

Item No	Classification: Open	Date: 15 August 2011
To	Finance Director	
Report title	Combined Gateway 1 Procurement Strategy Approval and Gateway 2 Contract Award Approval Welfare Catering Contract	
Ward(s) or groups affected	All Wards. Elderly and disabled people.	
From	Strategic Director of Health and Community Services	

RECOMMENDATIONS

1. That the Finance Director confirms his prior approval for the procurement strategy set out in this report for welfare catering services.
2. That exemption from seeking competitive tenders under Contract Standing Order 5.4 for this contract is granted to allow single supplier negotiations, as permitted under Contract Standing Order 4.8.
3. That the Finance Director approves the award of the contract to Provider A for an initial period of 18 months, from the 1 October 2011 to 31 March 2013. The estimated value of the contract is £607,311 per annum, total contract value for a period of 18 months £910,967.
4. That the contract contains provision to extend the contract period for a period of another six months if necessary, to allow for any slippage in the proposed three borough procurement exercise with Lambeth and Lewisham. The maximum contract value inclusive of the additional 6 months is £1,214,623.

BACKGROUND INFORMATION

5. This contract relates to the provision of a number of meals services that the council uses to discharge its statutory duties. These being:
 - home delivery meals on wheels to house bound service users
 - lunches at a number of council run day centres and extra care sheltered housing schemes
 - emergency meals provided either due to extreme weather conditions or some form of disaster or incident

The contract also provides meals at the council supported People Care Charity Christmas Day party.

6. The welfare catering contract was successfully awarded to Provider A following a fully and open competitive tender process. The contract commenced on 5 April 2004 for a period of 4 years, with the option to extend for a further two years.
7. The annual cost of contract was £1,217,600 making a total contract value of £7,305,600 over 4 years plus 2 years extension.

8. The period of the original contract was from 5th April 2004 until 31 March 2008.
9. The period of the original agreed extension commenced on the 1 April 2008 and expired on the 31 March 2010.
10. A Gateway 1 and 2 approval was granted for a contract extension from the 1 April 2010 to 31 March 2011 through a single supplier negotiation, with a provision to extend for a further six months to 30th September 2011. This report sets out the recommendations for contractual arrangements beyond 30th September 2011.

Summary of business case / justification for the procurement

TENDER PROCESS AND PROCUREMENT ROUTE

11. A single supplier negotiation is considered as the most appropriate procurement strategy to maintain and vary the required welfare catering service, whilst a longer term procurement is pursued. This single supplier negotiation focused on the scope/time/cost of the current contract with Provider A.
12. The process involved a number of meetings with Provider A, where the changes in scope and focus outlined within this report were negotiated. Progress on these negotiations was provided to the Social Care Procurement Board for consideration, before being recommended in this report. The Procurement Board is comprised of Service Management, finance and Commissioning Managers from Social Care and representatives from Procurement, Legal and Democratic Services.
13. The current pricing configuration under the existing contract for meals is set in bandings linked to ranges of activity and volume of meals consumed. There are 7 bands in total under the existing contract, all with differing unit costs dependant upon the volumes of activity. However as of July 2011 only four bands have been actively utilised as a result of service redesign instigated by the council. Unit costs paid by the council are based upon volume. It would not have been financially advantageous to undertake procurement exercise until such time as the volume of any future service model could be accurately predicted. A procurement exercise may have resulted in the council either procuring a service with volume that it could not supply and therefore itself be in breach of contract and liable for financial penalty or setting volume levels too low and subsequently not attracting competitive bids.
14. The scope of the changes and how they differ from the current contractual arrangements are summarised below.

Current Contract Scope:

The existing contract expires on the 30.9.11. There are 7 bands in total under the existing contract, all with differing unit costs dependant upon the volumes of activity. The current contract configuration has:

- hot meals delivered to peoples homes through a fleet of six vans
- meals at 4 council run day centres which includes Fred Francis, Southwark Park Rd., Aylesbury and Holmhurst
- staffing to heat and service the meals at 3 of the day centres, and the cash cafeteria at the Aylesbury

- a lunch club at Lew Evans extra care sheltered housing scheme
- frozen weekly delivery service which includes the provision of a freezer for some of the service users
- catering for the annual Christmas party
- emergency and severe weather services.

New Contract Scope:

- Hot meals delivery but with a fleet of five vans (due to declining activity) with provision to increase the number of rounds if the council require. Three of these rounds will move to single driver deliveries (as is the industry norm)
- Specific bands for two day centres (Holmhurst and Aylesbury) will be removed from the contract following decisions by the Council to change services. One day centre rate will apply under the new contract. This new rate is cheaper than those paid previously by the council for meals at these two centres
- The lunch club at Lew Evans Extra care sheltered housing scheme will no longer retain its own banding, but will be incorporated into the single day centre band at a slightly reduced cost than is being paid currently, with a single day centre lower rate instead of having its own banding Catering for the annual Christmas party Emergency provision as required by the Council. It is proposed to remove frozen meals from the contract and the current service users will utilise suppliers of frozen meals that are available on the open market.

Background of Contract

15. The volume and utilisation of the current contract, and projected activity rates are set out below.

SUMMARY OF TOTAL ACTIVITY

Meals Provided	Financial Years				
	2007/8	2008/9	2009/10	2010/11	2011-12 (Projection)
TOTAL HOT MEALS	178,000	140,000	125,000	110,643	93,312
Frozen meals	10,000	9,900	9,600	8,413	4,206*
Total	188,000	149,900	134,600	119,056	97,518

*Assuming cessation of frozen meals aspect of contract from 1.10.2011.

16. The council's utilisation of welfare catering services is projected to continue to decline over the term of the proposed contract.

OPTIONS FOR PROCUREMENT INCLUDING PROCUREMENT APPROACH

17. A number of alternative options have been considered. These include:
- The Department could have embarked upon a re-tendering exercise for an 18 month contract to allow for cross borough procurement. For the reasons further explained below, the council was not in a position until May/ June 2011 to establish what volume and scope of future service it needed. This would not have given sufficient time to undertake the necessary procurement exercise.

- Due to the need for the council to try and procure a future service at the best possible unit price, the council has considered “sub contracting” with another council. This would effectively mean that the council would purchase meals from another council’s contract. However following tentative discussions with other councils, this would not have been financially advantageous, either due to the higher unit costs being paid by other councils, or the impact of TUPE. The logistical issues of accommodating the current service model and delivery rounds in Southwark were different than that provided elsewhere.
 - Over the last year, various options with regards to the future provision of meals have been considered by the council. These have included moving all service users from hot meal deliveries to frozen meals, supplied by the private market, using home care workers to heat meals, identifying a social enterprise organisation to run the meals at day centres and a total reliance upon service users utilising personal budgets in the open market. None of these options were considered as the approach the council desires to take given the specific profile of Southwark’s population; there were unaffordable requirements for capital outlay in day centres, or the lack of a suitable provider market to deliver these alternative options.
18. The reasons why the council has not been able to commence a procurement exercise for a longer term contract before are:

Uncertainty regarding future demand due to the following factors:

- As a result of the transformation agenda of adult care and the economic situation, the council has been reviewing how it should continue to discharge its statutory duties to eligible vulnerable residents, and what implications this may have for commissioned services (including welfare catering services).
- As a result of this ongoing program, the eligibility for the welfare catering service was clarified by the council in the late spring of 2011. This clarification resulted in a need for the council to continue directly commission a service and allowed for a more accurate prediction of future demand to be quantified.
- The personalisation agenda is having a significant impact on the uptake of commissioned social care services generally, including welfare catering services. The process of assessing service users for personalised budgets is now more embedded in the work of the council, and therefore the impact on future meals demand is easier to predict.
- The council has been reviewing its provision of day care services, which again have a direct impact upon future catering requirements. Decisions were finally made in May and June 2011 regarding the future Aylesbury model of service delivery and the closure of Holmhurst Day Centre. These separate decisions, meant that the council no longer required welfare catering services at these projects
- The council has also been reviewing the provision of meals in extra care and sheltered housing. It is now in a position to define the future meals offer in extra care and accurately predict the future demand and its implication for this contract.

Pursuing joint procurement opportunities with other boroughs.

- Due to the inter relationship between volume utilised and price paid, the council has been seeking joint procurement opportunities with other boroughs.
 - After several months of scoping the opportunities, an in-principle commitment has been obtained from Lewisham and Lambeth of undertaking a joint future procurement. Under this proposal, the boroughs will effectively "Pool" their respective volumes of meals through an aligned service model, to achieve the best collective unit price. The proposed amendments to the contract set out in this report closer aligns the Southwark service model to that in Lewisham and Lambeth
 - The logistics of this joint procurement exercise are currently being agreed between the three boroughs. This will be subject to a gateway 1 report in September 2011. A draft timetable for this procurement is contained within Appendix 1 of this report
19. Given these factors, it was considered the most cost effective option for the council to negotiate with the incumbent provider as opposed to undertaking a single borough procurement, to allow the joint borough procurement to take place
20. This single supplier negotiation approval sought in this report, allows for continuity of service to clients and is aligned to the social care service model being implemented by the council, provides value for money, and allows the council to undertake a cross borough procurement exercise.

Description of procurement outcomes

21. In order to ensure that the service is utilised effectively under the new contract, it is proposed that future social work assessments would need to assess whether the customer has a need for support to obtain the nutritional needs, would lack capacity after a period of re-ablement to utilise a frozen meals service and the urgency of the referral.
22. The future default offer would then be for those customers who do have capacity to prepare a meal, to be directed to a frozen delivery service. (Outside of the councils contract) or make alternative arrangements through a Personal Budgets.
23. Service users will be provided with information on reputable frozen meals suppliers. This would be undertaken by the new centralised brokerage service, or by personal budget support planners.
24. If the service user elects for a council managed budget, only those customers who lack capacity or capability, and have been assessed as such, will be referred to the hot meals home delivery service.

Risks and how these will be managed

25. The main risk would be associated with unit costs if activity declines significantly. This is being mitigated through the reduction in unit costs that has been agreed.

Communications and engagement plan

26. The key communications and engagement areas are as follows:

Date	Forum	Details
May 2011	Older people Partnership Board (OPP)	Consult on the direction of travel
May 2011	Project Board	Inform of outcome of proposals
June 2011	Project Board	Consult on the direction of travel
August 2011	OPP	Inform of outcome of proposals
August 2011	Comms/press office	Pro active approach local press on proposals before the customer letters go out
September 2011	Service users	Identify cohort user group to work on future procurement.

Procurement Project Plan

27. The procurement project plan for this contract award is set out in the table below

Activity	Completed by/Complete by:
Welfare Catering Project Initiation Document setting out medium term and longer term options submitted to Social Care Procurement Program Board	April 2011
Report of procurement options to Social Care DCRB outlining proposed procurement approach	May 2011
In principal agreement obtained from the Finance Director to pursue a single supplier negotiated route	June 2011
Follow up report to Social Care DCRB and Procurement Project Boards	June 2011
Single supplier negotiations with Provider A	June – July 2011
Decision on the Forward Plan	July 2011
Combined Gateway 1/2 report distributed to the DCRB	July 15 2011
Combined Gateway 1/2 report to CCRB	July 21 2011
Approval sought from the Chair of Overview and Scrutiny Committee to delay decision to August 2011 and amend forward plan accordingly	28 July 2011
Notification of forthcoming decision – Five clear working days	August 3. 2011
Publication of report	August 11. 2011
Scrutiny Call-in period and notification of implementation of Gateway 2 decision	August 17.2011

Approval of Gateway 1 / 2: Contract Award Report	August 18.2011
Alcatel Standstill Period (if applicable)	NA
Mobilisation from old contract to new contract	August-September 2011
Contract start date	1 October 2011.
Contract end date	March 31, 2013

TUPE implications

28. There are no TUPE considerations as a result of this report.

Plans for monitoring and management of the contract

29. The new contract will be monitored and managed in the following ways:

- Technical Health & Safety Audits of the kitchens and equipment, meal temperatures and taste and quality of meals delivered on the rounds etc
- Operationally it will work closely with the Welfare Catering Broker and the day centre managers, who will report any issues in relation to quality or customer feed back to the relevant monitoring team to follow through
- Scheduled Contract Management meetings
- Full compliance with the policies relating to Complaints and Safeguarding
- Closer monitoring and analysis of referrals from operational teams to assess ongoing impact of re-ablement, eligibility revision and transformation as a result of the personalisation program
- Service user surveys
- Quarterly contract monitoring meetings
- Home visits to ensure compliance and satisfaction with the service
- Financial monitoring.

Performance bond/Parent company guarantee

30. After consideration of the costs and benefits of obtaining a performance bond and or company guarantee, it was considered that these were not needed given the size and nature of the contract.

Community impact statement

31. Given the diversity and health requirements of the users of the service, the contract will continue to provide appropriate meals.
32. The range and choice of meals supplied through this contract includes cultural and religious requirements, as well as specialist dietary needs resulting from disability (such as diabetes, hypertension etc) puréed meals etc.
33. The contract has a core role in providing emergency food to the population of Southwark through the Borough's Emergency Plan, in the event of an act of terrorism, natural disaster or an Act of God e.g. Lakanal fire July 2009. Provider A had to provide meals to those affected/displaced by the fire. During extreme

weather conditions as a result of either heat waves or extreme cold, Provider A have provided additional drinks, extra salads or meals as required.

Sustainability considerations (Including Economic, Social and Environmental Considerations)

34 The provider has reduced CO2 emissions by way of using carbon reduced omissions in their vehicles. The provider has a sustainability environmental policy

Market considerations

35 Currently most welfare catering suppliers are large national and multi national companies with a few remaining voluntary sector suppliers and in house providers. Provider A is one of the largest supplier of welfare catering services in the country, for both Local Authorities and the NHS.

36 There is currently a degree of instability in the national market for welfare catering and other cost catering services. One of the large national providers folded with minimal notice 2010. This instability is due to a number of different factors including:-

- The general economic recession
- The specific inflationary pressures faced by providers as a result of "Food inflation"
- The national implementation of personalisation, causing uncertainty in the market for Welfare Catering services.

37 The incumbent provider is considered sufficiently robust to maintain the contract during the time extended. The agency took over six contracts nationally in 2010, due to the collapse of one of its main competitors. Provider A has also recently been successful in a number of tenders elsewhere in the country.

Resource implications

38 The incumbent provider has demonstrated a willingness to negotiate with the council to reduce costs in previous years, and has agreed to a zero increase in costs in 2009-10 and 2010-11(despite a clause in the existing contract allowing for mandatory inflationary increases)

39 The proposed extension has obtained a reduction in unit costs and offers best value for the council in relation to its statutory obligations in this area within the context of rising food prices and fall in volume. A summary of the projected range of savings through the new contractual arrangements is set out below:

	Volume assumption - number of meals	% savings at new rate	savings pa	savings at 18 months
Hot Meals Catering band	77,500* meals	1.85%	£10,075	£15,113
Single day centre band	15,812 meals	4.62%	£3,479	£5,218

- Anticipated annual volume based for the next 18, based upon current activity levels.

40 The unit cost negotiated also offer good value for the council, compared to that paid by comparative boroughs.

Staffing/procurement implications

41 The single supplier negotiation, ongoing monitoring and operational requirements are all contained within existing staffing resources.

Financial implications

42 The funding for this statutory service is contained within the core budget for Health and Community Services, for which the Council receives an income against this budget, levied from the charges collected from the service users. The council is committed to reducing the charges for meals on wheels paid by the customer, and to this end reduced the charge to £2.93 per meal from April 2011.

43 The usage of the contract for the financial year 2010-11 came under budget by £62,181. The utilisation of this contract will continue to be robustly managed to ensure that it continues to be provided within budget despite the reduction in charges.

Legal implications

44. The legal advice as set out in paragraph 49.

Consultation

45. The Older People's Partnership Board was consulted on the direction of travel for the service.

46. Internal service managers and commissioning colleagues have also been consulted in relation to the contents of this report.

The changes outlined to the two council run day centres outlined above, have been made after extensive consultation and agreement with the families and stakeholders concerned.

Other implications or issues

47. The provider has maintained a good quality service throughout the term of the existing contract, and has demonstrated an ongoing commitment to work productively and in partnership with the council.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

48. Provider A has been commended by the emergency services of the Council for demonstrating flexibility during adverse weather conditions and the ability to deliver at very short notice.

Strategic Director of Communities, Law & Governance

- 49 This report seeks the Finance Director's confirmation of his prior approval to the procurement strategy and award of contract to Provider A to provide welfare catering services for a period of 18 months from 1 October 2011. As the procurement involves single supplier negotiation and the contract value is over the EU threshold for services, then this decision is reserved to the Finance Director. Whilst the provision of these types of services is a Part B service, and is therefore not governed by the full application of the EU regulations, there remains a need for the council to consider the more general EU Treaty requirements of non-discrimination and transparency, and the need to consider whether there has been adequate advertising of all potential contracts, so as not to discriminate against other providers in the market. However, and for the reasons noted in paragraph 18, there is only one provider identified as being able to potentially deliver this service pending a full procurement.

CSO 2.3 provides that a contract may only be awarded if the expenditure has been approved. Paragraph 42 confirms how the contract will be funded.

Finance Director

50. Financial implications are detailed in paragraphs 42 and 43 with financial impact (including savings) summarised under Resource implications in paragraphs in 38-40. This proposal represents savings of up to approximately £10,000 per annum, equally important the unit price per meal compares favourably with neighbouring boroughs. The £607,311 per annum required to fund this service is identified in the Health & Community Services base budget. There are no further financial implications to consider.

Procurement

51. This combined gateway 1 and 2 report is formalising a previous procurement strategy decision and recommending the award of the welfare catering contract to Provider A.

The report explains that the council's future needs for welfare catering are unclear at present and currently under review. It is expected that demand will reduce going forward and to achieve best value, a collaborative procurement exercise involving other local authorities will need to be undertaken. This interim contract will ensure continuity of service whilst a full review is undertaken and new arrangements are procured. The duration of this contract will be for an initial 18 month period but will have the option of a further 6 month extension to accommodate any slippage that may arise from the cross borough procurement project.

Paragraphs 18–20 provides justification for following a single supplier negotiation process. With our requirements likely to change, interim arrangements for a relatively short term need to be secured. Generally it is accepted that contracts secured for a relatively short term tend to be less attractive to the market and receive less interest. As a result such contracts tend to be more expensive. Paragraph 11 confirms that officers consider a single supplier negotiation is the most appropriate route for this procurement.

Paragraph 12 confirms the approach that was taken during the negotiation and paragraph 14 highlights the scope of the new contract against the old contract. Through the negotiation, officers were able to secure some changes in contract scope which will support future direction of travel for the service.


Paragraph 39 shows the unit costs of the new contract against the previous rates. With a single supplier negotiation it is vital that value for money is assessed. Paragraph 40 demonstrates that the new rates are competitive when compared against those currently being charged in surrounding boroughs. This helps install confidence that best value is being achieved.

The high level timeline for the collaborative procurement project is provided in Appendix 1. Additional time has been built into the plan to accommodate the extended governance arrangements required on an inter-borough procurement project. This timeline appears adequate provided the appropriate resources are allocated to the project. The option of an extension in the interim contract will provide added contingency which is prudent to ensure continuity of service.

Paragraph 29 outlines the approach to managing and monitoring of this contract. Arrangements include officer led assessments as well as end user review. Paragraph 37 confirms that the performance of the current provider has been good to date and there would appear no reason why the council would not wish to continue contracting with Provider A.

FOR DELEGATED APPROVAL

Under the powers delegated to me in accordance with the Council's Contract Standing Orders, I authorise action in accordance with the recommendation contained in the above report.

Signature  Date 16.8.11

Designation FINANCE DIRECTOR

BACKGROUND DOCUMENTS

Background documents	Held At	Contact
Monitoring Data and options appraisals	Health&SocialCare Commissioning Unit, Tooley Street	Cheryl Reynolds
Details of "Food inflation"	Health&SocialCare Commissioning Unit, Tooley Street	Andy Loxton
Details of future proposed joint procurement with Lambeth and Lewisham	Health&SocialCare Commissioning Unit, Tooley Street	Andy Loxton
Procurement Board Highlight reports	Health&SocialCare Commissioning Unit, Tooley Street	Andy Loxton
Project Initiation Document	Health&SocialCare Commissioning Unit, Tooley Street	Andy Loxton

APPENDICES

Appendix	Title of appendix
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number	
1	Provisional project plan and timetable for future procurement of the service.

AUDIT TRAIL

Lead Officer	Jonathon Lillistone		
Report Author	Andy Loxton , Cheryl Reynolds Commissioning		
Version	Final		
Dated	15 August 2011		
Key Decision?	Yes	If yes, date appeared on forward plan	For which a General Exception Notice was issued
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments Sought	Comments included	
Strategic Director of Communities, Law & Governance	Yes	Yes	
Finance Director	Yes	Yes	
Head of Procurement	Yes	Yes	
Contract Review Boards			
Departmental Contract Review Board	Yes	Yes	
Corporate Contract Review Board	Yes	Yes	
Date final report sent to Constitutional Officer			15 August 2011