

<b>Item No.</b>	<b>Classification:</b> Open	<b>Date:</b> 20 May 2015	<b>Decision Taker:</b> Strategic Director of Finance and Corporate Services
<b>Report title:</b>		<b>Gateway 3 – Variation Approval</b> Variation to the consolidated facilities management contract	
<b>Ward(s) or groups affected:</b>		None	
<b>From:</b>		Head of Corporate Facilities Management	

## RECOMMENDATIONS

1. That the strategic director of finance and corporate services formalises his prior approval to the variations to the consolidated facilities management contract for 160 Tooley Street with Interserve PLC for the period 1 November 2014 – 31 January 2018 as set out in paragraphs (i) to (iv) below.
  - i) Expand the operational scope to provide cleaning services to 26 additional buildings at an estimated annual cost of £148.9k.
  - ii) Expand the operational scope to provide security services to an additional 8 buildings, and 1 building that makes up the 26 buildings referred to at paragraph one, at an estimated annual cost of £797k, and a TSFM contract wide 24hr mobile security service at an estimated annual cost of £344.7k.
  - iii) Expand the operational scope to facilitate the provision of soft facilities management services (cleaning, pest control, vending and security) for the remainder of the council's operational estate as required at an estimated annual cost of £1.60m.
  - iv) Expand the operational scope to provide hard facilities management services to 1 of the additional 26 buildings (Abbeyfield Road) referred to at paragraph (i) at an estimated annual cost of £29.8k.
2. That the strategic director of finance and corporate services note that the above variations will result in a total estimated annual variation value of £8.9m, which includes Interserve Plc's management fee, in turn giving a revised total contract value of £27.7m for the initial term.
3. The strategic director further approves and acknowledges that for operational reasons it was necessary to mobilise the contract on 1 November 2014, this was mainly due to the security contractors insurance and vehicle lease expiring

## BACKGROUND INFORMATION

4. 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.
5. 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.
6. 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 on-going attainment of performance targets 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, services.

7. A review of the operational estate has identified a further 34 buildings which CFM wish to add to the TSFM contract, and to expand FM services for buildings already on the contract. It is noted that unlike previous TSFM contract variations due to the infrastructure condition and age of assets only one of the new additional sites will include hard FM services. CFM is preparing to let a new consolidated repairs and maintenance contract to provide hard FM services for buildings not capable of being added to the TSFM contract.
8. CFM also wish to have the flexibility to provide soft FM services as may be required going forward in the rest of the operational estate as allowed for in the contract.
9. This report commenced the governance process at DCRB in October 2014 However CFM's negotiations with the relevant heads of service regarding the consolidation of FM budgets took longer than anticipated to successfully conclude. These negotiations have now been satisfactorily completed and the final version reflects this outcome.
10. The purpose of this report is therefore to seek approval to issue a post dated task order (the contractual process CFM is required to use to inform the service provider of the council's intention to expand the scope of the contract) to Interserve to reflect the addition of these buildings and soft FM services to the contract.
11. The contract covers the following services:
  - 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
  - Provision of a comprehensive security operation delivering a safe and secure environment for all building users.
  - 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 will 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.
12. Discussions are on-going with relevant departmental staff to determine the level of services they wish to take up from day one, hence the use of estimated values in this report. For some sites this will be formalised through annual service level agreements, hence the take up of services from the contract can change year on year, making it difficult to project costs.

13. 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

14. 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 FM 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

15. The nature of the proposed variations is to expand both the operational scope to include further buildings and to expand to scope of services to be provided to some buildings already on the TSFM contract.

16. There have been six previous variations to the contract since its commencement in February 2013, see table one.

17.

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	£2.84m	40%	£9.99m	3

		Road and 1 Lugard Road.				
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"> <li>▪ 17-27 Bournemouth Road</li> <li>47B East Dulwich Road</li> <li>▪ Talfourd Place</li> <li>▪ Curlew House</li> <li>▪ Sumner House</li> <li>▪ Peckham Library and One Stop Shop</li> <li>▪ Southwark Resource Centre (Aylesbury)</li> <li>▪ 11 Market Place One Stop Shop</li> <li>▪ John Harvard Library</li> </ul>	£2.9m	26%	£13.8m	13
4.	Nov'13	Scope expanded to include 134 Queen's Road.	£575k	4%	£14.37m	14
5.	Feb'14	Scope expanded to include 376 Walworth Road.	£178k	1%	£14.5m	15
6.	Aug'14	Scope expanded to include 25 additional buildings	£4m	29%	£18.7m	40

Table 1

18. The revised estimated value of the initial term contract is £27.7m which represents a 48% increase in the current overall estimated contract value for the initial term.

19. In reviewing this information the following should be noted:

- Core security costs refer to current contractually provided services
- Ad hoc security costs are currently expected to be circa £1.6m per annum and are on-going services that are not formalised in the contract, quotes are based on the TSFM schedule of rates and a like for like service being provided. CFM will monitor expenditure closely if it is likely this value will be exceeded, additional and prior approval will be sought.
  - The security figures also provide details of the costs for the opening/ locking service, alarm response and in/out of hours mobile patrols for all TSFM contract sites.
  - Some of the costs are not expected to be for the whole initial contract period e.g. Peckham Town Hall is due to be sold.
  - Similarly, all costs can only be estimates due to the variant nature of annual service review requests from departments, changes in the property portfolio.
  - Cleaning costs for named sites are based on the TSFM contract providing the same service as currently provided by the corporate cleaning service. Overall there has been a reduction of £6k in the annual costs for these sites.

- Costs include all associated costs e.g. national insurance contributions, insurance, holiday costs.
- The annual cost for additional soft FM service requirements for the rest of the operational estate is a best professional estimate based upon historical information and intelligence gathered during meetings with service managers, however it remains difficult to foresee which, if any, additional sites may require such services.

### Reasons for variation

20. The inclusion of these additional buildings/services 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

21. 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 2016 to inform any future service provision.

### Alternative options considered

22. As referred to at paragraph 6 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

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

No.	Risk	Risk Level	Mitigating Action
1.	Value for money not achieved.	Low	Having awarded the contract just less than two years ago CFM is satisfied that the costs still represent best value.
2.	TUPE issues are not managed satisfactorily, potentially resulting in consultation and staff issues.	Low	As this is the seventh variation CFM is confident that Interserve has demonstrated successful application of their 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 Plc 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 recent variations. 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.
4.	Incorporating additional buildings into the	Low	CFM is satisfied that it has the resources in place to ensure the contract continues to be monitored and

	contract will over extend CFM contract management resources.		managed accordingly. An internal audit of the letting and management of the TSFM contract earlier this year did not raise any concerns in this area.
5.	Risk of challenge	Low	CFM is satisfied that the contract allows for the variations sought in this report.

### Policy implications

24. 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.
25. 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.
26. 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

27. Interserve already provides the cleaning service for most of these sites through the corporate contract under the name McLellens so no TUPE issues will arise on that contract. Secondary TUPE will apply on the corporate security contract with Charter Plc. Potential secondary TUPE has also been identified for a company currently providing cleaning services to some environment and leisure sites. CFM will liaise with FM facilities managers and building occupants to ensure any other 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

28. The contract will continue to be managed and monitored 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
29. 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.

30. In addition CFM will also manage the exiting of these buildings from existing corporate contracts and advise departments as required regarding any local arrangements.

### **Community impact statement**

31. 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**

32. 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 as part of the last variation took on two more apprentices. CFM remain committed to working with Interserve to maximise apprenticeship opportunities and have agreed with Interserve options for extending the apprenticeship scheme to include an additional resource to focus on soft FM services.
33. 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 variation in February 2014 Interserve 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.

### **Social considerations**

34. 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**

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

### **Financial implications**

36. The estimated adjustment to the annual contract price of expanding the scope of the contract to include these buildings and cater for future ad hoc requirements for other sites is £2.7m. This equates to an increase in the contract value of £8.9m from 1 November 2014 to 31 January 2018.
37. Having tested the market just under two years 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.

38. This contract will be funded from resources established in CFM for cleaning and core security through the transfer of budgets from other departments for the majority of sites. Where a building is used to deliver services charged to the housing revenue account, these costs will be recharged, for example the cost of mechanical and engineering (M&E) services to 153 Abbeyfield Road. The process of centralising budgets has involved discussion and agreement with strategic directors on the contribution they will make and the budgets agreed will be transferred with effect from 1 April 2015. Any initial shortfall arising from a difference between the costs and standard of service received moving forward compared to previous provision will be met through balances with a view to establishing a full budget through future budget setting processes. All budgets centralised will include a 5% management fee.
39. Where departments require ad-hoc security services, CFM will ensure that these costs are directly charged to departments requesting the service.
40. The contract is subject to an annual price review with the indexation mechanism linked to CPI.
41. This variation to the contract is expected to deliver additional associated reductions in management overheads which will contribute to CFM's on-going savings target.

#### **Legal implications**

42. Please refer to the legal concurrent from the director of legal services in paragraph 48 - 51

#### **Consultation**

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

#### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS (Post CCRB)**

##### **Head of Procurement**

44. This report is seeking to vary the existing corporate facilities management (CFM) contract to accommodate additional buildings with cleaning, security and total facilities management services as outlined in the recommendations.
45. 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. Whilst the original contract was procured to provide total facilities management services, some of the buildings being recommended for inclusion will only be covered for specific elements of the specification. This is because not all of the buildings are suitable for a total facilities management solution.
46. Paragraph 13 highlights the benefits that will be gained by adding these buildings to the contract. 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.
47. Paragraphs 27 – 29 outline the management and monitoring arrangements already in place for the CFM contract. The services delivered to the additional buildings will be monitored in the same way.



48. 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**


49. This report seeks approval for the variation to the consolidated FM contract for 160 Tooley Street with Interserve to expand the operational scope to a number of additional buildings as further detailed in paragraphs 1- 3 of this report.
50. 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.
51. As noted in paragraph 6, 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 extending the scope to other buildings the council must ensure that these can be added within the existing specification and without requiring negotiation of the contract terms. This report confirms this to be the case, so the services may therefore be provided at these additional buildings under this contract without a further process of tendering. Paragraph 22 notes a potential risk of challenge when including additional buildings, however this is the final variation to this contract and is in line with the permitted variations anticipated when the contract was procured.
52. Contract Standing Order 2.3 requires that no steps should be taken to vary a contract unless the expenditure involved has been approved. Paragraphs 35 -40 confirm the financial implications of this variation.

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

53. This report formalises the prior approval of a variation to the consolidated facilities management contract for 160 Tooley Street with Interserve PLC. The report acknowledges that resources to fund the variation are currently held by service departments, but in conjunction with this variation will be centralised under the CFM division.
54. The process of centralising budgets has been by agreement with the strategic directors of those departments affected and the report acknowledges that where for any reason it has not been possible to centralise the budget that represents the full cost of the variation for a particular building, the shortfall will initially be met through the release of balances and addressed through the budget setting process moving forward.

**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... 29.5.15 .....

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 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM Gateway Two Report (Contract Award) Open version	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation May'13 Open version	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Sept'13 Open version	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Nov'13 Open Version (+9)	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Nov'13 Open Version (+1)	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Feb'14 Open	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225
TSM GW3 Variation Aug'14 open	F&CS, CFM, 2 <sup>nd</sup> Floor, Hub 4, 160 Tooley Street	Paul Symington 020 7525 0225

## APPENDICES

No	Title

## AUDIT TRAIL

<b>Lead Officer</b>	Matthew Hunt, Head of Corporate Facilities	
<b>Report Author</b>	Paul Symington, CFM Operations and Service Delivery Manager	
<b>Version</b>	Final Open	
<b>Dated</b>	20 May 2015	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments sought</b>	<b>Comments included</b>
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	N/A
<b>Contract Review Boards</b>		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
<b>Cabinet Member</b>	n/a	
<b>Date final report sent to Constitutional Team</b>		