009, the final decision on catering services delivery is required by 27th March 2009.

2. Catering Tender

The tender was issued in 10 lots as detailed below; it should be noted Lot 4 City Lounge has now been removed as a result of clarification on the use of this space. The tender evaluation criteria is detailed in Appendix 3.

City Campus

LOT Number	LOT Details
LOT 1	Delivered Hospitality Services around the City Campus
LOT 2	Murray Library Café
LOT 3	City Space: Global Food Theatre on two levels: Barista coffee/juice bar on level 1 & a Food Court on level 0. Executive Hospitality/Corporate Entertaining within Edinburgh Building

St Peter's Campus

LOT Number	LOT Details
LOT 5	Delivered Hospitality Services around the St Peter's Campus
LOT 6	Reg Vardy Coffee Pod
LOT 7	Reg Vardy Retail Shop
LOT 8	Prospect Building: Global Food Theatre on two levels: Barista Café on level 1 & a Food Court on level 0

Ashburne House

LOT Number	LOT Details
LOT 9 Until June 2010 or June 2011	Ashburne Café

Vending

LOT Number	LOT Details
LOT 10	Vending provision to both the St Peter's and City Campus. 12 buildings.

3. Summary of Tender Outcomes

A. Shortlisted Company Aramark

Suitability and Similar Experience

It is clear that Aramark has the experience and resource to meet the service aspirations of the University. The third largest contract caterer in the UK, they are a global organisation and the largest caterer in the university sector in the United States. Site visits to Southampton Solent University have demonstrated their ability to meet customer expectations through innovation in terms of brands (they have a national product innovation centre), style of service, which links to their marketing strategy within which they have clearly identified (through extensive research of the education sector), customer types and their catering requirements.

Service Delivery

In addition to the above Aramark can demonstrate they have considerable staffing resource to mobilise, manage, support and develop the business. They offer a comprehensive marketing package, which includes branding for outlets, in addition to promotional and reward schemes for customers. These developments are ongoing, influenced by the high street, customer feedback, trends and client requirements.

Cultural Fit

Cultural Fit is fundamental to a partnership agreement with the University and evidence suggests that Aramark are an appropriate cultural fit, in terms of their CSR (corporate, social responsibility) commitment, reputation, business culture and the partnership style proposals they have offered. Sector colleagues at Southampton Solent University support this, they have worked in partnership with Aramark for 17 years and during that time Aramark have developed initiatives that support and progress the University's ethical commitments.

Price and Cost Effectiveness

Aramark's proposal demonstrates the financial and other benefits of awarding them all of the catering lots tendered, (with the exception of vending). The style of contract proposed is Nil Cost with Performance Guarantee; Appendix 4 provides an overview of this style of contract. Essentially, it is guaranteed that the bottom line will be nil subsidy. The nil cost contract offer includes a management fee, which equates to 4% of catering income. In addition, Aramark propose an incremental profit share with the University detailed in Appendix 5. The profit share arrangement is triggered in year two, after any profit generated in year one is returned to the University.

It should be noted that whilst no subsidy is required for the contract, the University is required to meet substantial utilities and other central University costs over the term of the contract. Appendix 7 details the true cost of the contract over the proposed seven-year tenure, note, this does not take into account any profit share agreement.

This style of contract (nil cost with performance guarantees) transfers financial and business risk to Aramark and places the emphasis on Aramark to drive income and maintain expenditure within budget. Additionally Aramark's management fee is linked to key performance indicators; this means a percentage of their fee is at risk if targets are not achieved.

B. Vending – shortlisted company North East Vending Ltd

Aramark also bid for Lot 10 vending in addition to an independent vending specialist company. As vending is not Aramark's core business, they proposed to subcontract the vending to our current suppliers, and return £20,000 commission to the University in year one.

It would therefore be more beneficial to award the vending contract direct to North East Vending Ltd who propose to invest £100,000 in additional machines and supporting services, on a commission based contract (£24,000 income to the University in year one). The University would receive an enhanced service due to local support and be able to maximise sales opportunities through increased competition.

Recommendation: Vending contract to be awarded to North East Vending Limited.

C. Hospitality –Shortlisted Companies - Aramark & O'Briens

Hospitality will be awarded on a framework agreement; this means there will be two suppliers for University customers to choose from to purchase hospitality. O'Briens, (Irish Sandwich Bar Ltd) who are currently situated in Priestman building, will be one of the suppliers on the framework. This will ensure we support growth for our current supplier, maintain competition and ensure customer choice, additionally all sales will be accounted for in O'Brien's Priestman accounts so the University will receive a % return from turnover. The other supplier will be dependent on the tender decision therefore, will be either Aramark or in-house.

Recommendation: Two hospitality suppliers to be appointed to the framework, O'Briens and either Aramark or in-house.

D Summary of In-House Outcomes

This summary has been prepared against catering lots 1 to 9 to enable a direct comparison to the Aramark tender proposal.

Suitability/Similar Experience

The in-house catering team can demonstrate their understanding of the dynamics of the University business both now and in the future. In addition to the delivery of current in-house catering services, the service is also responsible for the successful concession outlets (Greggs and O'Briens) and the current outsourced hospitality business. Additionally, the service has assisted consultants in the development of the current catering strategy and has ensured that the team have a full understanding of the University aspirations having developed the concepts for each area.

Over the past two years, the in-house team have successfully integrated commercial strategy with core corporate social responsibility values, to develop a unique catering brand for the University.

The Murray Café opened in October 2007 and customer feedback suggests that this FES (Fair, Ethical and Sustainable) brand positively impacts on the student experience and achieves differentiation, enabling university catering to gain and maintain competitive advantage over its high street competitors. The success of the café has seen the brand rolled out into a pod format in the Reg Vardy building.

Service Delivery

In addition to the above, the in house catering team can demonstrate that they have the staffing resource to mobilise, manage and develop the business at the Sir Tom Cowie campus and to continue to develop business in the Murray Café.

However, the catering team currently do not have the resource to mobilise City Space on an in-house basis from August 2009. This is due to a number of reasons, brands would need to be established building on the FES agenda (this work was underway and then deferred at the commencement of the catering tender process). There is no staff resource and due to the extended timescales of the tender process, a longer period than the 5 months available would be required for an in-house team to mobilise City Space to the required level.

Further development of the Fair, Ethical and Sustainable catering offer could be developed for implementation across lots 5, 6 and 8 at the St Peter's Campus. However, decisions on the capital investment programme for Prospect building means that the level of catering work required will not be known until investment decisions are made by the University on the 3rd April 2009.

An ongoing promotion and reward scheme would also be developed.

Cultural Fit

The in-house service has demonstrated its understanding of the HE business during the 17 years it has operated since university status was achieved.

The service can demonstrate the positive contribution it makes to the University, through the Fair, Ethical and Sustainable philosophy, which underpins the service provision and positive student experience.

The FES brand mirrors University CSR aspirations and core values. This has contributed greatly to enhancing the University's reputation in the local and wider community and contributed to a distinctive student experience. The University's vision is to be globally recognised and the catering philosophy also has an international focus, communicated through its menus and style of service to meet the expectations of a culturally diverse community.

The FES brand offers a distinctive student experience, receiving huge acclaim from the university community and the City and has been visited by colleagues across the sector as a beacon of best practice. The concept is also unique in the university sector and unique to Sunderland.

Price and Cost Effectiveness

Appendix 6 demonstrates the cost of operating lots 1 to 9 via the in-house option. The basis of this proposal is as the current position where the University receives all income but also bears the costs and retains all the financial and business risk.

It should be noted that the in-house staffing figures are based on University terms and conditions for all staff including an additional 21 staff that would need to be recruited prior to September 2009.

4. Risks Analysis

Outsourcing risks detailed below require consideration.

Aramark Contract Risks	Mitigation
Financial	<p>1 Guaranteed Nil Cost contract against lots 1 to 3 and 5 to 9 services as outlined in the tender documents</p> <p>2 Service requirements over and above the specified catering services, e.g. open days, events/ conferences will be invoiced on a monthly basis and are an additional cost to the contract.</p> <p>3 The only costs payable by the University are “ below the line costs” of utilities, maintenance of Buildings, equipment, etc, deep cleans, VAT on the management fee and hospitality. The contract cost to the university equates to approx £254,566 per annum (7 year contract).</p> <p>4 KPI’s linked to the Aramark management fee, so quality and service delivery cannot diminish. Below budget sales result in a relative reduction in management fee.</p>
Tariff may increase on some catering lines by up to 25% compared to the current in-house St Peter’s Campus offer.	<p>Annual price review agreed with University.</p> <p>Open book policy (procurement).</p> <p>Sector Bench Marking (via third party).</p> <p>Regular customer satisfaction surveys.</p>
That without investment, turnover for prospect building is not realised, thus jeopardising the nil cost bottom line	<p>The contract outlines a revised catering service offer in the Prospect Building from Sept 09 (as in investment plan) rather than the current 3 services offered in 2008/09. Without this investment in front of house areas proposed income levels may not be realised in year 1 of the contract. Opening hours as detailed overleaf would need to be revised if investment in Prospect catering is deferred to 2010/11.</p>
One contractor operating all eight lots.	<p>Competition generated from concession operations and hospitality framework agreement.</p> <p>Partnership style agreement, underpinned by “risk and reward”.</p> <p>Notice period to terminate contract, recommend 9 months.</p>
Unison and current catering staff concerns over outsourcing of catering services	<p>TUPE would apply to existing university staff and Aramark are required to TUPE staff on their current University T&C’s. The contract is costed to ensure TUPE staff T&C remain as today throughout the contract (dependant on turnover being met and therefore nil cost being achieved).</p>

Unison and staff action as a result of outsourcing catering services	Consultation with staff/Unison and close partnership working during contract mobilisation with Aramark. There is also the risk of catering staff receiving wider support across the university and <u>the potential for following escalation of industrial action.</u>
Two staff over 65 not eligible for TUPE	<u>The University would discuss the interests of these two staff on an individual basis with the staff and Aramark. Would be offered temporary contracts on caterers T&C's.</u>
If catering to remain in-house, due to timing of the process, in-house are unable to mobilise City Space for September 2009	Award <u>catering</u> contract to Aramark for at least City Space.
If all catering outsourced, failure to mobilise all services for start of term in September 2009	Decision to outsource needs to be made early enough to ensure effective mobilisation, (by 27/3/09) Detailed mobilisation plan from Aramark. Adequate support and resources.
Contractors Terms and Conditions	Draft contract currently being assessed and University contract T&C being prepared.

Opening times in tender documentation and hours that turnover figures are based on

- (i) City Space Building:
Food Theatre, level 0:
Trading Weeks: 50, 7.30am - 6pm Monday - Friday for 35 weeks,
7.30am - 3pm Monday - Friday for 15 weeks. No weekends

City Space 1st floor Juice/Coffee Bar
Trading Weeks, 50, 10am - 8pm Monday – Friday
10.30am - 4pm Saturday and Sunday
- (ii) City Campus:
Murray Café: 45 weeks trading. 8.30am-6pm. (earlier closing Friday).
No weekends
- (iii) St Peters Campus: .
Retail Shop 40 weeks trading 8.30am-4pm
Coffee Pod Reg Vardy 35 weeks trading 8.30am-5pm, (earlier on Fri)
Prospect Building Food Theatre
Lower Café 40 weeks trading. 8.30am - 6pm
First Floor Café 50 weeks trading 10.00am - 3pm
No Weekends
- (iv) Ashburne Campus: 1 year until summer 2010.
35 weeks trading. 9am-5pm. (earlier closing Friday).
No weekends.

5. Conclusions and Recommendations

The objective of the market testing/tender exercise is to determine the best options for the future delivery of catering services across the University. The continued improvement of student and staff experiences derived from catering services is an important issue in relation to customer satisfaction levels across the University.

The current in-house service has demonstrated that it has the ability to meet these challenges however, it does not have the “off the shelf” resource that Aramark have in terms of marketing materials and product innovation. The in house team would therefore require investment prior to September for future brand developments. This is required for catering outlets at St Peter’s Campus. This support would also be required on an on-going basis and would produce a distinctive brand and offer for the University.

Aramark have the staffing resource to mobilise all eight lots for September 2009 and if the University wishes to achieve a nil cost subsidy and transfer financial and business risk it would be required to award all eight catering lots in one contract to Aramark.

The in-house team are unable to mobilise City Space, but are able to operate all other services across campus. Therefore, partial outsourcing could be an option. However, in considering this approach it is important to note that it may be difficult to achieve consistency across campuses and nil cost would not be achieved by awarding the City Space contract only to Aramark.

The contract offered by Aramark is of benefit to the University in that it reduces the current catering subsidy, as demonstrated in Appendix 7 and transfers most financial and business risk to the contractor under a partnership arrangement. However, this does not include the staff relations risks the University is exposed to if it decides to outsource.

To ensure continual improvement, the selection and agreement of key performance indicators will be essential to the success of the contract from the University perspective.

The in-house service can clearly demonstrate their cultural fit and an ability to differentiate catering services as evidenced by the success of the Murray Café.

Recommendations

Catering Outlets

- The City Space catering contract should be awarded to Aramark because without extra resource the in-house service is unable to mobilise the new City Space building. City Space could be outsourced for a shorter period with an option to extend the outsourcing to St Peter’s Campus in the future. Note, there is a risk that Aramark would offer a less favourable contract type if this option was taken.

- Should the University priority be to retain management control over the provision of catering services across the University then the option to retain the Murray Café and St Peters Campus catering services “in-house” is a viable if more expensive option.
- If the University vision is to enter into a partnership with a larger catering organisation, reduce cost subsidy, transfer financial and business risk, then the favourable option is to outsource all eight lots to Aramark. Management control would be achieved through clear performance indicators to ensure good performance and continuous improvement.

Vending

The contract should be awarded to North East Vending Ltd.

Hospitality

Award a framework agreement with Aramark and O'Briens or In-house and O'Brien's (dependent on decision re catering service provider).

Appendix 1 - Table of Shortlisted Catering Companies for Comparison, Aramark and Sodexo

Service Delivery	Aramark	Sodexo	Comments
	<ul style="list-style-type: none"> Proposals met the brief in terms of style of offer and service. Branding appropriate and concept specific. Access to student focused market research. Ability to continually innovate Integrated fair, ethical and sustainable values well. Would employ a contract general manager Comprehensive staff training and development plan Dedicated team, HE and FE focused. 	<ul style="list-style-type: none"> Proposals met the brief in terms of style of offer and service. Branding appropriate and concept specific. Access to student focused market research. Ability to continually innovate Integrated fair, ethical and sustainable values well. Would employ a contract General Manager Comprehensive staff training and development plan Dedicated team FE focused. 	<p>Both companies can meet optimum service aspirations, and propose a realistic staffing structure to support expectations.</p> <p>General Manager costed to contract at 36-41k.</p>
Experience/Suitability	Aramark	Sodexo	Comments
	<ul style="list-style-type: none"> Proven ability within FE sector. Have resource and experience to manage complexities. 	<ul style="list-style-type: none"> Proven ability within HE sector. Have resource and experience to manage complexities. 	Both companies have the relevant experience.
Risk Transfer Mitigation	Aramark	Sodexo	Comments
Level of Interest	<ul style="list-style-type: none"> Lots 1-9 provide the best business opportunity. Interest will remain if all lots are not awarded. Also interested Lot 10 vending. 	<ul style="list-style-type: none"> Lots 1-9 or nothing 	<ul style="list-style-type: none"> Aramark are very keen for the business so would be interested if we decided not to award 1-9 to one contractor. Sodexo only interested in all the business.
Hospitality Framework Agreement	<ul style="list-style-type: none"> Accept framework arrangement 	<ul style="list-style-type: none"> Accept framework arrangement. 	<ul style="list-style-type: none"> Ensures an improved onsite service. Retains choice. Framework drives competition. Suppliers awarded lots 3 and 8 would have to be awarded hospitality lots 1 and 5.

Sole City Space Operation	<ul style="list-style-type: none"> • Would be interested but would affect bottom line and contract type terms. • Would want to operate the city lounge space if this was going to be a retail outlet for additional revenue 	<ul style="list-style-type: none"> • Only interested in all business. 	
Mobilisation	<ul style="list-style-type: none"> • 12 weeks 	<ul style="list-style-type: none"> • 22 weeks 	Comprehensive mobilisation plans to minimise risk. Both have resources to ensure objectives are met.
Ashburne Staff	<ul style="list-style-type: none"> • Would transfer both staff to city space. • Would engage with staff to see if they wanted to be transferred elsewhere on site. • Recruit temporary staff for Ashburne 	<ul style="list-style-type: none"> • Would engage with staff to see if they wanted to be transferred elsewhere on site. • Recruit temporary staff for Ashburne. 	Ashburne staff at risk because all posts will be fully recruited in September 09. The University would insist that the staff are moved and temporary staff run Ashburne.
Recruitment	<ul style="list-style-type: none"> • Intend to utilise skills currently on site and move staff around. • Will centrally recruit other staff. • Have a pool of staff they can move around • Will need to recruit chef manager and chef for city space and General Manager for the contract. 	<ul style="list-style-type: none"> • Intend to utilise skills currently on site and move staff around. • Will centrally recruit other staff. • Have a pool of staff they can move around • Will need to recruit chef manager and chef for city space and GM for the contract. 	Recruiting the right people in Sunderland is difficult. Therefore, a ready made resource to support the operations is fundamental.

Price and Cost Effectiveness	Aramark	Sodexo	Comments
Proposal	<ul style="list-style-type: none"> • Nil cost guaranteed performance contract. • Year 1 mgt fee 52k (4% of actual turnover) • Profit £800 • Total subsidy guaranteed 52k maximum • Turnover 10.9 million over 7 years. • Gross Profit 6.5 million over 7 years. • 330k capital depreciated over 7 years and paid back through P&L • Cost of GAD pension is additional 20k. Cost could be reduced if we opted for a company pension, but there are fewer benefits for staff. • Mgt fee costs us 435k over 7 years. • Bottom line profit 197k over 7 years • Incremental profit share at 1.35 million. • Contract costs us 435k over 7 years. • We then have utilities and central costs to cover approx 1 million over 7 years. 	<ul style="list-style-type: none"> • Cost Plus contract, • Year 1 mgt fee 131k (9% of actual turnover) • Minimum subsidy 106k (not guaranteed) • Total subsidy 237k (not guaranteed) • Turnover 9million over 5 years. • Gross profit 5 million over 5 years. • 500k capital depreciation over 5 years paid back through P&L. • Cost of GAD pension is additional 20k. Cost could be reduced if we opted for a company pension, but there are fewer benefits for staff. • Mgt fee costs us 730k over 5 years. • Bottom line subsidy 380k over 5 years. • Contract costs us a minimum 1.11million over 5 years (no guarantees) • We then have utilities and central costs to cover approx 800k over 5 years. 	<p>Aramark proposal demonstrates a partnership approach and means that they guarantee based upon their projections that their will be no bottom line subsidy. All we will pay is the management fee. The proposal also produces a profit and prudent figures providing a realistic opportunity for profit share. This proposal can only be achieved if the contractor were awarded lots 1-9. Onus is on them to drive sales and manage the bottom line.</p> <p>Sodexo proposal doe not really offer a partnership approach and means that they work to an agreed budget for a management fee. They offer no guarantees for year one to minimise our risk and it is unlikely that we will reach a profit or nil cost position with this contract, although the bottom line subsidy reduces year on year. Risk is with the university.</p> <p>It must be noted that the university will still have to pay utilities and the central facilities charge estimated at 800k-1million over the contract length.</p>

Investment	<ul style="list-style-type: none"> • 330k • Depreciated annually over the length of the contract. • Branding of all outlets • Design and planning where required at their cost. • Investment accrual over length of contract for refreshment of services, new equipment etc. • Hospitality 8k, Murray 9k, City Space 14.5k, City Lounge 81k, Coffee Pod 12.5 k, Retail shop 40k, Prospect building 160k, Ashburne 3k. 	<ul style="list-style-type: none"> • 500k. • 250k St Peters, 95k St Peters Retail Shop. Remainder City Lounge. • More capital could be made available for extended tenure • Depreciated annually over the length of the contract. • Branding of all outlets • Design and planning where required at their cost. • Investment accrual over length of contract, 	<p>Investment Required:</p> <p>250k St Peters Est. 100k St Peters Retail Shop 400k City Lounge.</p>
Cultural Fit	Aramark	Sodexo	Comments
Open Book Policy Retirement Policy Comparable Pension Scheme Corporate Social Responsibility Business Culture	<ul style="list-style-type: none"> • Aramark went to great lengths to explain their open book policy, how it works and the fact their company requests the client undertakes fully audited accounts etc. • Aramark have included the two staff working past 65 in the structure and welcome those at or past retirement age. • GAD pension costed for the staff and an alternative cost for a company pension provided. • Several CSR awards and a proven commitment to Fairtrade, environmental and ethical agendas. 	<ul style="list-style-type: none"> • Very closed about their open book policy. Defensive when challenged about university risk in year one. • Sodexo have removed the two staff working past 65 in the structure and don't welcome those at or past retirement age. • GAD pension costed for the staff and an alternative cost for a company pension provided. • No CSR awards. Proven 	<p>Cultural fit is fundamental to a partnership agreement. The evidence suggests Aramark are a better cultural fit.</p>

	<ul style="list-style-type: none"> • Not indicated when/if they would propose to move staff onto their t&c. • Can demonstrate bottom line is key but they care about how they do business. 	<p>environmental commitment at Bradford Uni.</p> <ul style="list-style-type: none"> • Would like to discuss the university offering enhanced voluntary severance for staff so they can then re-recruit them on their terms and conditions. • Bottom line is key. More aggressive than Aramark. 	<p>The Sodexo proposal of the University offering voluntary severance to staff is not an option the University would consider.</p>
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Appendix 2

The Tender Process and Consultation

Background

- The Catering Service across the University requires investment and modernisation in order to deliver a service experience, which meets customer expectations. The University has ambitions for the Catering Service to make a real difference to the quality of student and staff life around campus. The Murray Café, Greggs, O'Briens and Vardy Pod outlets are examples of recent successes in this area and the intention is to deliver even more service improvements over the coming period.
- The Catering Service provision across the University operates at a financial subsidy from the University. In examining the costs of services, it has been decided to go through a formal tender process to assess how private sector Catering operators may be able to assist the University moving forward. This potentially extends to assistance with investment capital to modernise existing catering facilities, management and staffing arrangements and economy of scale benefits from companies whose core business specialises in catering provision.
- Whilst the University is committed to engaging with the private operators through the tender process to assess what they can offer, it must be stressed that the tender process is a journey with no pre determined outcomes. A competitive tender process is the established way of evaluating what the various options are for service provision and what value for money can be achieved. Until the tendering process concludes, it is difficult to second guess what the various outcomes may be.
- A nationally recognised Catering Consultant (The Russell Partnership) was engaged to develop the catering strategy on behalf of the University in support of the desired change and modernisation agenda. The Russell Partnership strategy identified by the type of catering operations required across the University including the projected level of business generation at each outlet and the level of financial investment required to deliver modernised service provision.
- The first stage of the strategy involved the creation of a new offer and brand to coincide with the refurbishment of Murray Library. The University decided that this should be carried out in-house and as a result the successful Murray Café opened in September 2007. This is proving very popular with customers of the City Campus. A further 'Pod' format catering outlet was established in-house for the Reg Vardy building atrium, which opened in October 2008, again proving popular with customers.
- Part of the catering strategy undertaken by Russell Partnership was to develop a catering concept for the new City Space building on the City Campus, which opens in September 2009. This concept proposes an exciting global food theatre offer within the building, which will move the catering offer available on City Campus to a new level. A new catering operator for the City Space building is required. The Russell Partnership strategy also includes recommendations for

significant investment in the Prospect Building Catering Service at St Peter's Campus.

- As a part of the considerations for continuing with or expanding the in-house Catering Service offers around Campus, comparisons will be made between the private sector tender proposals submitted and the existing Murray Café, St Peter's Campus catering, St Peter's Hospitality service, Vardy Pod and Ashburne Catering services already operating across Campus. This will enable comparison to be made between the tender proposals received and the in-house options.

July/August 2008

- * The tender exercise across all Catering Services (10 lots), includes existing in house outlets in addition to the new City Space and St Peters retail shop operations. Potentially affecting a total of 26 staff across:
 1. St Peters (Prospect Catering, Hospitality and Reg Vardy Coffee POD)
 2. The Murray Café
 3. The Executive Waiter Service in Edinburgh building.
 4. Ashburne House
- * In July 2008, Sharon Olver (Senior Catering Manager) informed Stuart McRoy (Unison) and Lynne Alexander (HR) of the impending tender exercise. The EU advert was due out in mid August 2008 with an initial six-week timescale for responding. All parties agreed not to brief catering staff until they returned on 18th September 2008 from their summer break.

September 2008

- * A briefing was held with all catering staff on 18th September 2008. Lynne Alexander (HR) and Stuart McRoy (Unison) were invited. Sue Brady briefed the staff with the support of Sharon Olver and Lynne Alexander. Briefing details - Staff were advised that the University had undertaken a market tendering exercise, i.e. inviting companies to express their interest in operating catering services to the University. They were advised that an operator for City Space was required and what the services and expected opening times would be and that we did not have the expertise or resource for such a size and type of operation within the university currently. Also mentioned was that the current outsourced hospitality on the City Campus would continue to be outsourced. With regard to St Peters, it was suggested that operators may be interested due to its size, especially if they operated City Space too, but at this stage we didn't know any more than that and would need to see what, if any, level of interests were expressed. The need for investment in St Peters Prospect Catering Service was also mentioned. All staff were reassured that at this stage it was a tender exercise and outsourcing is not guaranteed to be the outcome. Nothing would change for them in the short term and that if there were any changes, then they would be subject to TUPE and staff jobs would not be at risk. Advised that Lynne was there to answer any specific HR queries. Also indicated that a further brief would be held in January when more info was known, the date for this briefing needs to be decided.

- * The University then decided to approach leisure operators with regards to operating City Lounge within the new City Space building, therefore the timescale for responding with initial expressions of interest was extended for a further four weeks to the 30th September 2008.

October 2008

- * The PQQ stage of the tender commenced and evaluation of the information and consequent short listing was confirmed.

November 2008

- * Competitive dialogue interviews took place with all short listed companies to help inform on the tender requirements.
- * Sue Brady met with Stuart McRoy of Unison with regard to informing on the process, work to date and to agree a consultation process (note as at 22/12/08 not concluded as Stuart was awaiting advice from his regional office).

December 2008

- * Contractor site visits to all University outlets took place.
- * All staff were briefed prior to the visits so they were aware of what was happening.
- * Full tender documents issued on 15th December, which included full TUPE information and pension information.

January 2009

- * Tender responses received 19th January 2009.
- * Evaluation shortlisted two large contract catering companies.
- * Follow up meeting with catering staff (no news to share but keeping them in the loop).

February 2009

- * Site visits to Bradford, York St John and Southampton Solent universities, also New College Durham.
- * Financial information plus summary of two shortlisted companies presented to Shirley Atkinson, Ian Gray, Phil Williamson, decision made to concentrate discussions with one company at this stage due to favourable financial terms on offer and other benefits.

March 2009

- * Final presentation by shortlisted company to Ian Gray, Sue Brady, Sharon Olver, Lynne Alexander (HR) and Helen Cutting (legal)
- * Final summary report to Executive by 24th March 2009 for decision re future of catering by 27th March.

Appendix 3

Tender Evaluation Criteria.

Factor	Weighting %
Suitability/Similar Experience	20
Price & Cost Effectiveness	20
Service Delivery	20
Risk Transfer/Mitigation	20
Cultural Fit	10
Acceptable References and Site Visits	10

Evaluation Results

On evaluation Aramark and Sodexo, two major contract catering companies have been shortlisted across lots 1-9. FIG 1 below summaries total scores against each lot.

FIG 1

Company	Lot	Score	Company	Lot	Score
Aramark	1	94	Sodexo	1	78
Aramark	2	90.4	Sodexo	2	74.6
Aramark	3	90.4	Sodexo	3	79.4
Aramark	4	90.4	Sodexo	4	84.4
Aramark	5	90.4	Sodexo	5	78
Aramark	6	90.4	Sodexo	6	74.6
Aramark	7	91.4	Sodexo	7	84.6
Aramark	8	91.2	Sodexo	8	79.4
Aramark	9	87.2	Sodexo	9	73.6

Appendix 4

Nil Cost with Performance Guarantee Contract

Within the last ten years a significant number of Cost Plus and Fixed Price contracts have been replaced with Performance Guarantee contracts. Typically, these types of contracts have combined elements of the Cost Plus and Fixed Price contracts with semi commercial risk and reward structures that both financially reward or penalise the caterer based upon achieving pre determined operating performance criteria. These may be qualitative or financial criteria, or as is typical, a combination of the two. The objective of Performance Guarantee Contracts is for the caterer to develop a much greater commercial approach to the contract and to be rewarded or penalised accordingly for their overall performance.

The Performance Guarantee contract is available in many formats and as such, there is not one standard operating model. Indeed, some provide greater protection to the Client than others.

Such examples include Performance Guarantee contracts where the gross profit is predetermined in percentage terms and labour and overheads are fixed. The gross profit is then used to offset the overall costs of the services. This mechanism can work well when the caterer's 'risk and reward' is financially significant. However, in reality the caterer can generally achieve budget and may not feel that the overall potential reward is worth the risk or effort in terms of increasing sales further or improving the overall efficiency of the operation. Consequently, the caterer ends up protecting their food cost margin, whilst the Client is striving for increased sales. For this mechanism to work well the caterer needs to be commercially driven as an organisation, with the necessary skills to drive sales whilst also controlling costs and with a realistic and attractive financial incentive available.

A further Performance Guarantee mechanism which can be applied includes sales being predetermined; gross profit/ cost of sales - a fixed percentage of sales; labour and overheads fixed, with the caterer taking their management fee as a percentage of sales. The agreed 'subsidy' is capped; with any overspend the caterer's responsibility and any below budget sales resulting in a relative reduction in the caterer's management fee. Any sales and or costs achieved above the agreed budget, after deduction of the agreed cost of sales percentage and a further small percentage for additional direct overheads (i.e. disposable food packaging) is split between the caterer as additional 'management fee' and the client to further offset the subsidy. However, it is important to note that if additional sales exceed a certain level, further labour will be required which will impact upon the available 'pool' of shared additional income. The key pros and cons are set out below.

An appropriate performance guarantee contract, with a structured risk and reward system linked to qualitative and financial criteria is often the most successful type of contract to achieve both efficiencies and quality. However, it is essential to ensure that the caterer has the relevant experience with this type of contract and is commercially focused.

The Caterer may again offer or be requested to provide capital to invest in the e.g. the kitchens. In return, a longer contract would be expected together with the investment being paid back over an agreed time period, typically these contracts can extend to 7 – 10 years. Without investment, the contract term recommended is 2 – 5 years.

PROS	CONS
Caterer responsible for greater risk, in terms of management of the services and carries the cost for either operational inefficiency or non optimisation of sales income.	Success is reliant on selecting a caterer with strong commercial competencies and culture.
Caterer is positively incentivised to maximise sales and profit as the contractor's earnings are linked to sales, management fee and a general reduction in the subsidy.	The contractor may limit service or quality standards if guarantees are incorrectly set.
Reduced amount of Client's management time required to oversee the contract	The Client may still be exposed to some risk under certain styles, i.e. fixed labour and overhead costs must be met by the Client even if income does not achieve target. However, mechanisms can be built into the contract to limit this.
Simpler to audit with a clear audit trail and often 'self auditing' when more fully commercial.	Contractor will require greater autonomy of contract and be less open to specific 'non-commercial' requests than say under a Cost Plus or Fixed Price contract

Appendix 5



Incremental Return

Rate	Sales	% Return	Incremental Return	Total Return
1	£1,350,000 + £1,400,000	9.00%	£3,825	£3,825
2	£1,400,000 + £1,500,000	10.00%	£8,500	£12,325
3	£1,500,000 + £1,600,000	15.00%	£12,750	£25,075
4	£1,600,000 + £1,700,000	17.00%	£14,450	£39,525

Note:

The above chart represents the incremental value of return back to the University (excluding VAT)

An example would be if the total income, including hospitality was £1.5m, the University would receive £12,325k

The payments then increase by percentage increments linked to £100k stage increases i.e. £1.6m = £25,075k

The first payment is triggered once Nil Cost is achieved (Forecast at £1.341m)

Our P&L finances are based on the details provided, general assumptions, site population, service level agreements and the ability to address the tariffs at least annually.

Appendix 6

Annual Subsidy for In-house Catering Areas 2007/08

07/08	Annual Budget	Annual Actual	Variance
Murray	Subsidy 38310	Sub 13153	+ 25157
St. Peters	Subsidy 137093	Sub 120159	+ 16934
Ashburne	Surplus + 7628	+ 679	- 6949
Conferencing	Surplus + 7850	+ 2619	- 5231
General – Rent of premises, general catering expenditure	Subsidy 38372	Sub 15372	+ 23000
Subsidy	198297	145386	+ 52911
+ Recharge. Main Utilities	177357	185962	- 8605
Sub Total	375654	331348	+ 44306
USE	+22000	+415	- 21585
Overall In-house Subsidy	353654	330933	+ 22721

Appendix 7

Summary of Aramark and In-house Catering Cost over 7 Years

	Aramark		In-house	
	City Campus	St Peter's	City Campus	St Peter's
Total Income	4,554,084	6,244,921	4,376,663	5,401,041
Total Food Expenditure	1,820,529	2,583,539	1,950,000	2,430,468
Total GP	2,733,555	3,661,382	2,426,663	2,970,573
Total GP %	60%	59%	55%	55%
General Expenditure				
Labour	2,126,666	2,693,378	2,193,603	3,418,918
Professional Development			5,000	5,000
Clean Materials	48,273	66,196	46,174	56,981
Disposables	65,123	89,302	63,899	56,981
Epos Development & Tills			10,000	2,000
Marketing & Promotions	14,027	19,234	18,207	22,468
Uniforms	18,535	25,417	18,207	22,468
Cash Collections	56,288	77,187	Uni	Uni
Contingency	13,562	22,057	10,000	10,000
Delivery Vehicle	43,704		40,593	40,593
Telephone/Broadband	4,545	6,232	13,000	13,000
Concession for Retail		12,035		
Management Fee	181,298	248,610		
Balance	2,111	2,111		
Total General Expenditure	2,617,553	3,321,275	2,448,455	3,705,854
Capital	42,975	225,174	42,975	225,174
Net Profit	73,027	114,933	-64,767	-960,455
Central Recharges/Utilities/Maint/Campus Servs				
City Space	451,934		451,934	
Ash, Murray, Ed, Priestman	221,425		221,425	
St Peter's Campus		897,974		897,974
Deep cleans/Equip-maintenance Contract	15,000	15,000	15,000	15,000
Tax Implications – VAT Management Fee	27,195	37,292		
VAT on Hospitality	157,548	146,556		
Internal Investment for Brand Development, Signage			20,000	20,000
Grand Total Expenditure	5,354,159	7,226,809	5,149,789	7,294,470
Subsidy over 7 Years of Contract	-800,075	-981,888	-773,126	-1,893,429

Appendix 8: Financial Comparison Table

see notes at end relating to numbers	Aramark		In-House	
	City Campus	St Peters	City Campus	St Peters
Income				
City Space (level 0) 1	2,102,993		2,102,993	
Juice/coffee bar	610,651		610,651	
Murray 2/3	732,791		560,000	
Hospitality 4	1,050,319	977,041	1,050,319	977,041
Ashburne 5	57,330		52,700	
Prospect Restaurant 6/7		2,577,353		3,500,000
Prospect Café		1,387,805		
Atrium Pod 8/9		569,941		434,000
Retail 10		732,781		490,000
balance				
Total Income 11	4,554,084	6,244,921	4,376,663	5,401,041
Food Expenditure				
City Space (level 0)	884,650	0		
Juice/coffee bar	212,588	0		
Murray	299,518	0		
Ashburne	24,652			
Hospitality	399,121	371,276		
Prospect Restaurant		1,084,150		
Prospect Café		568,105		
Atrium Pod		233,308		
Retail		326,700		
balance				
Total Food Expenditure	1,820,529	2,583,539	1,950,000	2,430,468
Total GP	2,733,555	3,661,382	2,426,663	2,970,573
Total GP %	60%	59%	55%	55%
General Expenditure				
Labour	2,126,686	2,693,378	2,193,603	3,418,918
Professional development			5,000	5,000
Clean Materials	48,273	66,196	46,174	56,981
Disposables	65,123	89,302	63,899	78,855
Epos development & Tills			10,000	2,000
Marketing & Promotions	14,027	19,234	13,261	16,365
Uniforms	18,535	25,417	18,207	22,468
Cash Collections	56,288	77,187	Uni	Uni
Light Equipment	25,503	34,972	26,260	32,406
staff recruitment	2,414	3,310	5,000	5,000
Photocopying	3,643	4,996	3,458	4,267
Beverage Machine Rental	11,841	16,237	FOC	FOC

Notes:

Projected over 7 years.

Assumes Aramark %

Restaurant food cost	42%
Café Food Cost	40%
Retail shop Food cost	44%
Hospitality Food Cost	38%

Assumes Where applicable

Aramark lincludes cost of general manager
Concession for retail is the subsidy for that area shown separately as requested by IMG.

	Aramark		In-House	
	City Campus	St Peters	City Campus	St Peters
Contingency	13,562	22,057	10,000	10,000
Delivery Vehicle	43,704	0	40,593	40,593
Telephone/Broadband	4,545	6,232	13,000	13,000
concession for retail		12,035	0	0
Management Fee	181,298	248,610	0	0
Balance	2,111	2,111		
Total General Expenditure	2,617,553	3,321,275	2,448,455	3,705,854
Capital	42,975	225,174	42,975	225,174
Net Profit (balances with aramark 7 yer projection)	73,027	114,933	-64,767	-960,455
approx costs (based on 08/09 figs) to university				
Central recharges/Utilities/maint/campus srvs				
cityspace	451,934		451,934	
ash, murray, ed, priestman	221,425		221,425	
st peters campus		897,974		897,974
deep cleans/equip maintenance contract	15,000	15,000	15,000	15,000
Tax Implications - VAT management fee	27,195	37,292		
VAT on hospitality	157,548	146,556		
Initial investment for brand development, signage.			20,000	20,000
Grand Total Expenditure	5,354,159	7,226,809	5,149,789	7,294,470
Subsidy over 7 years	-800,075	-981,888	-773,126	-1,893,429

sum of contract over 7 years	-1,781,963	-2,666,555
contract cost to univ per annum based on tendered services only(approx as just divided by 7)	-254,566	-380,936

Observations

income

1. Cityspace income figs based on DRP figures in catering strategy for aramark & inhouse
2. Aramark based Murray on 08/09 income with 5% year on year increase
3. Inhouse based Murray on 8/09 income assuming competition from city space will reduce it to 35 week service
4. Hospitality based on 08/09 figures with 5% year on year growth including industry centre which currently goes out of the univ
5. Ashburne one years trading based on 08/09
6. Aramark based prospect on DRP figs plus 5% year on year growth
7. inhouse based propspect on current trading and assuming some of prospect t/o will be subsumed within the retail offer
8. Reg varyd, aramark based on 5% increase of t/o of 70k
9. Inhouse based reg varyd pod on current trading of 55k with 5% year on year growth
10. Retail, aramark estimated fig with 5% growth
11. In house tariff is 20% more than currently

expenditure

1. Aramark labour based on individual lot info & includes 29 staff on uni T&C and approx 21 staff on aramark T&C
2. inhouse labour based on all staff on univ T&C plus admin costs which could be central, ie in aramark m/ment fee
3. inhouse includes 21.8% admin on costs and 13.5 manual, holiday allowance for annualised staff, all vacancies filled
4. inhouse, Incl 10% for o/t sickness, etc, 3% year on year cost of living rise, pensions based on 15% over 7 years
5. feel aramark recruitment costs are low considering need to recruit 21 staff, they say they costs they have currently
6. in house includes costs to develop brand/marketing