

Item No. 22.	Classification: Open	Date: 19 September 2017	Meeting Name: Cabinet
Report title:		Gateway 3: Variation Decision Extension to the Consolidated Facilities Management Contract	
Ward(s) or groups affected:		None	
Cabinet member:		Councillor Fiona Colley, Finance, Modernisation and Performance	

FOREWARD - COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE

This report recommends that we extend our consolidated facilities management (FM) contract with Interserve for two years but with the addition of a new break clause.

This extension would bring the contract period into line with our other FM contract and allows us time to complete our review of options for the procurement and delivery of facilities management in the future. This review will include consideration of in house delivery of FM services and will report back to cabinet in the form of a Gateway 0 procurement strategy report in the third quarter of 2017-18.

RECOMMENDATIONS

That cabinet:

1. Approves the variation to extend the term of the consolidated facilities management (FM) contract with Interserve (Facilities Management) Limited (Interserve FM) for a period of 24 months, from 1 February 2018 to 31 January 2020, at an estimated total cost of £13,595,000. When combined with the estimated contract extension it will bring the total estimated contract value at 31 January 2020 to £45,900,000.
2. Notes that the contract extension shall include a six month break clause as detailed in paragraph 10.

BACKGROUND INFORMATION

3. Following a competitive procurement exercise using the Government Procurement Service (GPS) RM 798 Solutions Framework, Interserve FM were awarded a contract to provide consolidated facilities management services for the council's headquarters at 160 Tooley Street and other properties of the council under the contract in October 2012. The contract became operational in February 2013 to run for five years, to 31 January 2018 with the ability to extend it for a period, or periods, of up to two years in total on four months prior written notice to Interserve FM.
4. The contract provides the following hard and soft services; planned preventative building maintenance, reactive building repairs, compliance to meet statutory regulation, cleaning, security, vending, inter site mail and pest control to 41 sites however it also provides soft FM support to an additional 80 buildings along with works projects.

5. The actual contract spend from February 2013 to 31 January 2018 is projected to be £32,305,000. This is higher than the original contract sum of £7,150,000 due to seven approved variations to the contract; starting from June 2013 as additional buildings and services were added to the contract, as well as additional project spend. Each variation resulted in increasing the total number of operational buildings included in the contract for the provision of hard and/or soft services. From a single property at contract commencement date the contract now provides hard and soft services to 121 properties across the operational estate. Summary information on each variation as per previous Gateway's as detailed in Appendix 1.
6. The contract has a fixed lump sum price supported by ad hoc services called off in accordance with the pricing document. Cost stream 1 (CS1) is the fixed price as detailed in paragraph 5 above, Cost Stream 2A (CS2A) are additional works in scope above the fixed term level of £1,000; Cost Stream 2B (CS2B) are works additional to the contract scope; Cost Stream 2BS (Security) is for security.
7. The council's anticipated annual expenditure of £6,797,371 for CS1 and its other cost streams is detailed below:

Cost stream 1	£5,206,804
Cost stream 2a	£186,741
Cost Stream 2b	£96,086
Cost stream 2bs (security)	£1,307,740
Total	£6,797,371

KEY ISSUES FOR CONSIDERATION

Key aspects of proposed variation

8. The nature of the proposed variation is to exercise the option in the contract and extend for a period of 24 months whilst a new procurement exercise is undertaken. The revised completion date will therefore be 31 January 2020.
9. The estimated value of this proposed variation to Interserve FM is £13,595,000, combined with the actual value of the approved initial 5 year contract term of £7,150,000 plus the total of previous contract extensions value of £25,155,000 together with the estimated value of this proposed variation, brings the total to £45,900,000.
10. As part of the extension, a break clause will be included which will allow the council to terminate the agreement (if required) on 6 months notice without termination payments being payable.
11. The nature of the services will remain the same as those listed in paragraph 4.
12. Included within the total expenditure as detailed in paragraph 9, £3,500,000 was awarded to Interserve (FM) for capital works through mini-competitions. As a result of the approval of this 24 month extension Interserve (FM) will have the opportunity to bid for future capital works during this period. This potential value has not been included in the anticipated extension value as none of this work is guaranteed as they will still need to submit a tender as part of the mini-competition for each project. The way these works are procured and evaluated and awarded will be reviewed to ensure best value to the council.

13. CFM have recently conducted a review of all fixed costs at each of the properties included in the contract which has resulted in the actual costs in paragraph 7. A further project is to be carried out with Interserve (FM) to review the expenditure in order to ensure value for money and identify any potential savings in the three key areas of cleaning, security and maintenance.

Reasons for variation

14. The principal reason for seeking the extension of 24 months is to allow sufficient time for the council to consider its options for the service from February 2020 onwards, and to benefit from the alignment of various FM contracts. The extension will ensure business continuity until that time.
15. Other current corporate FM contracts are planned to co-terminate in 2020 and extension of the Interserve FM contract will offer an opportunity to consolidate contracts at that time.
16. There is a requirement to complete the corporate facilities management (CFM) 2020 strategy and this will be the subject of a Gateway 0 report as detailed in paragraphs 21 and 22.
17. The current performance of the Interserve FM is satisfactory and improving. It had dropped after commencement as more properties were added in stages in the contract and the provisions of soft FM services were expanded in 2014-15. An increase in the number of early notices and non critical default notices issued failed to improve performance to an acceptable level.
18. To address those failings Interserve FM took a strategic decision at the start of 2016 to move the operation of the contract to their communities' business unit becoming part of their local authority and education sector, with the aim of aligning the contract with the necessary and appropriate expertise within their organisation. That decision resulted in steady and consistent service improvements
19. Key performance indicator (KPI) performance overall is currently at 95% with seventeen of the twenty KPI targets being met. Interserve FM continues to work with CFM in support of the objective to meet all KPI targets this year.
20. Interserve is required to comply with the requirements of the contract's agreed performance mechanism regime, which is:
 - To respond in accordance with the prioritisation of reported service performance failures
 - To operate procedures and systems to record information in support of performance monitoring and to enable regular robust performance reporting.
 - To monitor the performance of the service and produce monthly performance reports for the employer.

Future proposals for this service

21. Options and timeline for the procurement and delivery of facilities management beyond February 2020 are currently under review by CFM and

recommendations for the future service of all hard and soft services across the operational estate will be the subject of the Gateway 0 report which will be submitted for approval in the third quarter of 2017-18.

22. The main reason for this extension of 24 months is to consider alternative options for the provision of all hard and soft FM services across the operational estate and enable alignment with the CFM's overall procurement strategy. This is an opportunity for CFM to potentially consolidate its contracts further with the CFM 2020 strategy which will be the subject of a Gateway 0 report to be scheduled for the third quarter of 2017-18.
23. Should the full review reveal that these services cannot be consolidated with other procurement exercises and therefore need to be procured sooner, the break clause in the contract will be exercised.

Alternative options considered

24. The option of seeking tenders for a new contract was considered but discounted on the grounds that it would take approximately a year for CFM to specify and procure a new contract. The council would require a longer contract period than 2 years which would not align to the CFM 2020 strategy.
25. The option of seeking to award a two year contract to another existing FM provider to Southwark was also considered but again discounted for the same reasons as outlined in paragraph 24 above.

Identified risks for the variation

26. The table below identifies risks associated with this variation and the controls to mitigate the risks.

Risk No.	Risk Identified	Risk level	Mitigation
R1	Procurement process for CFM 2020 strategy is delayed.	Medium	CFM will control the process throughout the 2020 strategy review.
R2	Interserve FM cease trading, goes into administration or liquidation.	Low	<ol style="list-style-type: none"> 1. Use of early warning mechanisms in NEC3 contract, which is applicable to both parties. 2. Contract monitoring. 3. Crown commercial services (CCS) would be available to assist Southwark by novating these services to another supplier on their framework. 4. Credit check carried out on 11 August 2017 confirmed current status as secure (scoring 95 out of 100)
R3	Key performance indicators (KPI)	Medium	Regular monitoring by CFM contracts team. Interserve FM

Risk No.	Risk Identified	Risk level	Mitigation
	performance declines.		service improvement plan reviewed by CFM weekly.

Policy implications

27. A key element of the corporate plan that the FM strategy supports is “transforming public services”. This requires sound resource management of the council’s property assets, how they are utilised and their effective operational and financial management. The effective and efficient procurement and delivery of FM services are integral to the sound management of the council’s property assets.
28. The medium term resources strategy aligns financial priorities with the management of assets and the associated resources with which the council delivers its services. A modern FM service platform and an informed CFM client function will significantly support the council’s medium and long term objectives providing flexibility and opportunities for efficiency savings.
29. The theme of “valuing the environment” will be increasingly supported through the delivery of an improved FM service delivery platform and effective strategic management of FM. Supported policies include “Southwark Cleaner Safer” and the “Sustainable Community Strategy”. Other key corporate objectives are indirectly supported through improving working environments, improving customer facilities and enabling more effective service delivery.

Contract management and monitoring

30. The Head of CFM will be the responsible person for the contract as the service manager. This is supported by the contract management team, technical team and workplace teams as per paragraph 31.
31. In addition to any new requirements that arise from the procurement process all of the existing management and monitoring arrangements that CFM have in place will continue, these include:
 - Monitoring budget spend and compiling monthly spend profile reports
 - Checking invoices for accuracy
 - Providing a robust single point of contact for end users
 - Proactively responding to complaint and service improvement requests
 - Chairing and recording the minutes of monthly contractor performance monitoring meetings, six monthly service reviews and the annual performance review
 - Ensuring contractor monthly reports are received in a timely manner.
32. Performance of the contract will be measured and reported by means of a suite of key performance indicators (KPIs) covering management of the contract and customer services as well as both hard and soft FM service delivery.
33. CFM conduct regular site inspections and visits in order to measure and monitor the quality of the service provided and feedback from end users is actively sought.

34. As the estimated contract value exceeds the relevant EU threshold, CFM will prepare a six-monthly monitoring report to the relevant DCRB.
35. As contract also relates to a strategic procurement CFM will prepare an annual monitoring report to the CCRB, within six months of the contract anniversary.

Community impact statement

36. This contract has a direct impact on the occupants of all the buildings covered by this contract, as well as all council staff, service users, Southwark residents, visitors and the council's elected members.
37. It will continue to provide a healthy and safe working environment which will seek to ensure that no elements of the council's equality agenda are negatively impacted.

Social Value considerations

38. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The social value considerations included in the tender (as outlined in the Gateway 1 report) are set out in the following paragraphs in relation to the tender responses, evaluation and commitments to be delivered under the proposed contract.

Economic considerations

39. Within the contract Interserve FM have employed three apprentices; a finance apprentice who moved into a permanent role on the contract and other two apprentices are in year three of their apprenticeship for building services/maintenance and are due to complete level 2 during year 5 of the contract. The apprenticeships are a mixture of classroom and practical learning. The apprentices attend colleague one day a week and the remainder of their week is spent gaining knowledge within Tooley Street and the wider estate, working with the static and mobile engineering team to ensure that they are able to demonstrate the skills learnt in the classroom. Interserve FM work closely with the college and apprenticeships schemes meeting frequently with the training officers to review progress and support where needed.
40. The Interserve FM team in Southwark were supported by a graduate between September 2016 and February 2017. They engaged in supporting a KPI review, asset verification, planning of PPM tasks, updating their computer aided facilities management (CAFM) system and working with contractors to collate the safe system of work documentation. A further placement of an apprentice is planned during year 5 of the contract, along with 3 existing employees being given the opportunity to transfer onto an apprentice scheme.

Social considerations

41. The contract was tendered on the basis that London Living Wage (LLW) would apply to all contractor staff that work on the contract both directly employed by the contractor and sub contracted to them. A specific LLW service delivery plan was included in the quality evaluation and Interserve FM's commitment to LLW

was confirmed through the clarification process both in terms of price and scope. The contractor has continued to undertake ongoing LLW monitoring and reporting arrangements.

42. Interserve (FM) has confirmed that they continue to not participate in blacklisting.
43. The contract conditions also include an express condition requiring compliance with the blacklist regulations, and include a provision to allow the contract to be terminated for breach of these requirements.

Environmental/sustainability considerations

44. Interserve FM are required to provide services that support, and do not compromise, Southwark's green building targets, sustainability policy and Fairtrade status.

Financial implications

45. The contract will continue to be funded from existing CFM and departmental budgets and therefore there are no new financial implications arising from the proposed variation to extend the term of the contract for a period of 24 months to January 2020 as the existing contract will be maintained as is.
46. As noted at paragraph 30 to 35 CFM existing management and monitoring arrangements will remain in place, including specifically:-
 - Monitoring budget spend and compiling monthly spend profile reports, and
 - Checking invoices for accuracy.
47. As noted at paragraph 1 the total estimated expenditure over the proposed extension is estimated at £13,595,000, being based on the 2016-17 actual total spend figures for the year, adjusted for the revision of the CS1 base line. A forecasted annual spend of £6,797,000.
48. As noted at paragraph 5 the total forecasted contract value up to 31 January 2018 is £32,305,000 which, when combined with the estimated contract extension cost of £13,595,000 will bring the total estimated contract value at 31 January 2020 to £45,900,000 – as noted at paragraph 9.
49. As noted in paragraph 13 a review of expenditure will be completed.

Legal Implications

50. Please see supplementary advice from the director of law and democracy at paragraph 54.

Consultation

51. All internal departmental stakeholders were consulted on the proposed extension to the contract at a meeting chaired by the Interim Head of Facilities Management in July 2017.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (FC17/059)

52. The strategic director of finance and governance notes the recommendations in this report to extend the term of the consolidated facilities management (FM) contract up to 31 January 2020.
53. The financial implications highlights that this does not represent new spend. However in light of the council's predicted general fund financial position for the financial years 2018-19 and 2019-20, the attention to careful monitoring of budget and spend, and compiling monthly spend profile reports for the attention of management is an essential part of contract management.

Head of Procurement

54. This report seeks cabinet's approval for the variation to extend the term of the consolidated facilities management (FM) contract with Interserve (Facilities Management) Limited (Interserve FM) for a period of 24 months, from 1 February 2018 to 31 January 2020, at an estimated total cost of £13,595,000 producing a total estimated contract value of £45,900,000.
55. This variation to extend the contract is permitted as the modification was provided for in the original procurement documents in clear and precise terms, it does not alter the overall nature of the contract and it is part of the possible two year extension in the original contract, therefore bringing it in line with EU procurement regulations, specifically Regulation 72.
56. As noted in paragraphs 2 and 10, a break clause has been negotiated with Interserve FM to allow the council to terminate the contract on 6 months notice during the 2 year extension period if required.
57. The reasons for this variation are set out in paragraphs 14 to 20. The council has recently undertaken a review of all fixed costs at each of the properties included in the contract and a further project is to be carried out with Interserve (FM) to review the expenditure in order to ensure value for money and identify any potential savings in the three key areas of cleaning, security and maintenance. The council is also conducting a review into the way additional capital works are procured, evaluated and awarded in order to ensure best value to the council.
58. The report confirms the monitoring and management arrangements which will be in place during the life of the contract and the intention to develop a Gateway 0 to be submitted for approval in the third quarter of 2017-18.

Director of Law and Democracy

59. This report seeks the cabinet's approval to a 24 month extension of the consolidated facilities management contract with Interserve FM as further detailed in paragraphs 1 and 2. As the estimated value of the variation exceeds £4m and is therefore a strategic procurement, then the variation decision is reserved to cabinet by virtue of contract standing order 6.6.3(a).
60. The original appointment in 2012 was subject to, and awarded in accordance with the EU procurement regulations, and it is therefore necessary to ensure that

any variation to that contract is permitted under those regulations. Regulation 72 permits modifications to be made to contracts during their term in certain circumstances, including at regulation 72(1)(a), where the modification has been provided for in the original procurement documents in clear and precise terms and provided that the modification does not alter the overall nature of the contract. The possible two year extension is part of the original contract and accordingly these requirements are met. As noted in paragraphs 2 and 10, a break clause has been negotiated with Interserve FM to allow the council to terminate the contract on 6 months notice during the 2 year extension period if required.

61. Contract standing order 2.3 requires that no steps are taken to vary a contact unless the expenditure involved has been included in approved estimates, or is otherwise approved by the council. Paragraphs 45-49 confirm the financial implications of this variation.

BACKGROUND PAPERS

Background Papers	Held At	Contact
None		

APPENDICES

No	Title
Appendix 1	Summary of previous GW3 contract variations

AUDIT TRAIL

Cabinet Member	Councillor Fiona Colley, Finance, Modernisation and Performance	
Lead Officer	Paul Symington, Head of Corporate Facilities Management	
Report Author	Barbara Crabb, Contract Manager	
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Dated	6 September 2017	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
Director of Exchequer (for housing contracts only)	N/A	N/A
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		6 September 2017