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|------------------------------------|--------------------------------|---|---------------------------------|
| <b>Item No.</b><br>14.             | <b>Classification:</b><br>Open | <b>Date:</b><br>23 October 2012   | <b>Meeting Name:</b><br>Cabinet |
| <b>Report title:</b>               |                                | Gateway 2 – Contract Award Approval Consolidated Facilities Management contract for 160 Tooley Street, SE1 2QH. |                                 |
| <b>Ward(s) or groups affected:</b> |                                | All   |                                 |
| <b>Cabinet Member:</b>             |                                | Councillor Richard Livingstone, Finance, Resources and Community Safety   |                                 |

## **FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR FINANCE, RESOURCES AND COMMUNITY SAFETY**

This report recommends the award of the consolidated facilities management contract for the council's offices at 160 Tooley Street to Interserve PLC for a period of 5 years, commencing on 1 February 2013. This contract will bring together eleven services that are currently managed through different contracts.

This contract will save £312,000 per year in the lump sum value of the contract, a 20% saving on current arrangements. Furthermore, it will ensure that all staff employed by our contractors to deliver these services will receive the London Living Wage as a minimum.

This has been a long procurement process, given the need to assess bids against both a standard specification and a variant specification. The variant specification considered the benefits of transferring a number of council employees working on facilities management functions to the new contractor. Market-testing of that variant specification has identified that it would not generate significant further savings and so the recommendation is based on the standard specification: only for those facilities management services currently delivered through contract arrangements.

## **RECOMMENDATIONS**

That cabinet

1. Approve the award of the Consolidated Facilities Management contract for 160 Tooley Street to Interserve Plc for a period of 5 years commencing 1 February 2013 with the provision to extend at the council's discretion for up to a further 2 years.
2. Note that this award is for the standard bid retaining the in-house elements of the council's Tooley Street Facilities Management service for the reasons set out in paragraphs 46 to 48.

## **BACKGROUND INFORMATION**

3. 160 Tooley Street is the council's main administrative centre accommodating 2,200 people in a modern and flexible working environment. The building has been fully occupied since mid 2009 and has been maintained to a good standard.

4. Facilities Management (FM) services to 160 Tooley Street are currently provided through a number of outsourced contractual arrangements and an in-house operational FM service.
5. Facilities Management is a fundamental business support service that is vital to service delivery and business continuity. It enables the council's adopted modern ways of working and supports the council's agility in the delivery of the wider office accommodation strategy.
6. In line with the agreed procurement strategy this contract has been developed to have the flexibility to incorporate further sites within the scope of the contracted services where best value and cost effectiveness can be demonstrated utilising economies of scale and minimising client management resource.
7. Additional sites will not be considered for incorporation until the council is in contract and has undertaken an early assessment of contractor performance through transition and TUPE transfer. If the level of performance and the value for money mechanisms demonstrate clear benefits to the council this process will be accelerated to maximise the efficiencies of both innovation and economies of scale.
8. The procurement plan set out in the Gateway 1 anticipated a contract start date of 24 October 2011. Delivery of this procurement has however been primarily delayed due to the complexity of developing a full suite of documentation and evaluation process that supported the requirements of a twin bid process and the transition from an input based to an output based specification ensuring that the council's requirements and the commitment to LLW were fully captured. Additionally as part of the requirements of the chosen framework the council has adopted a new form of contract to the council – NEC3 which is referenced in paragraph 70.
9. There were further delays to the programme post tender receipt due to an extended clarification process that was required to ensure a like for like evaluation as noted in paragraph 51.
10. Under this contract the service provider is required to deliver the following integrated services to 160 Tooley Street:
  - Planned preventative building maintenance, primarily routine and scheduled maintenance activity to building services and fabric
  - Reactive building repairs and maintenance, e.g. repairs to building failure such as broken glass, door furniture etc.
  - Compliance with statutory regulation to meet all statutory and regulatory requirements relating to the building's fabric, plant and equipment
  - Maintenance of building related equipment to maintain all such equipment in good working order
  - Provision of spares and consumables to include lighting tubes, plant lubricants, engineering parts etc.
  - Works projects i.e. refurbishment and alteration consisting of works required by the council to alter or improve the working environment
  - Cleaning including internal and external window cleaning with the provision of all equipment and consumables such as toilet and hand tissues

- Security providing a comprehensive security operation delivering a safe and secure environment for all building users
- Vending to provide a good quality service for hot and cold drinks and snacks
- Inter site mail between council and partner buildings meeting the council's current requirements
- Pest control to keep the building as pest free as possible through a proactive pest control service.

### **Procurement project plan**

11. Procurement project plan set out below;

| <b>Activity</b>  | <b>Completed by/Complete by:</b> |
|--|----------------------------------|
| Forward Plan for Gateway 2 decision  | 15/12/2010                       |
| Approval of Gateway 1: Procurement Strategy Report                               | 14/12/2010                       |
| Invitation to tender   | 25/04/2012                       |
| Closing date for return of tenders   | 15/06/2012                       |
| Completion of evaluation of tenders  | 03/09/2012                       |
| DCRB Review Gateway 2:   | 13/09/2012                       |
| CCRB Review Gateway 2:   | 20/09/2012                       |
| Approval of Gateway 2: Contract Award Report                                     | 23/10/2012                       |
| Scrutiny Call-in period and notification of implementation of Gateway 2 decision | 30/10/2012                       |
| Contract award   | 31/10/2012                       |
| Add to Contract Register   | 01/11/2102                       |
| TUPE Consultation/transition period start  | 01/11/2012                       |
| TUPE Consultation/transition period end  | 31/01/2013                       |
| Contract start   | 01/02/2013                       |
| Initial contract completion date   | 31/01/2018                       |
| Contract completion date – if extension(s) exercised in full                     | 31/01/2020                       |

### **KEY ISSUES FOR CONSIDERATION**

#### **Description of procurement outcomes**

12. Through a mature and forward thinking relationship this contract will bring a single supplier solution for all currently outsourced services allowing supply side innovation to bring consistent and continuously improving levels of FM service to 160 Tooley Street supported by the contractual requirement to agree an annual service improvement plan year on year.

13. It will provide a well defined service fully integrated with the council's in-house team to provide a seamless comprehensive and reliable FM service to the users of 160 Tooley Street.
14. The contract brings economies of scale driven through the contractor's own service delivery and its supply chain and the elimination of the multiple management layers inherent in the current multi service provider arrangements.
15. The reduction to one supplier from the current multiple contract arrangements will provide a significant reduction in administration, e.g. one invoice a month. It will bring detailed management information on the council's assets serviced by this contract and the performance of the service provider.
16. The contractor is required to deliver to set, minimum standards and above supported by focused Key Performance Indicators (KPI's) and a strong, contractual performance mechanism. The KPI schedule is attached at Appendix 1.
17. The price structure of this contract is such that approximately 90% of the overall cost is contained in a fixed price lump sum with a known degree of risk transfer to the contractor. The fixed price applies to all service elements with the exception of works projects. This gives the council a high degree of cost certainty over the life of the contract.
18. The contract has the flexibility to incorporate additional buildings where best value can be demonstrated reducing additional procurement activity, realising the benefits of economies of scale and minimising the council's management overhead.
19. This contract will provide the cornerstone of the strategy to bring together FM service arrangements for the operational estate, and to develop these arrangements with partners to deliver further efficiencies supporting the council's current and anticipated savings targets.
20. While many of the anticipated service improvements and efficiencies of the new contract may not be visible to staff and users of Tooley Street in their day to day occupation of the building there will be key differences to the new service. These will include:
  - A unified, 'one team' approach to all delivered FM services bringing consistency to the face of FM within the Tooley Street and other buildings which may be serviced by the contract
  - Standardised uniforms for all contractor staff complementing that of the in-house team
  - A strong customer focus approach with contractor and in-house services measured through customer satisfaction surveys
  - Shared and individual ownership of FM issues across both in-house and contractor staff bringing prompt, positive and early resolution to all day to day issues based on a proactive approach
  - Increased responsiveness to service requests and set reactive maintenance response times reducing downtime and increasing customer satisfaction
  - A focus on upskilling and cross training of contractor staff to support both front and back of house activity

- A single point of contact for all services based on site at all times supported by the contractor's service desk interfacing with the council's in-house FM service desk giving a consistent customer experience
- A single point of accountability for all contracted services with a strong and visible on site senior, contractor management presence.

### **Policy implications**

21. A key element of the corporate plan that the 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.
22. 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 FM client function will significantly support the council's medium and long term objectives providing flexibility and opportunities for efficiency savings.
23. The theme of "valuing the environment" will be increasingly supported through the delivery of a new FM service delivery platform and effective strategic management of FM. Supported policies include "Southwark Cleaner Safer" and the "Sustainable Community Strategy".
24. Other key corporate objectives are indirectly supported through improving working environment, improving customer facilities and enabling more effective service delivery.

### **Tender process**

25. An external provider is being sought in order to deliver a contained and well-defined service to the building. This approach is targeted towards the delivery of further efficiencies, building upon the achievements of the modernisation and office accommodation programmes. It will enable the council to focus on its core business of the delivery of its services to the community of Southwark.
26. In line with the strategy in the Gateway 1 report agreed by cabinet on 14 December 2010 in order to ensure value for money two proposals were sought as part of this tender: a standard bid that sought tenders for all current outsourced services and a variant bid that additionally incorporated those services delivered in-house.
27. The standard bid will:
  - Replace all current arrangements which deliver a safe compliant building e.g. the current repairs and maintenance and Preventative Planned Maintenance (PPM) arrangements
  - Replace services currently provided through corporate contracts e.g. security, cleaning, vending etc
  - Consolidate the smaller specialist building services within the contract and provide for ad hoc arrangements should they be required e.g. internal and external fabric maintenance etc
  - Integrate operationally with the in-house service.

28. The variant bid would have:
  - Provided all the services of the standard bid
  - Provided the services currently delivered in-house which include internal post, portage, meeting room management, pool vehicles and the FM Service Desk.
29. Further to cabinet approval of the Gateway 1 and cabinet agreeing the revenue budget report on 7 February 2012 and its presentation to Council Assembly on 29 February 2012 a full contractual commitment to payment of London Living Wage (LLW) to all staff working for the council through this contract was incorporated in the tender documentation.
30. Due to the value of the contract being over the EU Services threshold of £173,934 the contract was subject to EU Procurement Regulation and an EU compliant process was followed through a Government Procurement Service (GPS) Framework Agreement.
31. The procurement route followed was to issue an Invitation to Further Competition (ITFC) on the GPS Facilities Management Framework Agreement (Reference No. RM708), a pre-tendered framework which has followed a full EU compliant procurement process. Approval to utilise the GPS framework agreement was given via a Gateway 1 report approved by cabinet on 14 December 2010.
32. The procurement protocol followed was to seek the Most Economically Advantageous Tender (MEAT). The assessment of the tender was based on Price (70%) and Quality (30%).
33. In line with the GPS protocol for utilising the framework agreement a capacity assessment was forwarded to all of the eight firms on the framework agreement on 23 April 2012 notifying them of the proposed contract with an overview of what the contract entails to enable the firms to confirm their interest in bidding for the contract.
34. On 25 April 2012 following confirmation from all bidders ITFC documents were issued to the eight firms on the framework:
  - Carillion Services
  - EC Harris Solutions
  - Europa Facilities Services
  - Interserve Facilities Management
  - ISS Facilities Management
  - Mitie
  - Norland Managed Services
  - Skanska Facilities Management
35. On 10 May 2012, a bidders' conference was held in 160 Tooley Street to ensure that potential bidders had a clear understanding of the council's requirements, the procurement process and an opportunity to ask questions. The bidders were also given a guided tour of 160 Tooley Street. All the eight firms were adequately represented at the conference.

36. The council made available to the bidders a Data Room for the review and examination of a full suite of Datapack documentation during the period 25 April 2012 to 15 June 2012.
37. All bidders were invited to arrange technical site visits to 160 Tooley Street between 14 May and 17 May 2012. This provided bidders the opportunity for a more detailed examination of the building's plant and equipment and the FM services currently in operation.
38. Of the eight firms forwarded ITFC documents, four firms withdrew from the procurement process early in the bid period confirming that they could not adequately resource the bid preparation in the context of their current commitments. A further firm withdrew in the latter stages of the bid period as following clarification they were unable to accept in full some of the terms and conditions of the contract.
39. Two tenders were received on the closing date of 15 June 2012. Both tenderers, as required, submitted standard and variant bids. The tenders were opened in 160 Tooley Street on 18 June 2012.
40. The remaining firm failed to submit a tender, subsequently confirming to the council that they could not adequately resource their bid preparation due to concurrent commitments.
41. Following the closing date the project Steering Group met and agreed that the receipt of two tenders provided adequate competition for the evaluation process to proceed.

#### **Tender evaluation**

42. The Corporate Facilities Management (CFM) team in conjunction with representatives from Finance, Human Resources, Financial Governance, Legal and user representatives undertook the tender evaluation process which involved the assessment of tenderers' relevant experience, capability to undertake the service, financial standing, equal opportunity, health and safety and price.
43. To ensure that quality was given due consideration in light of its 30% weighting in the overall evaluation, 23 Service Delivery Plans (SDP's) covering all elements of service delivery were requested from each bidder. Each SDP was weighted to reflect the importance to the council of each element of service. Of the 23 SDP's numbers 21 and 22 related to the variant bid only and number 23 was for information only and not scored. The remaining 20 SDP's were scored against pre set criteria on a scale of 0 - 10. The SDP schedule with weightings is attached at Appendix 2.
44. To ensure that a good level of quality standard was achieved the council reserved the right to reject any tender where bidders' scores fell below a number of agreed quality thresholds that reflected both the individual importance of certain SDP's or the overall quality of the submissions.
45. The price assessment was broken down into three elements that reflect the elements of service that will be delivered through the contract:
  - Fixed Price Lump Sum (cost stream 1) – Anticipated to account for 90% of the overall contract cost. This fixed price encompasses all areas of hard and soft

- services to meet the current levels of service to the specified standards. Cost stream 1 has a 90% price weighting
- Exclusions to Fixed Price Lump Sum (cost stream 2) – Anticipated to account for approximately 10% of the overall contract cost. Cost stream 2 includes defined exclusions to the fixed price such as the replacement of plant or equipment beyond economic repair and costs outside of the contractor's Financial Threshold Liability (FTL). Detail on the FTL is set out in paragraph 91. Cost stream 2 has a 10% price weighting, sub weighted as follows: schedule of rates 3%, rate card for hard services 2%, and unit costs for soft services 5%.
  - Pass through costs (cost stream 3) – Costs passed to the council with no overhead or profit. These are items such as biomass fuel with an estimated annual value of £20k. These costs were not evaluated.
46. In light of the potential implications on directly employed council staff for any variant bid to be considered it had to meet an additional set of stringent quality and price criteria.
47. The two tenderers submitted both standard and variant bids as noted in paragraph 39. Following detailed evaluation by the panel it became clear that although both tenderers had submitted a satisfactory response to both standard and variant bids neither submission in relation to the variant bid met the council's additional, set of thresholds for consideration of the variant option. The project Steering Group met on 12 July 2012 and made the decision not to proceed with the variant bids.
48. Tenderers were subsequently notified on 13 July 2012 of the council's decision not to pursue further the possibility of accepting a variant bid and were advised to focus their attention solely on the standard bids.
49. From 2 July 2012 to 1 August 2012 in line with the timetable a series of council and bidder clarifications were issued and responses received. These clarifications covered both legal and service related issues.
50. The post tender clarification/presentation meetings were held on 20 July 2012. The panel comprised representatives from CFM, Corporate Procurement, and user representatives. The individual sessions consisted of a presentation by tenderers giving them the opportunity to bring their bids alive followed by a question and answer session. These meetings were used to verify the written submissions and were not marked as part of the overall evaluation.
51. Following the post tender clarification/presentation meetings it was clear that there were common areas of further clarification required with both bidders to enable the council to complete a like for like evaluation. These areas covered both quality and price. Following discussion and agreement with Legal and Procurement both bidders were invited on 20 August to review and resubmit their proposals for those areas that had been subject to clarification only. Bidders were not permitted to amend any other parts of their bid. Responses were received from both on 29 August 2012.
52. These revised proposals were reviewed by the evaluation panel and on the basis that no further clarification was to be sought from either bidder the evaluation of both quality and price was concluded.

- 53. As advised to the bidders at the bidders' conference and set out in the tender documentation the evaluation panel conducted a supervised 'consensus scoring process'. This exercise gave regard to any variance in score between the individual evaluators, together with relevant clarification outcomes with scores agreed by the evaluators for each of the evaluation criteria.
- 54. The final outcome is summarised in the table below and further detail of the evaluation process is contained in the closed version of this report.

|                      | <b>Weighting %</b> | <b>Bidder B</b> | <b>Interserve</b> |
|----------------------|--------------------|-----------------|-------------------|
| <b>Total Quality</b> | 30                 | 15.24           | 16.74             |
| <b>Total Price</b>   | 70                 | 66.30           | 68.81             |
| <b>Overall Total</b> | <b>100</b>         | <b>81.54</b>    | <b>85.55</b>      |

- 55. It can be confirmed that Interserve has the highest overall score providing the most economically advantageous tender to the council. Interserve is therefore recommended for award.
- 56. Interserve reached a score of satisfactory or above in all scored SDP's and have demonstrated in this process that they are capable of delivering the specified services to the council's required standards.
- 57. The 70%/30% price/quality weighting places a strong emphasis on price. While only two tenders were received, the closeness of the tenderers' prices following clarifications with a differential in the weighted scores of 2.51 marks gives confidence that the market has priced this contract economically with sufficient resources allocated to deliver to all elements of the specification.
- 58. Interserve have clearly set out the innovation and efficiencies that they will bring to the contract from day one as defined in their SDP's and pricing structure. Their proposals deliver a year 1 efficiency from the council's current level of expenditure. Additionally they have identified clear areas for innovation from year 1 onwards which will be incorporated in the contracts, contractual Service Improvement process.
- 59. Interserve have a strong and established local authority client base. Examples of major FM contracts currently in operation include Croydon and Ealing councils.
- 60. Interserve are the council's incumbent cleaning services contractor which as a high profile and substantial element of the services to be provided reduces the mobilisation risk.

#### **Plans for mobilisation of the contract**

- 61. The contract mobilisation period of 10 weeks will provide sufficient time for the contractor to prepare for the commencement of the contract on 1 February 2013. There is no primary TUPE involved in this contract.
- 62. Contract mobilisation through the transition period is a critical activity and outline contractor mobilisation plans were assessed as part of the tender evaluation. At the start of the mobilisation period the contractor will present a proposed final mobilisation plan, the council will then review and either accept or return for resubmission. The agreed plan will then be implemented by the contractor. The

council will appoint a mobilisation manager to ensure that all activities are co-ordinated to deliver successful implementation of the plan.

63. All contractual terms and conditions have been agreed as part of the tender process. This period will therefore focus on maintenance of service delivery through transition, secondary TUPE, contractor due diligence, agreement of final, detailed contractor proposals and integration of services.

### **Plans for monitoring and management of the contract**

64. This contract will be managed and monitored by CFM. CFM has recently undergone a restructure with the new structure implemented on 1 August 2012 setting contract management and monitoring as a central function within the service. The success of this contract is dependent upon best practice contract management principles which will be utilised to ensure compliance with the specification and contract.
65. Best practice arrangements and systems will be utilised for the management and monitoring of the contract in respect of:-
  - Compliance with the specification and contract
  - The performance of the contractor/supplier
  - Cost/commercial
  - Customer relationship management
  - User satisfaction
  - Alignment of services to meet the needs of the organisation
  - Risk Management
66. The contractor's performance will be measured against the agreed KPI's as set out in the tender documentation. The KPI's will be reviewed as a minimum on an annual basis to ensure that they are appropriately weighted and reflect the council's current contract management focus.
67. A strong performance mechanism has been developed and formally incorporated within the contract. This mechanism is designed to ensure that the contractor consistently succeeds in delivering to the required minimum levels and above.
68. The payment mechanism for this contract is based on a monthly invoice being one twelfth of the lump sum (cost stream 1) price. Cost stream 1 is anticipated to account for 90% of the overall expenditure on this contract with the remaining 10% being cost stream 2 works approved at the discretion of the council, managed through a formal Task Order change control process for all additional cost and variation. Cost stream 3, pass through costs, currently account for approximately £20k per annum. Cost stream 2 and 3 costs will be assessed and agreed by the council and paid as part of the monthly invoice.
69. A key element of this contract is the annual service improvement plan which will capture on an annual basis performance over the preceding year and agreed targets for innovation and service improvement for the following year.
70. The adopted NEC3 contract suite is considered to be well suited to best practice contract management. It binds both client and contractor to active and

transparent management of the relationship and provides a structured and time bound process.

71. The contractor's adherence to LLW will be actively monitored over the course of the contract. As part of the LLW SDP contractors put forward proposals for monitoring mechanisms which were evaluated as part of the process.

#### **Identified risks for the new contract**

72. Risks relating to this contract and how they will be managed are shown below;

| S/N          | Risk  | Mitigating Action  |
|--------------|---|--|
| R1<br>High   | Secondary TUPE issues are not managed by the successful contractor satisfactorily, potentially resulting in union, consultation and staff issues. | <ol style="list-style-type: none"><li>1. Early tracking of contractor and existing suppliers HR engagement</li><li>2. Robust communication strategy and plan in place</li><li>3. Ensuring early union consultation and involvement</li></ol> |
| R2<br>Medium | Less than satisfactory execution of the agreed contractor mobilisation plan through transition  | <ol style="list-style-type: none"><li>1. Early agreement of contractor mobilisation plan</li><li>2. Dedicated CFM mobilisation resource</li><li>3. Close liaison between contractor and operational CFM</li></ol>                            |
| R3<br>Medium | Less than satisfactory performance to KPI's at any point in the contract period   | <ol style="list-style-type: none"><li>1. Effective contract management and monitoring</li><li>2. Robust utilisation of the performance mechanism</li></ol>   |
| R4<br>Low    | Contractor business failure   | <ol style="list-style-type: none"><li>1. Use of early warning mechanisms in NEC3 contract</li><li>2. Contract monitoring</li></ol>   |

| S/N          | Risk  | Mitigating Action  |
|--------------|---|--|
| R5<br>Low    | Pressure on Cost stream 2 exceeding budget availability | <ol style="list-style-type: none"> <li>1. Best practice commercial management</li> <li>2. Effective forward planning</li> <li>3. Ongoing review and updating of Forward Maintenance Plan</li> </ol>  |
| R6<br>Medium | Contractor H&S and or compliance failure                | <ol style="list-style-type: none"> <li>1. Clearly defined H&amp;S management processes defined during mobilisation period</li> <li>2. Standard agenda item on all meetings</li> <li>3. Ongoing review of contractor documentation</li> <li>4. Prompt management action</li> <li>5. Utilisation of the performance mechanism</li> </ol> |

### **Performance Bond/Parent company guarantee**

73. Both a Performance Bond and Parent Company Guarantee are to be requested. These are in addition to the various other provisions and remedies within the contract to protect the council.

### **Community impact statement**

74. This contract has a direct impact on 160 Tooley Street which houses 2,200 council staff and the council's elected members. The building provides facilities for staff and all elected members; hosts an increasing number of committee and other meetings; and will continue to host other events attracting a wide variety of visitors from Southwark and elsewhere.
75. This contract will provide a working environment that will ensure that none of the six strands of the council's equality agenda are negatively impacted. It will deliver all of the building related services that will enable 160 Tooley Street to continue to welcome staff and visitors to the council.

### **Economic considerations**

76. Interserve continue to make significant investment in the training and development of their staff. Their initiatives include;
- Skills for Life - in 2007 Interserve was one of the pioneer companies signing the government's Skills Pledge
  - Apprenticeships - Working in partnership with South Thames College, they became the first large organisation in the world successfully to deliver the Cleaning and Support Services qualification. Additionally they have gone on to develop Security and M&E apprenticeships
  - FM apprenticeship - Interserve became the first organisation to successfully deliver the new level 3 Facilities Management NVQ to 10 employees.
77. Interserve have a number of existing FM contracts in the locality and will continue to utilise the local labour pool particularly in the service areas of cleaning and security.

## **Social considerations**

78. This contract has been tendered on the basis that London Living Wage (LLW) will apply to all contractor staff that work on the contract both directly employed by the contractor and sub contracted to them.
79. A specific LLW service delivery plan was included in the quality evaluation and the contractor's commitment to LLW was confirmed through the clarification process both in terms of price and scope.
80. The contractor has confirmed its LLW monitoring and reporting arrangements.

## **Environmental considerations**

81. The contract will adhere to the council's sustainability policy and materials purchased where possible will be from sustainable sources.
82. The requirement is to use materials that contribute to the sustainable goals the contract is aiming to achieve. For example;
  - Use of preferred standards
  - Re-use of materials that can be recycled or reclaimed on site
  - Avoidance of environmentally damaging materials
  - Avoidance of materials that are potentially harmful to humans.
83. The successful contractor is required to have targets in place to minimise consumption of energy and emissions of pollutants and be able to demonstrate the effectiveness of these procedures.
84. Consolidation of services and the multi skilling of operatives will reduce the environmental impact of vehicular attendance in the Tooley Street area.

## **Market considerations**

85. The successful tenderer is a private organisation.
86. The successful tenderer has over 500 employees.
87. The successful tenderer has a national area of activity.

## **Staffing implications**

88. TUPE will apply on a secondary basis (affecting the staff of existing contractors and two original transferring council employees). The award of this contract has no TUPE implications for current council staff. The bidder's approach to secondary TUPE transfers was assessed as satisfactory in the quality evaluation.

## **Financial implications**

89. This contract is to be funded from the existing Tooley Street budget CH222. The proposed base cost of this contract can be contained within existing provision and will also contribute to achieving the business plan savings contained in the budget report to Council in February 2011.

90. The contract costs fall into three streams, the fixed price lump sum anticipated to account for 90% of the overall contract cost and two variable cost streams anticipated to account for 10% of the overall contract cost.
91. The fixed price lump sum includes all works up to a £1,000 financial threshold per work item at the contractor's risk. The fixed price lump sum is the contractor's inclusive price for all works and services up to the financial threshold liability (FTL) threshold. Costs for works over this threshold are met by the council. For any item over £1,000 the contractor will meet the cost up to £1,000 with the council meeting the balance over £1,000. The main variable cost stream includes this element along with other defined exclusions to the fixed lump sum price.
92. The third cost stream consists of costs for pass through items which will be passed on to the council with no overhead or profit. These are relatively small items with a current annual value of £20k such as biomass fuel. These were not scored in the evaluation because they were deemed, as pass through costs to be the same in each bid so would not produce differentiated results.
93. The contract is subject to an annual price review which is linked to the RPIX index with the indexation mechanism set out in the contract. Therefore the fixed price lump sum will increase on the anniversary of contract start date each contract year in line with the agreed index. The day rates and schedule of rates in the variable cost streams will also increase annually in line with the agreed index.
94. The price sought as part of this tender was a year 1 annual cost for the fixed lump sum and comparative prices against our current levels of expenditure for the variable cost stream 2 with cost stream 3 prices for information only. The recommended bidders pricing for year 1 is shown in the table below.

|                      |                             | <b>Current budget costs<br/>£m</b> | <b>Interserve<br/>£m</b> | <b>Variance<br/>£m</b> |
|----------------------|-----------------------------|------------------------------------|--------------------------|------------------------|
| <b>Cost Stream 1</b> | Fixed lump sum              | 1.511                              | 1.199                    | (0.312)                |
| <b>Cost Stream 2</b> | Variable budget estimate    | 0.388                              | 0.210                    | (0.178)                |
| <b>Cost Stream 3</b> | Variable pass through costs | 0.020                              | 0.020                    | 0                      |
| <b>Total</b>         |                             | <b>1.919</b>                       | <b>1.429</b>             | <b>(0.490)</b>         |

95. The year 1 efficiency of the lowest tendered price in comparison to budget for the fixed lump sum was anticipated and forms part of the 2013/14 CFM savings target of £718k included in the Finance and Corporate Services three year budget savings proposals.
96. The variance in the variable cost stream indicates that there are likely to be value for money savings over the life of the contract but as this element is variable and dependent on need their value will be tracked through the contract management and reporting mechanisms. There is the potential to offer increased savings over the contract term through the annual service improvement reviews supporting future budget savings targets.

## **Legal implications**

97. Please see comments from the Director of Legal Services, paragraphs 107 to 109.

## **Consultation**

98. Consultation on the development and delivery of this procurement has been undertaken with internal corporate functions including Human Resources, legal, procurement, finance, corporate strategy; sustainability, economic development and Information Services Division.
99. Advice has been sought from external parties including GPS (in relation to the FM framework and its use). In addition to technical advice being provided from within the council, expert specialist advice has also been utilised to support this procurement where it is required.
100. Consultation has been undertaken with other key stakeholders including staff, suppliers and trade unions.

## **Other implications or issues**

101. This procurement has taken into consideration the impact on other projects/programmes, and services including: the office accommodation strategy and further modernisation activity with particular reference to the ability to extend the service provision at 160 Tooley Street through the use of this contract to other identified key buildings.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Head of Procurement**

102. This report is seeking approval to award a departmental contract for facilities management services at Tooley Street. The scope of works to be covered by the contract is described in paragraph 10.
103. The report confirms that the previously approved procurement strategy has been followed with a further competition process being conducted through the GPS framework.
104. Paragraphs 25 – 41 describe the tender process giving details of results at each stage. Only two out of eight bidders submitted proposals. Officers followed this up and the report confirms the reasons for non submission. The steering group set up to oversee the procurement project did consider the implications of receiving only two bids and decided to continue with the process.
105. Paragraphs 42 – 61 cover the approach to evaluation. Bidders were required to submit two proposals. The report confirms that during evaluation the evaluation panel confirmed that neither bidder's proposal for the totally outsourced solution had met the additional criteria set. At this point the bidders were informed and the remainder of the evaluation focussed on the partially outsourced solution. The process was designed to accommodate clarifications from the council in relation to the bids. There were also opportunities for the panel to verify the submissions through meetings and site visits etc. This extensive evaluation

hopefully will help ensure that the recommended provider is able to meet the council's requirements across all services. The table in paragraph 54 shows that the recommended provider scored highest in both quality and price.

106. Paragraph 20 highlights some benefits that will be provided through the new contract. Paragraphs 64 – 71 describe how the contract will be managed and monitored. There will be robust performance monitoring arrangements and clear governance in place to support the delivery of these services. Paragraph 69 describes an annual service review that will enable development of the service throughout the life of the contract.

#### **Director of Legal Services**

107. This report seeks the cabinet's approval to the award of the Consolidated Facilities Management contract for 160 Tooley Street to Interserve Plc as fully detailed in paragraph 1. At this value the award decision relates to a Strategic Procurement and so is reserved to the cabinet.
108. As noted in paragraph 30, the nature and value of this contract is such that it is subject to the full tendering requirements of the EU procurement regulations. The chosen route, of procurement through the GPS Facilities Management Framework fully meets the EU tendering requirements, and this procurement also met the council's tendering requirements set out in Contract Standing Orders (CSO). Tenders have been evaluated in accordance with the stated evaluation methodology, and Interserve is recommended for award on the basis of having submitted the most economically advantageous tender.
109. CSO 2.3 requires that a contract may only be awarded if the expenditure involved has been approved. Paragraph 89 confirms how this contract is to be funded.

#### **Strategic Director of Finance and Corporate Services (NR/FCS/26/9/12)**

110. This gateway report recommends that the cabinet approves the award of the Consolidated Facilities Management contract for 160 Tooley Street to Interserve Plc for a period of 5 years commencing 1 February 2013 with the provision to extend at the council's discretion for up to a further 2 years and notes that this award is for the standard bid retaining the in-house elements of the council's Tooley Street Facilities Management service.
111. The strategic director notes the financial implications contained within the report, the efforts made to obtain the most economically advantageous tender for the Council and the contribution to achieving the business plan savings contained in the budget report to Council in February 2011. Officer time to effect the recommendations will be contained within existing budgeted revenue resources.

## BACKGROUND DOCUMENTS

| Background documents  | Held At   | Contact                       |
|---|---|-------------------------------|
| Gateway 1 – Procurement strategy approval for Consolidated Facilities Management contract for 160 Tooley Street | Finance and Corporate Services Department / Corporate Management, 160 Tooley Street, London SE1 2QH | Matthew Hunt<br>020 7525 5674 |

## APPENDICES

| No         | Title                               |
|------------|-------------------------------------|
| Appendix 1 | Key Performance Indicators Schedule |
| Appendix 2 | Service Delivery Plan Schedule      |

## AUDIT TRAIL

|                |   |
|----------------|---|
| Cabinet Member | Councillor Richard Livingstone, Finance, Resources and Community Safety |
| Lead Officer   | Matthew Hunt, Head of Facilities Management                             |
| Report Author  | Matthew Hunt, Head of Facilities Management                             |
| Version        | Final   |
| Dated          | 11 October 2012   |
| Key Decision?  | Yes   |

## CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER

| Officer Title  | Comments Sought | Comments included |
|--|-----------------|-------------------|
| Strategic Director of Finance and Corporate Services | Yes             | Yes               |
| Director of Legal Services                           | Yes             | Yes               |
| Head of Procurement                                  | Yes             | Yes               |
| Head of Home Ownership                               | No              | n/a               |
| <b>Contract Review Boards</b>                        |                 |                   |
| Departmental Contract Review Board                   | Yes             | Yes               |
| Corporate Contract Review Board                      | Yes             | Yes               |
| <b>Cabinet Member</b>                                | Yes             | Yes               |
| <b>Date final report sent to Constitutional Team</b> | 11 October 2012 |                   |