

Item No.	Classification: Open	Date: 20 March 2013	Decision Taker: Cabinet Member for Finance, Resources and Community Safety
Report title:		Gateway 1 & 2 Procurement Strategy Approval and Award of Contract: Corporate cleaning and associated services (operational estate) contract	
Ward(s) or groups affected:		All Wards	
From:		Head of corporate facilities management	

RECOMMENDATIONS

1. That the cabinet member for finance, resources and community safety formalises his previous decision approving the procurement strategy for the corporate cleaning and associated services (operational estate) contract, namely to undertake single supplier negotiations with the incumbent supplier for the reasons detailed in the report.
2. That the cabinet member for finance, resources and community safety formalises his previous decision to approve the award of the corporate cleaning and associated services (operational estate) contract to Interserve PLC for the period 11 November 2012 to 30 June 2014 with an option to extend this contract for a further period of 6 months to ensure effective mobilisation and transition to a new corporate facilities management (FM) contract for the operational estate.
3. That the cabinet member for finance, resources and community safety notes that the new end date of the contract and revised terms will be added to the existing contract by way of variation.

BACKGROUND INFORMATION

4. Interserve PLC currently provides cleaning and associated services (including pest control, window cleaning, feminine hygiene and entrance barrier carpeting) to over 85 operational properties. The contract commenced in September 2005 for a period of five years, with the option to extend for two further periods of 12 months both of which have been taken up. It is noted that the previous Gateway 3 extension report for this contract had a revised contract end date of 10 November 2012.
5. In December 2010 cabinet approved the procurement strategy for the provision of a total facilities management (TFM) services contract for 160 Tooley Street. It was originally intended to have this contract in place by August 2011 thereby allowing corporate facilities management (CFM) to then focus their resources on procuring a new FM services contract, to include cleaning services, for the wider operational estate by November 2012, thus ensuring continuity of service. Unfortunately there were a number of delays in the TFM procurement, including:

- The unexpected complexity surrounding the development of tender documentation, including the evaluation process, following the decision to require applicants to submit both a standard and variant bid
 - Wider Transfer of Undertakings (Protection of Employment) Regulations (TUPE) implications as a result of the variant bid e.g. this proposal included the option to transfer services currently undertaken in house
 - The need to include London living wage (LLW)
 - The restructuring of CFM
 - The need for CFM to redirect resources to implement service agreements for the provision of facilities management and building compliance activities across the operational estate.
6. This meant that not only was the new TFM contract not awarded until October 2012, but that work on the new operational estate facilities management (FM) contract was delayed by almost a year.
7. The annual value of the cleaning services contract is estimated to be £1.1 million (excluding Tooley Street, which falls within the scope of the TFM contract awarded in October 2012) and prices are subject to an annual price review linked to the consumer price index.

Summary of the business case/justification for the procurement

8. With only four weeks left on the existing contract, and no further extension options, in principle approval was sought and granted to undertake single supplier negotiations with the incumbent supplier, and subject to satisfactory inclusion of new requirements e.g. LLW and a three month break clause, award an interim contract to ensure continuity of service from November 2012. It is unlikely to be economically viable to award this interim contract to a new supplier. In addition, a new supplier would increase the risk of service disruption.
9. As the operational estate FM procurement had not been the only CFM project delayed due to resources being focused on the TFM contract for longer than originally anticipated, there was a need for CFM to re-prioritise all projects going forward against resources, which meant it was not immediately possible to advise the incumbent supplier of the duration of the interim contract.
10. In addition, the contract for TFM has the option to be extended to a number of buildings other than Tooley Street. This option reduces the interim requirement and value of the cleaning services contract and the extent of these reductions could only be defined in the latter stages of the TFM procurement process.
11. Following initial negotiations the incumbent supplier agreed to continue providing the service as a 'implied continuum' based on existing terms and conditions whilst negotiations were completed.
12. Following the development of the operational FM procurement timeline (see appendix 1), CFM has now been able to conclude negotiations and so the purpose of this report is to formalise previous decisions taken.
13. CFM are confident that the agreed term is sufficient based on the following:
- The new operational FM contract is not as complex as the TFM
 - Consultation to identify service requirements has already been completed

- The bulk of the documentation developed for the TFM procurement can be used.

Market considerations

14. The cleaning market is well established and whilst there are other organisations who could have provided the service, it was felt that there were a number of factors that made re-tendering at that time undesirable. The procurement options section provides further details. Interserve PLC are a national organisation with more than 250 employees.

KEY ISSUES FOR CONSIDERATION

Options for procurement including procurement approach

15. A number of procurement options were considered as detailed below.

Option	Pros	Cons	Decision
Do nothing.	None.	No cleaning services provided to the operational estate.	Not recommended.
Competitive tender.	Would test the market and demonstrate best value.	<p>An interim contract would still be needed whilst a competitive tender was undertaken, which given the value would have to be EU compliant.</p> <p>Even using the most basic specification, this would take at least 7 months.</p> <p>The resulting contract would have to be fairly short in FM terms as its purpose would be only to provide a service up to commencement of the new operational estate FM contract.</p> <p>Possible mobilisation and TUPE costs could make the package unattractive to the market so that no viable bids were received, or those that were resulted in hugely inflated costs.</p>	Not recommended.
Use existing framework.	<p>Some element of market testing.</p> <p>Shorter procurement timeline.</p>	Even if a framework had been identified, all of the above points except the need to do a full EU tender would have applied.	Not recommended.

Single supplier negotiation with the incumbent supplier.	Short procurement timeline. No transition issues.	No external market testing to demonstrate best value. Risk of not achieving potential savings due to lack of competition.	Recommended.
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Procurement route followed

16. Single supplier negotiations with the incumbent supplier.

Procurement project plan

17. The procurement project plan is outlined below.

Activity	Completed by:
Forward Plan	1 June 2012
In principle approval to negotiate and award interim contract	1 October 2012
Completion of negotiation documentation	10 October 2012
Invitation to negotiate	12 October 2012
Contract start on the terms and conditions included in the previous contract	11 November 2012
Completion of evaluation of negotiations	14 January 2013
DCRB	21 February 2013
CCRB	28 February 2013
Approval of Gateway 1 / 2 : Procurement strategy and award report (this report)	28 March 2013
Scrutiny Call-in period and notification of implementation of Gateway 1 / 2	9 April 2013
Contract award formalisation, including new contract terms and conditions from April 2013	9 April 2013
Contract completion date	30 June 2014
Add to contracts register	9 April 2013

Procurement outcomes

18. The following procurement outcomes have been achieved:

- Continuity of service
- Savings of 4% on non staff costs
- Improved levels of customer service and productivity and better retention of staff as a result of introducing the London living wage (LLW) (see paragraph 34), although this has resulted in overall costs increasing (if closed buildings are not taken into consideration)
- New three month break clause to facilitate early exit should the new procurement finish ahead of schedule.

Identified risks and how they were/will be managed

19. Details of the risks and how they will be managed are outlined below.

No.	Risk	Risk Level	Mitigating Action
1	Best value not achieved.	Low	Close management of supplier performance and of contract costs moving forward for the duration of the contract.
2	Insufficient contract length to procure a new FM contract for the operational estate.	Medium	Lessons learnt from the TFM procurement exercise for Tooley Street. This interim contract for cleaning services will have the option to extend for a maximum period of 6 months to mitigate the impact of any delays in awarding a new FM contract for the operational estate in 2014.

Key Decision

20. This is a key decision as the expected spend will be in excess of £500,000 per annum.

Policy implications

21. Effective delivery of the contract will contribute to the council's priorities of improving customer service and the effective management of the council's resources.

Development of the tender documentation

22. A range of existing documentation including contract terms and conditions, service specifications, performance review reports and pricing schedules were used to support the negotiations with the current supplier.

Advertising the contract

23. As the agreed procurement strategy was to undertake single supplier negotiations with the incumbent supplier, on this occasion an advert was not required.

Tender process

24. The negotiation process involved a number of meetings between the CFM operations manager and representatives from the incumbent supplier. Negotiations were undertaken around cost structures and performance management. The results of monthly quality assurance reviews were used to confirm that the overall quality of the services provided by the supplier is

improving over time. Where shortfalls in performance are identified the supplier takes action to resolve these. Revised prices were obtained for the core estate, including the impact of paying the LLW.

Tender evaluation

25. The evaluation was undertaken by the FM operations manager. The quality evaluation was based on an assessment of performance to date and re-assurance that key performance targets would continue to be met.
26. The revised costs were benchmarked against current costs. However as the current contract included the provision of cleaning services to Tooley Street, it was difficult to undertake a true like for like comparison.
27. The contract is flexible so that as buildings close as a result of the office accommodation strategy, contract costs will reduce. In terms of quality, contract performance reviews and monthly monitoring meetings indicate that the incumbent supplier has provided a good standard of service across the estate and have formed effective working relationships with the council during the past 7 years.

TUPE implications

28. None as all existing staff are the suppliers own employees.

Plans for the transition from the old to the new contract

29. As the interim award was to the incumbent supplier there were minimal transition issues.

Plans for monitoring and management of the contract

30. The contract will continue to be managed by the CFM contracts team, primarily by the contracts manager, with the support of the contracts officer. The team's responsibilities in relation to the delivery of this contract will include:
 - Monitoring budget spend and compiling monthly spend profile reports for CFM
 - Checking all invoices for accuracy
 - Providing a robust single point of contact for end users
 - Responding to complaints and service improvement requests
 - Chairing monthly performance monitoring meetings
 - Ensuring contractor performance reports are received
 - Risk management
 - Monitoring key performance targets and other performance standards.
31. There are no performance or other issues that would prohibit the formalisation of the award of this contract.

Performance bond/Parent company guarantee

32. A performance bond or parent company guarantee was not needed for this contract.

Community impact statement

33. This decision has been judged to have no or a very small impact on local people and communities, however Interserve will continue to pro-actively promote employment of local staff to service the contracts.

Economic considerations

34. Interserve will seek where possible to use local companies in their supply chain and to employ local people to service the contract. Payment of the London living wage to those servicing the contract will support the council's priorities as well as achieving better customer service from operatives, increasing productivity and improving staff retention.

Social considerations

35. The new contract will ensure that all staff servicing the contract will be paid at least the London living wage.

Environmental considerations

36. Interserve use environmentally friendly cleaning products and continue to work with CFM to improve recycled waste removal targets and that all general waste is removed in line with the council's waste policy.

Resource implications

37. The facilities contract manager will continue to be responsible for the overall management and monitoring of the corporate contract.

Staffing/procurement implications

38. There are no additional staffing implications.

Financial implications

39. The contract will be funded from existing corporate and departmental budgets. Costs are expected to reduce as the council continues to dispose of office accommodation in line with the office accommodation strategy.

Legal implications

40. See the legal concurrent at paragraphs 49 to 50.

Consultation

41. None.

Other implications or issues

42. None.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

43. This is a combined gateway one and two report seeking formalisation of decisions previously taken pertaining to the approval of the procurement strategy, and award of an interim contract for corporate cleaning and associated services.
44. The report explains the circumstances that led to the need for an interim contract, the main one being the lack of resources to progress the procurement of the new TFM contract.
45. It is noted at paragraph 14 that there are other providers who could have undertaken this service, but as summarised in the procurement options table at paragraph 15 the consideration of a number of factors resulted in the procurement strategy recommendation being to undertake single supplier negotiations with the incumbent provider.
46. Paragraphs 24 to 27 summarise the negotiation process which primarily sought to ensure ongoing satisfactory performance and best value. The procurement outcomes summarised at paragraph 19 advise that whilst a saving has been achieved on non staff costs, overall costs have increased with the inclusion of the London living wage, which it is felt will help to deliver a better service for the council in terms of productivity and customer service satisfaction.
47. Paragraph 30 confirms the contract monitoring and management that will remain in place.
48. Appendix 1 details the intended procurement plan for the new FM operational contract which if duly resourced is deemed deliverable. In addition paragraph 13 advises that given that some preparatory work for the new procurement has already commenced, and it is not deemed to be as complex, corporate facilities management are confident of delivering the new procurement within the term of this contract.

Director of Legal Services

49. This report formalises the previous decision of the cabinet member for finance, resources and community safety to award a contract for corporate cleaning and associated services for the operational estate to Interserve PLC.
50. The decision to approve this report may be taken by the cabinet member for finance, resources and community safety after taking advice from the corporate contracts review board in accordance with CSO 4.5.2(b).

Strategic Director of Finance and Corporate Services (F&CS13/010)

51. The strategic director of finance and corporate services notes the financial implications contained within paragraph 39 of this report. Funding for this contract is contained within the 2013/14 budget.

52. Any new FM contracts from June 2014 will need to be contained within future resources and are expected to represent a reduction in current costs as the council's office accommodation portfolio reduces.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Cleaning services contract.	Finance and Corporate Resources, Corporate Facilities Management Team, 2 nd Floor, 160 Tooley Street	Paul Symington 0207 525 2185

APPENDICES

No	Title
Appendix 1	Timeline for the new FM contract to be awarded in March 2014

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Cabinet Member for Finance, Resources and Community Safety	
Lead Officer	Matthew Hunt, Head of Corporate Facilities	
Report Author	Paul Symington, Facilities Operations and Service Delivery Manager	
Version	Final	
Dated	20 March 2013	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	No	Yes
Cabinet Member	Yes/No	Yes/No
Date final report sent to Constitutional Team	20 March 2013	