

Report of: Facilities Management Business Manager

To: Executive Board

Date: 18th June 2007

Item No:

Title of Report : The Supply, Management and Operation of Vending Machine Services for Leisure Centres and Staff Sites – project approval and contract award

Summary and Recommendations

Purpose of report: To request project approval and permission to award a contract to provide a fully managed vending machine service to Oxford City Council.

Key decision: Yes

Portfolio Holder: Councillor Jim Campbell, Better Finances

Scrutiny Responsibility: Finance Scrutiny Committee

Ward(s) affected: All

Report Approved by:

Councillor Jim Campbell

Mark Luntley, Strategic Director of Finance and Corporate Services

Simon Cosgrove, Strategic Director for the Environment

Chris Kaye, Finance and Asset Management

Andrew Cane, Legal and Democratic Services

Colin Barlow, Interim Business Manager Leisure & Cultural Services

Policy Framework: Oxford City Council Corporate Plan

Be an effective and responsive organisation, providing value for money services.

Recommendation(s):

That the Executive Board agrees to:

- 1. Grant project approval for the provision of a fully managed vending service at our leisure centres and various staff sites.**
- 2. Award a contract to Coffee Point Plc to provide this service. This supplier has been selected following an open tender process in accordance with the EU Procurement regime.**

The proposed contract will be for 4 years starting on 1st July 2007 with an option to extend for up to 1 further year.

1 Background

- 1.1 The Council has vending machines located in its leisure centres, offices and depots. The machines provide a wide range of hot and cold drinks, snacks, and other refreshments. However, there is currently a lack of co-ordination with our current arrangements providing a limited range of choice with a large number of suppliers charging differing prices between sites.
- 1.2 The current service is mainly provided by branded machines via rental and self-fill leasing arrangements costing £9980 per annum. Leisure staff across the six sites included in the tender can spend up to 56 hours per week managing 32 machines. In turn the total invoice processing costs for vending are £19,200 per annum: a total derived from the processing of 400 invoices at a cost of £48 per invoice.
- 1.3 The reasoning behind the tender exercise is for the Council to award a corporate contract for a fully managed vending operation to provide an enhanced, quality vending service - with competitive pricing and a range of healthy and fair trade ingredients delivered via low energy usage machines.
- 1.4 The proposed contract will free up resources – staff managing machines, banking and administration of takings, processing of some 400 invoice per annum, independent stocktaking services and ingredients storage rooms – and still maintain a revenue stream via an agreed monthly rebate for all leisure centres.
- 1.5 The Council will be able to supply Staff sites with cost-free and subsidised, fully managed, high quality vending services.
- 1.6 Until now, whenever there has been a need for vending services individual contracts have been agreed with mainly branded suppliers, providing limited choice and insufficient service levels. To support the streamlining and improvement of our procurement arrangements a

corporate tender exercise has been undertaken jointly by the procurement team, Leisure and Cultural Services, City Works and Oxford City Homes with the objective of putting in place a single contract with one supplier to supply all of our vending machine requirements for the next 4 years with an option to extend up to 1 further year. The contract also takes into account the healthy eating agenda that is currently being championed in educational establishments and the Fair Trade and energy efficient objectives that this Council strives to promote.

2 Tender Process and Evaluation

- 2.1 An advertisement was placed in the local press, our website and other national websites, a professional journal and the Official Journal of the European Union in January 2007. This contract attracted a good deal of interest both locally and nationally. There were fifty-one expressions of interest and thirteen tenders were received and evaluated by a panel of officers. The evaluation criteria, included healthy and fairly traded ingredients, low energy usage machines, recycling and reduced packaging initiatives, and innovative approaches to providing a café-style service as well as price. The panel invited a shortlist of 6 companies who were invited to carry out comprehensive site surveys and attend a presentation, where they answered in-depth queries on the benefits of their services.
- 2.2 The panel agreed unanimously to recommend that the Council award a vending services contract to the tenderer with the highest tender and presentation score. This tenderer is Coffee Point Plc. The company has a comprehensive corporate social responsibility policy, working directly with suppliers in the developing world, trialling the latest technology in biodegradable cups, recycling 75% of materials with a target of 85% for 2008, using the most energy efficient machines available and providing a wide range of choice when it comes to healthy eating and fair trade ingredients.
- 2.3 A list of the key benefits that Coffee Point Plc can provide includes:
- All machines provided free of charge, with the supplier taking on the insurance and financial risk.
 - A rebate of 25% of the total sales from the leisure centre sites.
 - A fully managed service to include stocking the machines, banking the takings and a 7 day a week technical and maintenance service.
 - A pricing structure and choice of ingredients controlled by Oxford City Council allowing an emphasis on Fairtrade and healthy options.
 - Monthly management reporting detailing information about what choices customers are making, trends and financial information.
 - The movement to machines free of manufacturers' branding to allow for a wide choice of ingredients, using the latest low energy management features.
 - Traffic lighting guidelines on machines to help customers make informed choices.

- The company works with various charities, including homelessness, Cancer Research and a children's charity, by either providing financial support or redistributing food products that they can no longer use.
 - The company has a far-reaching sustainable development policy and were the first vending operator to promote the Fairtrade initiative in January 2004.
- 2.4 Coffee Point will agree to make the chief Key Performance Indicator for the first year of the contract a 20% increase on the current vending turnover while at the same time introducing Fairtrade and healthy options. Progress on this KPI will be monitored at quarterly review meetings to decide whether changes need to be made to the planograms and/or pricing structure to ensure that the Council achieves the required financial return.
- 2.5 The contract will not guarantee the maintaining of the current number of machines at all sites – particularly the six leisure centres listed in the current specification - and the Council will reserve the right to agree a notice period for the closure of any of these facilities.
- 2.6 The contract will contain break clauses that allow the Council to terminate or transfer the contract if there is a change in the management of Leisure Services

3 Other Options

- 3.1 The Constitution and Procurement Strategy advises that the Executive Board considers what other options are available before giving major project approval and awarding a contract over 100K. These are detailed below.
- 3.2 **Continue as we are**
Continue with existing arrangements of self-management and replace some of the branded machines provided on a low or free of charge basis with non-branded machines to allow us to introduce a wider selection of products, including some Fairtrade and healthy options.

Benefits

- Vending currently supplies a net profit of £66,000 per annum – this is after the cost of machine rental and stock assessment has been taken out. This does not include the cost of any staff time or invoice processing costs.
- Branded machines carry a low rental charge (typically £25 per month) and in some cases are free of charge.

Vending Gross Profit for 2006/07 Excluding Staffing and Invoice Processing Costs					
	Cost of Ingredients	Rental*	Independent Stocktaker	Income	G.P
Barton	£5,439	£3,000	£700	£8,903	-£236
TCP	£15,254	£2,900	£700	£27,811	£8957
Ferry	£21,863	£1,700	£700	£36,328	£12065
BBLLC	£10,556	£1,480	£700	£16,886	£4150
Peers	£6,129	£0	£700	£8,641	£1812
OIR	£38,847	£900	£700	£80,111	£37,852
	£98,088	£9,980	*£4,200	£178,680	£66,412

* The stocktaking figures represent an average based upon the quarterly corporate charge of £1050 excluding VAT – i.e. (4 x £1050)/6 centres.

Disadvantages

- Leisure staff currently spend an average of 56 hours per week across the six sites managing the machines. The use of leisure centre staff – from Managers to Recreation Assistants – detracts from the primary Leisure service provided to the public.
- The existing machines do not contain the latest energy saving devices provided by the new machines on offer from Coffee Point, resulting in a greater environmental impact and the missed opportunity of savings on electricity usage.
- The offer of a rebate of over £65,000 based on takings for the previous financial year practically equals what we currently achieve through substantial investment in time and money.
- The public and staff do not benefit from the enhanced service and choice provided by a dedicated vending specialist.
- The current self-manage option means the Council carrying the risk as it spends £9,980 per annum on rental agreements and over £98,000 per annum on stock.
- To provide any real improvement with choice of Fairtrade or healthy options is going to involve substantial additional investment in lease agreements and insurance – estimated at £14035 p.a.

3.3 Set up a framework agreement with a number of suppliers

- This was initially considered to allow a choice of either fully managed or lease and self-fill, but it did not result in financial savings or enable the Council to achieve process efficiencies.

3.4 Use a contract set up by another organisation

- The range of factors contributing to a viable vending operation – especially the cost of investment in machines - mean that there are no other contracts available that the Council could join.

4 **Benefits of this contract**

- 4.1 The award of this contract will provide a risk free, quality vending service for customers and staff alike while making a positive statement about corporate social responsibility:
- Fairtrade goods
 - Healthy eating
 - Environmental benefits – low energy machines and a substantial increase in recycling and biodegradable products.
- 4.2 Coffee Point have agreed to work to a key performance indicator which states an increase in turnover of 20% in the first year as demonstrated in their contract with Greenwich Leisure. If the expectation of a 20% increase is achieved, this would amount to an annual rebate of over £78,000 to the Council.
- 4.3 The energy saving devices used in the machines would amount to an estimated saving of £1650 per annum in electricity usage, both benefiting the environment and reducing expenditure on this service.
- 4.4 Coffee Point's offer of a rebate of £65,000 based on the last financial year's figures practically equals the current takings achieved by the Council's self-managed service and does not take into account the potential saving in overhead costs to the Council. Examples of these overheads are:
- Staff Time:** Leisure Centre staff – contract management, ordering ingredients, filling and cleaning machines, counting takings and stock management.
Administration Staff – process c. 400 invoices per annum.
- Invoice Processing:** An estimated £19,200 per annum is spent on the invoice processing of 400 invoices at £48 per invoice.
- Storage Space:** Space currently used for storing stock can be put to use for frontline Leisure activities.
- Stock Loss:** No risk of spoiled, out of date or unaccounted stock.
- 4.5 Potential for long-term growth and development of good quality vending services, providing FairTrade and healthy options, and a year on year increase in the revenue received by Leisure.

5 **Financial Implications**

- 5.1 This proposed contract would build on and, in the long term, improve the existing vending revenue levels currently experienced by leisure and Cultural Services. It will also provide comprehensive financial monitoring information on a monthly basis.

6 **Legal Implications**

- 6.1 There are no legal implications as this contract has been tendered in accordance with the EU procurement regime.

7 Staffing Implications

7.1 Staff will be freed up to focus on their core responsibilities.

8 Other means of achieving this objective

8.1 Other means of achieving this objective are explained in paragraph 3.

9 Recommendation

9.1 That the Executive Board agrees to:

1. Grant project approval for the provision of a fully managed vending service at our leisure centres and various staff sites.

2. Award a contract to Coffee Point Plc to provide this service. This supplier has been selected following an open tender process in accordance with the EU Procurement regime.

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Appendices -

Appendix 1 – Vending Machine Locations

Appendix 2 – Tender Scores – Coffee Point are tender number 7

Contact details of author:

Viv Hichens

Tel: 01865 252346

Email: vhichens@oxford.gov.uk

Background papers: None.