

<b>Item No.</b> 14.	<b>Classification:</b> Open	<b>Date:</b> 23 January 2018	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Gateway 0 – Facilities Management Contract for the Council's Operational Estate	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Fiona Colley, Finance, Modernisation and Performance	

## **FOREWORD – COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR FINANCE, MODERNISATION AND PERFORMANCE**

The management of the council's operational estate is currently delivered through a combination of two large outsourced contracts and a mixed model of in-house service delivery across our many buildings. With our two large FM contracts both expiring in 2020, this is an opportune moment to consider how best to deliver these services in the future.

To this end officers have undertaken a strategic service review and we are recommending that in the future we let a single total FM contract, but that we also take this opportunity to insource a number of services including pest control and reception services at Queens Road.

In line with the recommendations of Overview & Scrutiny Committee and the Fairer Future Procurement Strategy, we fully considered the option to fully insource FM services, but have concluded that at this time our direct labour organisation, SBS, needs to focus on the insourcing of housing repairs, the delivery of an excellent repairs service for our council tenants and the opportunities to generate income in the residential repairs and maintenance sector

## **RECOMMENDATION**

1. That the cabinet notes this Strategic Options Assessment for delivery of a facilities management (FM) contract for the council's operational estate and approves the recommended strategic delivery option proposed in paragraph 36.

## **BACKGROUND INFORMATION**

2. The vision statement for the Corporate Facilities Management (CFM) team is, 'CFM aim to provide a reliable, consistent and proactive FM service to ensure our employees and the public have clean, safe and welcoming operational buildings provided by the council. We strive to provide our customers with services that are value for money'.
3. The service provides hard FM (planned preventative maintenance, reactive maintenance and statutory compliance such as fire and water risk assessments) and soft FM (cleaning, pest control, security, confidential waste, post and vending services) to all core operational non-residential buildings within the borough.

4. There are currently two suppliers providing FM services to Southwark Council, Interserve (Facilities Management) Limited (Interserve) and Kier Facilities Services Ltd (Kier).
5. Following a competitive procurement process and subsequent approval of the Gateway 2 on 23 October 2012, Interserve was appointed to provide a Total Facilities Management (TFM) solution (hard and soft FM services) on behalf of Tooley Street, Queens Road and other principal buildings within the estate. The contract was awarded for a period of five years, with an option to extend for a further two years and has a current total estimated value of £45,900,000. The soft FM services were split into 'bundles' which provided the council with the opportunity to retain some of the services in-house (post room, reception and event management services).
6. Interserve's contract went live in February 2013 and following approval of a Gateway 3 on 19 September 2017, was recently extended and is due to expire in January 2020. Throughout the contract's duration Interserve's services have been extended (within the parameters of the contract) to include up to 50 core operational buildings within the borough, making a total spend of £6.5 million for the 2016-17 financial year.
7. Following approval of the Gateway 2 on 12 February 2016, Kier was appointed to provide consolidated repairs and maintenance services for the council's operational estate. Kier's contract went live in June 2016, was awarded for a period of four years and is due to expire in June 2020. There is an option to extend the contract for a further two years; however, to enable the council to deliver their required objectives, the contract will not be extended to allow both the Interserve and Kier contracts to co-terminate in 2020. This contract followed a separate competitive procurement process to rationalise the council's supplier base from 30 suppliers for hard FM services to a single supplier. This increased efficiencies and economies of scale across the estate and formalised the contractual agreements for required services.
8. Kier's contract provides technical services support (hard FM) to 50 core operational buildings, along with a compliance risk assessment service to a further 90 buildings. In addition, Kier operate the single 24/7 helpdesk where all job requests are raised and managed from their office based in Basingstoke.
9. The remaining 339 non residential buildings (schools and tenants halls etc.) and 840 commercial buildings, which do not require a fully managed service, can access the Kier agreement on a call-off basis as and when they require services offered as part of the contract.
10. The council's contracts with Interserve and Kier have multiple maintenance strategies and key performance indicators (KPI's). This paper explores options to streamline and improve the user experience of using the FM contracts for both the CFM team and end users within the council.
11. The CFM team have undertaken a review of the current service and are developing a new and refined operating model that will deliver streamlined and efficient FM support to the operational estate in line with the procurement strategy post 2020.

12. The matrix contained within Appendix 1 – ‘Overview of Current Services’ provides an overview of the current contracts, along with suggestions of potential services to be included within the scope of the new contract.

## **KEY ISSUES FOR CONSIDERATION**

### **Future service requirements and outcomes**

13. CFM’s future requirements will remain largely the same as they are currently provided where the buildings continue to operate in the same capacity. This means that the future contracts for services listed in Appendix 1 are likely to have an estimated annual value of around £7.5 million.
14. The key objectives for the future contract will be the move to centralise the services provided to the core operational buildings, whilst also providing a comprehensive compliance risk assessment programme to the remaining non-residential buildings. The reasons and benefits for this are as follows:
  - a) Simplified operating model  
Streamlining this contract and improving the operational model, will negate the need to duplicate effort by the CFM contracts team and will provide end users within the council with clarity of service.
  - b) Ownership and responsibility of compliance is clear  
A centralised service will enable CFM to manage the risk assessment programme for all core and non-core operational buildings effectively.
  - c) Commercial viability for the market  
Combining all of the services will make the FM contract more attractive to the market. This will increase economies of scale, avoid duplication of services (by having one point of contact) and simplify the delivery model. The anticipated cost of planned and reactive work is expected to be circa £7.5m per year, with an additional anticipated spend of £5m per year on the capital investment programme.
  - d) Value for money through economies of scale  
Combining services should enable a reduction of spend per service through a competitive tender, and the resultant reduced management requirements and centralised budgets should allow CFM to operate with a reduced headcount. Consideration will be given to cross divisional working with asset management, schools and property. This would not only provide greater economies of scale enabling further savings to be made, but it would also promote best practice across different divisions. More information on the scope of cross division departmental working will be provided in the Gateway 1.
  - e) In-house services  
Further review will enable the council to identify any services which would benefit from being brought back in-house. This would require closer partnership working between CFM, Southwark Building Services (SBS), property and asset management teams to share best practice and utilise mutually beneficial agreements/contracts where possible.

- f) Enables digitisation of contact centre  
Through the provision of improved web enabled technology, the CFM team could benefit from a high-tech digital online reporting system (similar to Hornbill for IT).
- g) Improved customer experience  
The service would be simplified for the customer, with very clear service level agreements and CFM having end to end responsibility for core operational buildings, supported by a single contact centre.

### **Strategic service delivery options and assessment**

- 15. Detailed below are the main options available to the council when looking to provide CFM services.
- 16. **Option 1 – Procure a single Facilities Management Service (Preferred Option)**  
Due to the value of the new FM contract being over the EU Services threshold of £164,176 it is subject to the EU Procurement Regulations and therefore an OJEU compliant procurement procedure is required to be followed. The council could therefore undertake a competitive procurement process via either an OJEU restricted procurement or through a competitively tendered framework to appoint a single supplier to provide a TFM service to manage all of the requirements for the council's core operational buildings.
- 17. Advantages
  - a) Provides a more robust and streamlined service to council employees
  - b) Eliminates duplication and promotes economies of scale within the contract
  - c) Will improve the quality of the service provision and allow CFM to improve its internal operational model, therefore providing a value for money service to the council
  - d) The successful supplier will be encouraged to use local suppliers and Small Medium Enterprises (SME) in the delivery of the service. The supplier will also be required to provide evidence of their use, as part of the service reviews
  - e) The successful supplier will be required to employ and provide evidence at the service reviews that one apprentice per £m of contract price is engaged as a minimum on the contract.
- 18. Disadvantages
  - a) Savings cannot be delivered early in the contract as the suppliers will front load costs to cover their protection and market vagaries.
  - b) Only having one supplier could impact on the service delivery if the supplier failed to perform. A mutually beneficial relationship and robust KPIs are required to be established to enable innovation and cost reductions, failure to achieve this could have an adverse effect on the contract.
- 19. **Option 2 – Create a FM SIAM (Service Integration and Management) Model**  
Create multiple FM contracts split by services (e.g. a contract for cleaning, another for security), with an in-house CFM management layer. This would be similar to a SIAM model adopted by the IT sector.

20. Advantages
- a) This would create more opportunities for local SME's due to the market share being widened.
  - b) Would allow more specialist providers to apply to individual services which could improve overall quality of service.
21. Disadvantages
- a) This moves away from the CFM strategy to provide a lean, streamlined service. It would create multiple contracts for CFM to manage, which would require additional resource to be employed.
  - b) CFM would be required to remodel the current structure in order to create an intelligent client function to enable the delivery of this model. This would also go against the strategy CFM have been pursuing over the last 5 years of consolidating contracts and suppliers to gain better value for the council in a low-margin industry where economies of scale are key.
  - c) This would cause confusion to end users due to moving from 2 suppliers to multiple suppliers.
22. **Option 3 – In-source FM Services**
- CFM have identified some services that could be brought in-house as part of any new service arrangement and have considered aligning with Southwark Building Services (SBS) however, Facilities Management services are complex and require multiple trades to maintain and manage buildings, the services considered are shown below with Appendix 1 outlining remaining FM services.
23. Following careful analysis and consideration, the following services were considered as viable for in-sourcing:
- Building Management (Queens Road)
  - Mail porters (Queens Road)
  - Reception (Queens Road)
  - Pest control
24. Advantages
- a) There would be a direct relationship with the team providing the services and therefore greater influence on performance
  - b) There would be improved communication and a standardised approach to delivering the contract
  - c) There is opportunity to align Queens Road with the Tooley Street model earlier than 2020
25. Disadvantages
- a) Low margin commodity service that is not the council's core business. A lot of effort would be required to deliver services to the required standard, and could result in very little return. The cost to deliver could potentially be higher than an outsourced model.
  - b) The additional risk assessment programme is considered too onerous for the asset management team and with the increase in volume would require additional resource and specialist training.
  - c) SBS specialise in reactive repairs to a large number of residential properties, these are fundamentally different to the repairs and maintenance regime that is required across the non-housing and commercial estate.

- d) CFM would be required to recruit additional staff to ensure that this model could be delivered successfully. However, the skillset required would be difficult to source and retain in-house.
- e) The internal (and other associated) costs of bringing staff in-house would be significant for a contract of this size. Some of the services (e.g. compliance) would require the council to increase their insurance contribution.
- f) There would be a large increase in full time equivalent (FTE) with 233 Interserve employees and 11 Kier employees likely to be subject to a TUPE transfer to the council.

Service	Ongoing Cost (per year)
Interserve and Kier service provision	£7,500,000
4 x Senior Managers (Grade 12, mid-point including internal costs)	£236,000
<b>Total</b>	<b>£7,736,000</b>

26. **Option 4 – Extend current contracts**

Extend the current contracts with the incumbent suppliers.

27. **Advantages**

- a) The current suppliers have knowledge and experience of the council's policies and procedures and have been working with the council to improve services and will continue to deliver these services until the contracts expire in 2020.

28. **Disadvantages**

- a) The Interserve contract is subject to the Public Contracts Regulations 2015 (due to the value) and cannot be extended any further than 2020. To do so would amount to awarding a fresh contract without competition, in breach of the procurement rules.
- b) There is no obligation for Interserve to extend the contract using the existing terms and conditions, and therefore there is no guarantee that any further extension would be financially viable.
- c) Currently there is duplication as both suppliers provide similar services and therefore there is likely to be continued confusion for end users.

29. **Option 5 – Shared Service Delivery**

Work collaboratively with neighbouring councils to enter into a shared service arrangement to procure a TFM contract.

30. **Advantages**

- a) Promote shared best practice, standardising processes and procedures
- b) Drive economies of scale due to the value of the contract

31. **Disadvantages**

- a) This is not considered viable due to the market not being mature enough to successfully deliver a combined TFM contract. Recent experience shows London councils shared service arrangement being overly complex and challenging for all parties
- b) The services incorporated within a TFM contract are not the typical transactional / back office services that are often included within a shared service contract and therefore would not be a suitable model for the council to adopt

- c) Currently, there isn't a suitable shared service contract for the council to join
- d) Undertaking a collaborative procurement with neighbouring councils would increase the timelines significantly and would therefore require the current contracts to be extended.

**Market considerations**

- 32. There are many FM suppliers in the market that could deliver specific parts of this contract; however this contract would only be suitable to larger suppliers that would have the resource capacity, capability and experience to deliver a contract of this nature. By undertaking an OJEU restricted procedure, the council would be inundated with expressions of interest from new entrants to the market and suppliers attempting to increase their market share. Due to the complexity and nature of this contract, it is essential that for the success of this contract the appointed supplier is experienced in delivering a contract of this size and complexity.
- 33. The CCS framework agreement used for the current contract was awarded to the ten main suppliers within the market. The new CCS framework agreement (expected to be available from September 2018) has been extensively consulted on by users of the current framework to iron out inefficiencies, and is considered by the market place as the best option to procure these services. The framework is expected to have more robust service deliverables (including more suitable SLA's and KPI's); the specification (and associated documentation) has been reviewed by multiple end users and government agencies. This is likely to be the council's preferred method of procurement; however this will be discussed in detail in the Gateway 1 report.
- 34. The TFM model methodology for delivering FM services is considered by specialist contractors, end users and suppliers to be a robust tool for support operators.

**Policy Implications**

- 35. The theme of "Valuing the environment" will be increasingly supported through the provision of the new FM service delivery platform and effective strategic management of FM. Supported policies include "Southwark Cleaner Safer" and the "Sustainable Community Strategy".

**Recommended Strategic Delivery Option**

- 36. Based upon the information and details outlined above, the recommended strategic delivery options are;
  - a. to procure a TFM Service and award to a single contract to a FM supplier for core operational buildings (as set out in Option 1, paragraph 16).
  - b. To bring services in-house where the council have the experience and capacity to provide quality services. This will result in the following services being retained / brought in-house;
 

• Post Room (Tooley Street)	Retained in-house
• Reception (Tooley Street)	Retained in-house
• Event Management (Tooley Street)	Retained in-house
• Building Management (Queens Road)	April 2018
• Mail porters (Queens Road)	April 2018
• Reception (Queens Road)	April 2018

- Pest control

New contract 2020

### Identified risks for the service and recommended strategic option

#### 37. Risks and included assumptions made in the strategic options assessment

No	Risk	Risk Rating	Description and Mitigation
1	<p><b>Delays to procurement programme</b> Procurement programme is delayed resulting in a period where the council will be out of contract which may have an impact on service delivery as the supplier may stop providing their services.</p> <p>Not having the appropriate resource to deliver this project could result in long delays or even stop this project. This in turn would leave the council vulnerable to not providing a FM service provision in 2020.</p>	Low	<p>The programme will be planned to ensure that appropriate resources are deployed to meet target dates to obtain timely decisions so that the tender is not delayed.</p> <p>Robust tender documents will be developed to reduce the likelihood of subsequent revisions and clarifications that cause delays.</p> <p>The evaluation of tenders will be appropriately resourced and executed, and completed on time.</p> <p>Appropriate resource/s needs to be identified prior to the commencement of this project.</p>
2	<p><b>Insufficiently robust specification</b> Poor specification results in contracted services not being fit for purpose to meet the council's requirements.</p> <p>There would also be a risk of suppliers providing an unsustainable pricing model which could lead to particularly high or low cost models being submitted.</p>	Low	<p>Effective stakeholder engagement to identify needs and the analysis of services and their value to define the scope and specification of services.</p> <p>The project manager will hold workshops with internal stakeholders to ensure that all requirements are identified.</p>
3	<p><b>Poor response</b> A poor response resulting in few suppliers presenting submissions undermines the procurement and limits the council's choice of suppliers.</p>	Low	<p>Open days for bidders will be held to inform potential suppliers and promote the procurement to the market.</p>

### Key/Non Key decisions

38. This is a key decision.

### Next Steps

39. Programme board to be assembled and detailed programme plan to be agreed.

40. CFM team to investigate options into cross functional working as detailed in paragraph 14d.

41. Internal workshops to be held with stakeholders to ensure that the scope and specifications are fully captured ready for the future procurement.
42. Once requirements fully agreed, Gateway 1 will be drafted for approval of the procurement strategy.

### **Service Delivery Project Plan (Key Decisions)**

<b>Activity</b>	<b>Complete by:</b>
Enter Gateway 0 decision on the Forward Plan	01/12/2017
DCRB Review Gateway 0	11/12/2017
CCRB Review Gateway 0	14/12/2017
Approval of Gateway 0: Strategic Options Assessment	23/01/2018
Scrutiny Call-in period and notification of implementation of Gateway 0 decision	31/01/2018
Current contract end date (Interserve)	31/01/2020
Current contract end date (Kier)	15/06/2020

### **Community impact statement**

43. This contract will have a direct impact on those local residents who visit council premises which are subject to these contracts, and it would be expected that the appointed supplier complies with all relevant council policies and procedures. This information will be ascertained as part of the tender process (to be covered in greater detail in Gateway 1 and Gateway 2).

### **Social Value considerations**

44. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing any procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. Social value considerations and how the delivery of these services can benefit the local area are detailed below:

### **Economic considerations**

45. Economic considerations are to be built into the options appraisal process for the market engagement exercise and will be reported in the Gateway 1 report.

### **Social considerations**

46. Social considerations are to be built into the options appraisal process for the market engagement exercise and will be reported in the Gateway 1 report. However, any supplier appointed would need to:
  - a) guarantee the London Living wage for both its own staff and any subcontractors used
  - b) follow all relevant standard provisions on blacklisting
  - c) engage with Southwark Council's apprenticeship model.

- d) follow the standards for financial transactions and payment windows for their entire supply chain
- e) make every effort to reflect the council's fairer future principle by 'looking after every penny as if it was our own'.

### **Environmental/Sustainability considerations**

- 47. The supplier will be required to provide services that support, and do not compromise, Southwark's green building targets, sustainability policy and Fairtrade status. These will be reported in the Gateway 1 report.

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

- 48. The council will create a steering board, which will be chaired independently from CFM. Representatives from both Legal and Procurement will be invited to ensure that all relevant council policies and procedures are adhered to.

### **Resource implications**

#### **TUPE/Pensions implications**

- 49. Whichever, of the various service delivery options set out in this report is chosen will have a bearing on the application of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE). A change in the supplier of the existing services is likely to amount to a Service Provision Change under the TUPE, though whether or not TUPE will apply will depend on the option pursued and the circumstances at the time of service provision. Further TUPE considerations will be reported in Gateway 1 and Gateway 2.

### **Financial implications**

- 50. There are no specific financial implications at this point in time arising from the recommendation to adopt the strategic delivery options for the future provision of corporate facilities management services, which are to procure a total FM service through the award of a single contract to a FM supplier for core operational buildings (as set out in Option 1, paragraph 16) and to retain and bring a number of services in-house where the council have the experience and capacity to provide them at the required level of quality and value for money.
- 51. In December 2017, Cabinet were asked to note current budget options for 2018-19, one of which was a commitment to stabilise the CFM budget in order that the current level of services provided are fully funded. While it is not possible to quantify figures at this stage, it is anticipated that the strategic direction proposed in this report will deliver future savings to the council through the economies of scale of having a single contract, the avoidance of duplication as there will be a single point of contact and ability to reduce the cost of contract management within CFM.

### **Investment implications**

- 52. None

### **Legal implications**

- 53. Please see concurrent from the Director of Law and Democracy.

## **Consultation**

54. The Head of Corporate Facilities held an internal 'Heads of Service' workshop on 19 July 2017 to ascertain the level of service and support required from the new CFM contract. This workshop was highly attended and good feedback was received to help shape the CFM division moving into the future. Some of the feedback included wanting a more streamlined service, to have a single supplier to provide the operational FM support to core operational buildings and for CFM to provide greater clarity of service.
55. An external review was conducted on the current CFM service provision. 46 interviews were conducted with senior stakeholders, customer departments (i.e. Children's and Adults' services, Environmental and Social Regeneration etc.), CFM staff and external contractors. This provided the team with evidence and clear insight into the workings, relationships and processes of CFM and the challenges faced by individuals in the day to day work of CFM. The overall findings recommended changing to a less complex operating model with consolidated budgets, through a single supplier.

## **Other implications or issues**

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

#### **Strategic Director of Finance and Governance (FC17/073)**

56. The strategic director of finance and governance notes the recommendation in this report for delivery of a facilities management (FM) contract for the council's operational estate. As described above, there are no specific financial implications at this stage from this decision. These will be identified at future stages in the procurement process.

#### **Head of Procurement**

57. This report seeks the approval of the Cabinet for the recommended strategic delivery option proposed in paragraph 36 for the delivery of a facilities management (FM) contract for the council's operational estate and to note the next steps as further detailed in the body of the report.
58. At this stage the estimated annual spend is £7.5million and following a review of the strategic options available the report recommends procuring a TFM Service and awarding a single contract to a FM supplier for core operational buildings as well as bringing in-house a number of services where the council has the experience and capacity to provide quality services. The procurement strategy and value will be confirmed in the Gateway 1 which will be brought for decision in due course.

#### **Director of Law and Democracy**

59. This report seeks the approval of the cabinet to the strategic options assessment for the delivery of a facilities management contract for the council's operational estate.

60. Under contract standing orders, a pre-procurement/gateway 0 is required for any service contract with an estimated contract value of £10m or more. The contract value of the possible procurement is not yet known but is likely to be well in excess of £10m and will be confirmed in the gateway 1 report together with the proposed procurement strategy.

## BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Gateway 2 – Contract Award Approval Consolidated Facilities Management contract	160 Tooley Street, SE1 2QH.	Paul Symington 0207 525 0225
<b>Link: (Copy and paste link into browser)</b>		
<a href="http://moderngov.southwark.gov.uk/documents/s32565/Report%20Gateway%20%20Contract%20Award%20Approval%20Consolidated%20Facilities%20Management%20Contract%20for%20160%20Toole.pdf">http://moderngov.southwark.gov.uk/documents/s32565/Report%20Gateway%20%20Contract%20Award%20Approval%20Consolidated%20Facilities%20Management%20Contract%20for%20160%20Toole.pdf</a>		
Gateway 2 – Consolidated repairs and maintenance services contract for the Councils Operational Estate	160 Tooley Street, SE1 2QH	Paul Symington 0207 525 0225
<b>Link: (Copy and paste link into browser)</b>		
<a href="http://moderngov.southwark.gov.uk/documents/s60205/Report%20Gateway%20%20Contract%20Award%20Approval%20-%20Consolidated%20Repairs%20and%20Maintenance%20Services%20Contract%20f.pdf">http://moderngov.southwark.gov.uk/documents/s60205/Report%20Gateway%20%20Contract%20Award%20Approval%20-%20Consolidated%20Repairs%20and%20Maintenance%20Services%20Contract%20f.pdf</a>		

## APPENDICES

No	Title
Appendix 1	Overview of current services

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Fiona Colley, Finance, Modernisation and Performance	
<b>Lead Officer</b>	Paul Symington, Head of Corporate Facilities	
<b>Report Author</b>	Kelly Sanders, Head of Contracts (Corporate FM)	
<b>Version</b>	Final	
<b>Dated</b>	12 January 2018	
<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>
Strategic Director of Finance and Governance	Yes	Yes
Head of Procurement	Yes	Yes
Director of Law and Democracy	Yes	Yes
<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>	12 January 2018	