

Item No.	Classification: Open	Date: 19 August 2014	Decision Taker: Strategic Director of Finance and Corporate Services
Report title:	Gateway 3 – Variation Approval Variation to the consolidated facilities management contract for 160 Tooley Street to include additional operational buildings		
Ward(s) or groups affected:	None		
From:	Head of Corporate Facilities Management		

RECOMMENDATION

1. That the strategic director of finance and corporate services approve the variation to the consolidated facilities management contract for 160 Tooley Street with Interserve Plc, namely to expand the operational scope to include the 25 additional buildings listed at appendix one at an estimated annual cost of £1.29m for the period 1 November 2014 to 31 January 2018, giving a total estimated minimum value for this variation of £4m, in turn giving a revised total contract value of £18.7m for the initial term.

BACKGROUND INFORMATION

2. Facilities Management (FM) is a fundamental business support service that is vital to service delivery and business continuity and supports the council's ability to deliver the wider office accommodation strategy.
3. Following a competitive procurement exercise using the Government Procurement Service (now known as Crown Commercial Services (CCS)) framework, Interserve Plc was awarded a contract to provide consolidated facilities management services for the council's headquarters at 160 Tooley Street in October 2012, hereafter referred to as the TSFM contract.
4. The contract commenced in February 2013 and will run for five years with an option to extend for an additional two years. The contract allows the council to expand the operational scope to include additional buildings throughout the contract term subject to agreed criteria being met, including that the service provider maintains a satisfactory level of performance, that the service needs of additional buildings can be met from the existing specification with no requirement for significant amendment, and that best value for additional sites can be demonstrated. The tender and contract documents made specific reference to the flexibility to add any other building owned or occupied by the council. Therefore having now successfully implemented the contract, evidenced a satisfactory level of operational performance, and developed a transitional process for bringing new buildings on-line as demonstrated by previous variations, corporate facilities management (CFM) are progressing the addition of more buildings.
5. A review of the operational estate has identified a further 25 buildings that whilst older in fabric and asset terms than previously added buildings, are still deemed to meet the inclusion criteria. CFM is in final discussions with the relevant heads of service to transfer these buildings to the TSFM corporate contract, discussions which are supported by a FM budget strategy on how the service is to be paid for going forward. The purpose of this report is therefore to seek approval to issue a task order (the process used by CFM to inform the service provider of the intention to expand the scope of the contract) to Interserve for these buildings when these discussions are concluded.

6. The contract covers the following services:

- Planned preventative building maintenance, primarily routine and scheduled maintenance activity to building services and fabric.
- Reactive building repairs and maintenance e.g. repairs to broken windows
- Compliance with statutory regulations to meet all statutory and regulatory requirements relating to the building's fabric, plant and equipment (excluding those compliance activities that fall within the scope of the new compliance contract e.g. water testing, asbestos management plans, fire risk assessments and periodic electrical testing).
- Maintenance of building related equipment to ensure that it is in good working order
- Provision of spares and consumables to include lighting tubes, plant lubricants and engineering parts.
- Works projects i.e. refurbishment and alterations consisting of works required by the council to alter or improve the working environment.
- Cleaning, including internal and external windows with the provision of all equipment and consumables such as toilet and hand tissues.
- A proactive pest control service to keep buildings as free as possible from vermin
- Vending service

7. It should be noted that whilst security services form part of the TSFM contract and have been included in previous variations to add additional buildings to the TSFM contract, on this occasion following the increased verification requirements pertaining to any secondary TUPE costs due to the high number of buildings transferring, the decision has been taken to exclude security services as part of this variation so as not to delay implementation of the other services, and instead include it as part of a separate gateway report that is being prepared to transfer the remaining soft services for the operational estate to the TSFM contract. Discussions are on-going with individual buildings to determine the level of other services they wish to take up from day one, hence the estimated value of this variation. Including these buildings within the scope of the contract will result in a number of benefits to the council including:

- Rationalisation in contract management requirements through the removal of multiple service providers.
- Rationalisation in contract monitoring requirements through service delivery consolidation e.g. one monthly invoice.
- Improved management information (MI) on the council's assets
- Improved service delivery standards supported by focused key performance indicators (KPI's).
- Increased cost certainty over the life of the contract
- Progression of the wider FM 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.
- Further integration with the council's in-house team to provide a seamless comprehensive and reliable FM service to all who use the buildings.
- Increased economies of scale driven through the contractor's own service delivery and its supply chain as more buildings are added.
- Increased benefits as the scope of the annual improvement plan widens

8. In addition staff and visitors at these sites will also benefit from the following:

- A unified 'one team' approach to all delivered FM services bringing consistency to the face of FM.
- 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 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 CFM service desk giving a consistent customer experience.

KEY ISSUES FOR CONSIDERATION

Key aspects of proposed variation

9. The nature of the proposed variation is to expand the scope to include a further 25 buildings.
10. There have been five previous variations to the contract since its commencement in February 2013, detailed below:

No.	Date	Variation	Value	% Increase in contract value	Revised Total Value for Initial Contract Term	Running Total of No. Buildings on Contract
	Feb'13	At award			£7.15m	1
1.	May'13	Scope expanded to include two additional sites, 132 Queens Road and 1 Lugard Road.	£2.84m	40%	£9.99m	3
2.	Sept'13	Scope expanded to include additional site, Canada Water Library.	£938k	9%	£10.92m	4
3.	Nov'13	Scope expanded to include the following nine additional sites: <ul style="list-style-type: none"> ▪ 17-27 Bournemouth Road ▪ 47B East Dulwich Road ▪ Talfourd Place ▪ Curlew House ▪ Sumner House ▪ Peckham Library and One Stop Shop ▪ Southwark Resource Centre (Aylesbury) ▪ 11 Market Place One Stop Shop ▪ John Harvard Library 	£2.9m	26%	£13.8m	13
4.	Nov'13	Scope expanded to	£575k	4%	£14.37m	14

		include 134 Queen's Road.				
5.	Feb'14	Scope expanded to include 376 Walworth Road.	£178k	1%	£14.5m	15

11. The revised estimated value of the contract is £18.7m which represents a 29% increase in the overall contract value.

Reasons for variation

12. The inclusion of these additional buildings will progress CFM's strategy of working towards a more consolidated approach to delivering FM services across the operational estate in a way that achieves best value for the council at a time of great economic pressure.

Future proposals for this service

13. As the TSFM contract is still within its initial term and has provision for extension to 2020 there is no need for any other future proposals at this time. It is anticipated that a review of the contract will take place during 2017 to inform any extension decision.

Alternative options considered

14. As referred to at paragraph 4 the TSFM contract allows for the inclusion of additional buildings as long as certain criteria are met and value for money is demonstrated. CFM is satisfied that these requirements have been met and that the inclusion of these buildings will support the council's long term strategy of consolidating and streamlining the delivery of FM services. Therefore on this occasion no other options were considered for the provision of consolidated facilities services at these buildings.

Identified risks for the variation

15. Details of the risks and how they were/will be managed are outlined below:

No.	Risk	Risk Level	Mitigating Action
1.	Best value not achieved.	Low	Having awarded the contract just over a year and a half ago CFM is satisfied that the costs still represent best value. In addition as part of the discussions CFM has undertaken due diligence, especially on M&E costs.
2.	TUPE issues are not managed satisfactorily, potentially resulting in consultation and staff issues.	Low	Information to date indicates that the number of contractor staff servicing the additional sites that will be subject to secondary TUPE is low. As this is the sixth variation CFM is confident that there is a tried and tested protocol for responding to identified TUPE requirements.
3.	Incorporating additional buildings into the contract will over extend Interserve's capacity leading to a drop in overall performance.	Low	Interserve is a major international company with more than 50,000 employees and so has the resources to expand as the contract requirements grow. There is a strong monitoring protocol in place and so any reductions in service delivery can be flagged early and action taken accordingly. There have been no significant performance issues

			following the phased addition of 14 other buildings. However CFM recognises that this will be the largest block addition to date and will work with Interserve to ensure lessons learnt to date are covered during the mobilisation period e.g. inclusion of extra resources from day one.
4.	Incorporating additional buildings into the contract will over extend CFM contract management resources.	Low	CFM is satisfied that it has the resources in place to ensure the contract continues to be monitored and managed accordingly. A recent internal audit of the letting and management of the TSFM contract did not raise any concerns in this area.

Policy implications

16. 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.
17. 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.
18. 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.

TUPE implications

19. Interserve already provides the cleaning service for the majority of these sites through the corporate contract under the name McClellans so no TUPE issues will arise on that contract. For other contracts CFM will liaise with FM facilities managers and building occupants to ensure any secondary TUPE implications are identified. With a well established protocol to ensure any transfers are handled effectively and sensitively CFM does not anticipate any issues.

Contract management and monitoring

20. The contract will continue to be managed by the CFM contracts team. The team's responsibilities in relation to the delivery of this contract include:
- Monitoring budget spend and compiling monthly spend profile reports
 - Checking the monthly invoice for accuracy
 - Providing a robust single point of contact for end users
 - Responding to complaints and service improvement requests
 - Chairing monthly performance monitoring meetings
 - Ensuring contractor performance reports are received

- Risk management
- Monitoring key performance targets and other performance standards

21. The contract has a robust key performance indicator regime and the performance of Interserve Plc since contract award is meeting these targets. The contract is on schedule to deliver the anticipated cost reductions. Regular monthly monitoring of key performance targets is taking place and the majority of the major targets are being met. Where periodic shortfalls have occurred these have been addressed effectively through action plans and performance meetings. CFM is satisfied that the required levels of performance will be achieved at the additional buildings.
22. In addition CFM will also manage the exiting of these buildings from existing corporate contracts e.g. cleaning and advise departments as required regarding any local arrangements.

Community impact statement

23. As these buildings are used by members of the public there will be an impact on local people and communities. Interserve will ensure that staff providing services at these sites are fully conversant with the specific requirements of each building and are fully trained to deliver these services in a professional manner. Interserve will also continue to proactively promote employment of local people to service the contract.

Economic considerations

24. The TSFM gateway two contract award report highlighted Interserve's significant achievements in the areas of the Skills for Life project (the national strategy for improving adult literacy and numeracy skills), and the development of apprenticeship schemes specifically for FM services such as mechanical and engineering (M&E) training programmes. Since contract commencement Interserve has taken on an M&E apprentice who is now working at Tooley Street and will be taking on two additional apprentices as part of this variation.
25. Interserve will continue to ensure that where possible the local community benefits by way of local supply chain provision and employment e.g. since contract award they have changed to a vending company based in the borough in response to staff requests for more healthy options. Following the last variation in February 2014 Interserve has engaged a new graduate who is based one day a week in the council's strategy and partnership division working on a framework document aimed at identifying a range of projects to help achieve the objectives set out in the Southwark 2012-20 Economic Wellbeing Strategy e.g. ensuring that all vacancies within Interserve are made available to Southwark residents, increased opportunities for apprenticeships. In addition, and as a direct result of the inclusion of these 25 sites, Interserve are also proposing to engage another apprentice.

Social considerations

26. It is a condition of the contract all staff servicing the contract, both direct and indirect, are paid at least the London Living Wage resulting in better customer service from operatives, increased productivity and improved staff retention.

Environmental considerations

27. Interserve use environmentally friendly cleaning products and continue to work with CFM to improve recycled waste removal targets.

Financial implications

28. The estimated additional annual cost of expanding the contract to include these 25 buildings is £1.3m. This equates to a total additional cost of £4m from 1 November 2014 to 31 January 2018.
29. Having tested the market approximately 18 months ago and made it clear to applicants at the time that the number of buildings on the contract would grow, CFM is satisfied that the pricing model continues to represent best value and will deliver not only financial benefits but allow the council to achieve more efficiencies going forward as the service provider begins to achieve greater economies of scale through the expansion of the contract.
30. This contract will be funded from resources established in CFM through the transfer of budgets from other departments. This will involve discussion and agreement with strategic directors and it is envisaged that the budgets will be fully transferred with effect from 1 April 2015. CFM will also charge a 5% management fee for these sites.
31. The contract is subject to an annual price review with the indexation mechanism linked to CPIX.
32. Additional associated reductions in management overheads are expected to be achieved as part of CFM's on-going savings target.

Legal implications

33. Please refer to the legal concurrent from the director of legal services.

Consultation

34. CFM has consulted with the relevant key stakeholders at the various sites.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Procurement

35. This report is seeking to vary the existing corporate facilities management (CFM) contract to accommodate 25 additional buildings as listed in the recommendation.
36. When the existing CFM contract was procured, there was always an intention to add other suitable council buildings to the contract provided value for money could be demonstrated. Paragraphs 4 and 5 confirm that the inclusion of these buildings is in line with the CFM strategy.
37. Paragraph 7 highlights the benefits that will be gained by adding these buildings. These include efficiencies around contract monitoring and management, increased economies of scale and improved service standards. All of which help support the achievement of value for money.
38. With this variation, paragraph 20 highlights that secondary TUPE implications may exist. The report confirms that the proposed provider has experience of successfully transferring staff into their organisation and this therefore should not present any issues for the contract variation.
39. Paragraphs 20 – 22 outline the management and monitoring arrangements already in place for the CFM contract. The services delivered to the additional 25 buildings will be monitored in the same way.

40. Since the start of the CFM contract, the report confirms that performance has been satisfactory and with the added benefits the variation would bring, there would appear to be no reason why the council would not wish to expand the volume of work through the contract.

Director of Legal Services

41. This report seeks approval for the variation to the consolidated FM contract for 160 Tooley Street with Interserve PLC to include an additional 25 operational buildings noted in paragraph 1 and Appendix 1 of this report.
42. The nature and value of this variation is such that the decision to approve is reserved to the strategic director of finance and corporate services.
43. As noted in paragraph 4, the council when tendering for this consolidated FM contract included within the tender and contract requirements the ability to include other council properties (defined as 'Affected Properties') by way of a task order. When adding other buildings the council must ensure that these can be added within the existing scope and without requiring negotiation of the contract terms. Paragraph 4 confirms this to be the case, so these buildings may therefore be included within this contract without a further process of tendering.
44. Contract Standing Order 2.3 requires that no steps should be taken to vary a contract unless the expenditure involved has been approved. Paragraphs 29-33 confirm the financial implications of this variation.'

Strategic Director of Finance and Corporate Services (F&CS14/015)

45. This report seeks approval to a variation of the consolidated facilities management contract for 160 Tooley Street with Interserve Plc. This variation expands the operational scope to include the 25 additional buildings listed at an estimated annual cost of £1.29m for the period 1 November 2014 to 31 January 2018, giving a total estimated minimum value for this variation of £4m.
46. The financial implications are contained in the body of this report and show that CFM will need to work with service departments to identify and transfer budgets required.
47. The strategic director of finance and corporate services notes that CPIX inflation is required annually. This will need to be indentified in the council's budget setting process.
48. Staff time associated with implementing and managing this contract can be contained within existing resources.

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 29.8.14

Designation STRATEGIC DIRECTOR OF FINANCE AND CORPORATE SERVICES

BACKGROUND PAPERS

Background Papers	Held At	Contact
TSM Gateway One Report (Procurement Strategy) Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM Gateway Two Report (Contract Award) Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation May'13 Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Sept'13 Open version	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Jan McMahon 020 7525 3620
TSM GW3 Variation Nov'13 Open Version (+9)	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Jan McMahon 020 7525 3620
TSM GW3 Variation Nov'13 Open Version (+1)	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Jan McMahon 020 7525 3620
TSM GW3 Variation Feb'14 Open	F&CS, CFM, 2 nd Floor, Hub 4, 160 Tooley Street	Jan McMahon 020 7525 3620

AUDIT TRAIL

Lead Officer	Matthew Hunt, Head of Corporate Facilities	
Report Author	Jan McMahon, Head of Corporate Contracts & Contract Management	
Version	Post CCRB V.1 Final Open with concurrents	
Dated	19.8.14	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Head of Procurement	Yes	Yes
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	N/A	
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	n/a	
Date final report sent to Constitutional Team	n/a	

