

Item No. 13.	Classification: Open	Date: 11 December 2018	Meeting Name: Cabinet
Report title:		Gateway 1 - Procurement Strategy Approval Facilities Management (FM) Contract for the Council's Operational Estate	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan, Housing Management and Modernisation	

FOREWORD – COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR HOUSING MANAGEMENT AND MODERNISATION

With our two large facilities management contracts expiring in 2020 we have an opportunity now to consider how we will deliver these services in the future. With the collapse of Carillion and profit warnings from other large firms in the outsourcing sector, we have particularly considered the risks associated with large single provider outsourced contracts, and in accordance with the Fairer Future Procurement Strategy, considered the opportunity and our capacity to bring services in house.

At January's cabinet meeting we agreed that we wanted to bring a number of FM services back in house, such as pest control, reception services and cleaning in our main offices. The remaining FM services will be divided into two contracts, one for soft FM services which includes one off security and cleaning of outlying offices and facilities and one for hard FM services such as repairs and maintenance. We will also look for opportunities to insource more services when these contracts expire.

We will also be using the tender process to encourage the contractors to employ local people and use local SME businesses as sub-contractors. As ever we will require them to pay the London Living Wage and offer apprenticeships and to not use zero hours contracts.

RECOMMENDATIONS

1. That Cabinet approves the procurement strategy outlined in this report, and as detailed in paragraphs 2 – 5.
2. The approval to bring the CFM (Corporate Facilities Management) services outlined in paragraph 36 in-house on expiry of the current facilities management (FM) contracts in June 2020, with an estimated annual cost of £1m.
3. The approval to undertake a further competition via the Crown Commercial Service (CCS) framework for Hard FM Services (hard FM), which includes small works and capital investment projects, Ref: RM3830 Facilities Management Marketplace (Lot 1b – Total Contract Value £7m - £50m) at an estimated annual cost of £3.6m for hard FM and up to £3.5m for the small works and capital investment projects, for a period of five years with the potential to extend up to a further two years (in increments at the council's discretion), making an estimated maximum total contract value of £49.8m, with an estimated start date of June 2020.

4. The approval to direct award small works and capital investment projects in line with the council's Contract Standing Orders, to exempt CFM from obtaining five tenders from the works approved list in respect of project related works procured through this contract in accordance with the methodology specified below;
 - all project related works up to £500k will be procured through this contract where the contractor is adequately performing their main contract work, subject to CFM undertaking a pre-tender estimate and the contractor demonstrating value for money against this benchmark
 - for project related works up to £500k, where the contractor is not a specialist in the area, is not adequately performing the main contract or cannot prove value for money, then tendered from the approved list an open market exercise.
5. The approval to undertake a separate further competition, to appoint a second supplier for Soft FM Services (soft FM) Ref: RM3830 Facilities Management Marketplace (Lot 1b – Total Contract Value £7m - £50m) at an estimated annual cost of £5.2m for a period of five years with the potential to extend up to a further two years (in increments at the council's discretion), making an estimated total contract value of £36.2m, with an estimated start date of June 2020.
6. That Cabinet notes that there is no additional cost to use this framework agreement.

BACKGROUND INFORMATION

7. The council's two large facilities management contracts expire in 2020, which has provided an opportunity to consider how the services are provided in future. The gateway 0 report was presented and approved by cabinet on 13 March 2018 and the report recommended approval to divide CFM services into three areas; in-house services, hard FM and soft FM.
8. The GW0 report considered the inclusion of fixed security services to be brought in-house for the council's corporate buildings (Tooley Street and Queens Road). However, following the due diligence exercise, it was identified that an additional 10 security guards would be required to be employed to cover the working hours covered under the current contract. This could potentially cause hardship to the security guards that are subject to the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) as their hours may be reduced accordingly. Keeping the security services outsourced provides the council with the best balance of cost and quality of service provision.
9. A total facilities management (TFM) model was originally considered to appoint a single supplier to deliver all FM services. However, due to the risk of disruption to service delivery (in the event of supplier failure), it was concluded that a TFM model may not be the best solution to meet the council's operational requirements. The decision was taken to divide the hard FM and soft FM into two separate contracts (to be awarded to separate suppliers) and to consider the opportunity and internal capacity to bring some of the services in-house.
10. The hard FM services include planned preventative maintenance, reactive maintenance, statutory compliance (such as fire and water risk assessments) and small works projects; the soft FM services include the help desk, cleaning services, pest control, security services (fixed and ad-hoc), confidential waste, vending services and inter-site mail. Both hard and soft FM services are provided to the core operational (such as Tooley Street, Queens Road and Bournemouth Road) and

non-residential (which consists of the non housing estate, anchor care homes, parks and office accommodation) buildings (approximately 350 in total) within the borough (wider estate).

11. The two suppliers that enable CFM to deliver the above services are;
 - Interserve Facilities Management Limited (Interserve) who provide a TFM solution to Tooley Street, Queens Road and other principal buildings within the wider estate, and
 - Kier Facilities Services Ltd (Kier) who provide hard FM services to the wider estate.
12. The expiry dates for these contracts are January and June 2020 respectively and CFM are currently considering options to co-terminate both contracts.

Summary of the business case/justification for the procurement

13. The council are responsible for ensuring buildings are maintained and are statutory compliant to ensure the health, safety and wellbeing of its employees, visitors and members of the public. As the current contracts are terminating in 2020, the council are required to procure new contracts and secure arrangements, with sufficient time to mobilise the contracts and undertake any staff transfers under the Transfer of Undertakings (Protection of Employment) (TUPE) regulations as deemed appropriate within the current contracts.
14. This procurement replaces the two current contracts, consolidating the TFM and hard FM services into two new contracts, hard FM (including small works projects) and soft FM;
 - to provide a safe and comfortable working environment for all building users which in turn enables them to deliver services
 - to ensure the efficient and cost effective use of assets
 - to maximise the useful life span of buildings, plant and equipment, and
 - to ensure that all statutory health and safety requirements are met pertaining to maintenance works and inspections.
15. Procuring the services through the recommended framework agreement (CCS), ensures that the core services will be delivered to corporate standards across the operational estate, including (but not limited to);
 - planned preventative building maintenance, primarily routine and scheduled maintenance activity to building service 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, including fire risk assessments, asbestos management, gas, water and electrical testing which are compliance activities
 - 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.

16. Each of the buildings for inclusion within these contracts will require varying levels of maintenance. These levels will be determined by a matrix of factors including current and future use, business critically, the condition of fixed assets and the overarching accommodation strategy.
17. CFM (along with other relevant service areas), will determine the most suitable maintenance category to fit each building. This process will be fully supported by the information from the recently commissioned asset verification survey. The contracts will allow for buildings to be moved between maintenance strategies in line with the evolving estate strategy.
18. Each maintenance strategy will have its own pricing mechanism reflecting the degree of investment required in individual buildings. For example, a building providing a front line or critical service and with reasonable utilisation expectancy or a building with a short life expectancy will be assigned a specific maintenance strategy and cost.
19. A simplified pricing mechanism for fixed price, ad-hoc and hard FM projects will be implemented as part of these new contracts. The fixed price element provides a degree of cost certainty for medium and long term business planning.
20. The new contracts will have the flexibility to allow the council to expand the scope of the contracts to include other buildings that it acquires, owns, occupies or is responsible for providing FM services to during the contract term. Examples include voluntary and community schools/academies, the voluntary and community sector estate and the tenant and resident's association estate. The governance process for adding new buildings or buildings being returned following a period of tenancy to the contracts will also be detailed in the gateway 2 report.

Market considerations

21. The gateway 0 report reviewed the different FM delivery models available to CFM, and whilst the TFM model was once favoured by the market, many organisations have moved away from this model choosing to bring some services in-house and dividing the remaining services between two or more suppliers. The main driver behind this change is to mitigate the risk of service delivery failure, in the event of non or poor performance from the TFM supplier.
22. CCS has taken this into consideration throughout the procurement of the RM3830 Facilities Management Marketplace framework agreement, and has awarded a place on the framework to 46 suppliers, who are shortlisted based on their geographical location, encouraging the use of local suppliers.
23. The framework is divided into three lots depending on the total contract spend;
 - Lot 1a – Total Contract Value up to £7m
 - Lot 1b – Total Contract Value between £7m and £50m (Appendix 1), and
 - Lot 1c – Total Contract Value Over £50m.

This will ensure that only suitable suppliers are able to bid for each new contract, thus protecting both the supplier and the council.

24. The estimated costs for the hard FM and soft FM contracts (as detailed in paragraphs 3 and 4) are based on the current costs of the services and expected

increase in cost due to market volatility (following the Carillion collapse). The estimated cost for the small works and capital investment projects is a maximum value and is not guaranteed.

25. The recommended framework (above) was established in accordance with the EU regulations (the Public Contracts Regulations 2015) and therefore has engaged with suppliers nationally.

KEY ISSUES FOR CONSIDERATION

Options for procurement route including procurement approach

26. Option 1 – Do nothing

CFM are responsible for ensuring the council buildings are maintained and are statutory compliant. The contracts with the incumbent suppliers (Interserve and Kier) expire in 2020 and replacement contracts are required to continue to provide these services. This is not an option for the council.

27. Option 2 – Provide all services in-house

Following careful analysis and consideration, some of the services were deemed viable to bring in-house (and formed part of the recommendation in the gateway 0 report (see structure contained with Appendix 2)). The remaining services do not fall within the council's core business, and therefore it has been considered that bringing those services back in house would not provide value for money.

28. Although the new in-house service supporting the residential housing estate is settling down, it is considered too soon to add the additional complexity of the operational estate to the service at this time. This is considered a future option but currently not viable for the council's operational estate.

29. Option 3 – use an EU compliant framework agreement (recommended)

There are five organisations that have facilities management framework agreements that are accessible and available for the council to use; CCS, Eastern Shires Purchasing Organisation (ESPO), Fusion 21, NHS Shared Business Services (NHS SBS) and the Scape Group.

30. Following a thorough market analysis (contained within Appendix 3), the CCS RM3830 Facilities Management Marketplace, Lot 1b - (£7m to £50m) not only meets all of the council's essential requirements, it has also incorporated the lessons learnt from previous facilities management framework agreements and contracts. Some of the improved services to be provided are;

- having a regional lot structure, meaning that services can be procured locally, enhancing social value based on geographical strength
- having simplified processes for ad-hoc works to be included within the contract
- providing a simplified bid pack to communicate requirements to suppliers
- requesting suppliers to tailor their offer to match social value priorities and measurable local benefits, such as: an efficient and sustainable public estate; support for diversity and inclusion; improved competency and capacity
- the flexibility to allow the council to expand the scope of the contract to include other buildings that it owns, occupies or is responsible for providing FM services to during the contract term
- the contract length can be awarded for up to seven years with an option to extend for up to an additional three years.

31. Whilst the other organisations have suitable framework agreements, the CCS framework is superior in terms of scope and offers more services required to enhance the service provision provided by CFM.

32. Other organisations were considered and discounted for being unable to meet all of the council's operational requirements.

33. **Option 4 – Procure via the Official Journal of the European Union (OJEU)**

Due to the estimated value of the new contract being above the EU Services threshold of £181,302 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 the OJEU restricted procedure, however this process would take longer (requiring more of the council's resource) than undertaking a further competition via a framework agreement.

This approach would not guarantee to attract suppliers other than the 46 suppliers that are already on the framework agreement. All of the major suppliers within the FM marketplace are on this agreement, and 34 out of the 46 suppliers are on Lot 1b (£7m - £50m) which is the recommended Lot for both the hard FM (including small works projects) and soft FM procurement processes. This option is therefore not recommended.

34. **Option 5 – Shared services**

There are currently no opportunities to work with neighbouring councils to join agreements or to undertake procurement projects. This is not an option for the council.

Proposed procurement route

35. Having considered all of the opportunities available to the council, the following recommendations are shown below;

36. To bring the following services in-house on expiry of the current facilities management contracts;

- **Tooley Street** – cleaning and the help-desk
- **Queens Road** – post room, reception, cleaning and building management
- **Wider council estate** – pest control

37. To procure hard FM services (including small works projects), 'Option 3 – to use an EU compliant framework agreement' and in particular, CCS RM3830 Facilities Management Marketplace, Lot 1b (£7m to £50m). The following CFM services will be provided under this contract;

- mechanical, electrical and plumbing (MEP)
- building fabric
- lifts and equipment falling within the lifting operations lifting equipment regulations 1998 (LOLER), and
- statutory compliance (fire safety, water hygiene and asbestos etc.)
- small works projects

38. To procure the soft FM services, 'Option 3 – to use an EU compliant framework agreement' and in particular, CCS RM3830 Facilities Management Marketplace, Lot 1b (£7m to £50m). The following CFM services will be provided to the wider council estate under this contract;

- cleaning
- security services
- vending services
- confidential waste, and
- inter-site mail

Identified risks for the procurement

No	Risk	Risk Rating	Description and Mitigation
1	The bids received for hard FM and soft FM are higher than the current cost of these services.	Medium	Following the Carillion collapse, suppliers are likely to submit higher bids to ensure profitability on the contract. This will be mitigated by ensuring that the specification is robust, by early supplier engagement and by inviting up to 34 suppliers to bid.
2	Insufficient resource 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.	Medium	Appropriate resource needs to be identified and budget approved prior to the commencement of this project.
3	Abnormally low bids 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.	Medium	Robust evaluation of the pricing proposals will be conducted to ensure that the successful supplier can deliver services to the desired quality for the submitted cost.
4	Poor response A poor response resulting in few suppliers presenting submissions undermines the procurement and limits the council's choice of suppliers.	Medium	Open days for bidders will be held to inform potential suppliers and promote the procurement to the market. Conduct early supplier engagement with the 34 suppliers on Lot 1b.
5	TUPE The staff that are subject to TUPE choose not to TUPE over to the council.	Low	This will be mitigated through early consultation and communication with the individuals concerned. In the event of the staff not wishing to TUPE into the council, the council will employ temporary / agency workers in the first instance, which will be followed by a recruitment campaign to permanently fill required vacancies.
6	Delays to procurement programme Procurement programme is delayed resulting in a period where the	Low	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

No	Risk	Risk Rating	Description and Mitigation
	council will be out of contract which may have an impact on service delivery as the supplier may stop providing their services.		<p>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>
7	Insufficiently robust specification Poor specification results in contracted services not being fit for purpose to meet the council's requirements.	Low	<p>Effective stakeholder engagement to identify needs and analyse 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> <p>Utilise the CCS specification and modify to meet the council's requirements.</p>
8	Failure of Suppliers Working in low margin areas such as facilities management, results in strain on suppliers when things go wrong financially.	Low	Tender evaluation methodology will provide reassurance of bidders' financial security. Reducing risk to the council. A MINT credit check will be conducted on the supplier's financial status prior to awarding these contracts.

Key /Non Key decisions

39. This report deals with a key decision.

Policy Implications

40. The theme of "Valuing the environment" and "Value for money" 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".

Procurement Project Plan (Key Decisions)

41. The period between the approval of the Gateway 1 decision and issuing the tender documents will be used to; set up the programme board, liaise with internal stakeholders, commence early supplier engagement, undertake enabling works (such as asset register and audits) and assemble the tender documents including the specification.

Activity	Complete by:
Enter Gateway 1 decision on the Forward Plan	25/05/2018
DCRB Review Gateway 1	29/10/2018
CCRB Review Gateway 1	01/11/2018
Brief relevant cabinet member (over £100k)	08/11/2018
Notification of forthcoming decision - Cabinet	03/12/2018
Approval of Gateway 1: Procurement strategy report	11/12/2018
Scrutiny Call-in period and notification of implementation of Gateway 1 decision	19/12/2018
Completion of tender documentation	01/06/2019
Invitation to tender	03/06/2019
Closing date for return of tenders	02/08/2019
Completion of any clarification meetings/presentations/evaluation interviews	20/09/2019
Completion of evaluation of tenders	30/09/2019
Forward Plan (if Strategic Procurement) – Gateway 2	01/10/2019
DCRB Review Gateway 2	28/10/2019
CCRB Review Gateway 2	07/11/2019
Notification of forthcoming decision – despatch of Cabinet agenda papers	02/12/2019
Approval of Gateway 2: Contract Award Report	10/12/2019
End of scrutiny Call-in period and notification of implementation of Gateway 2 decision	18/12/2019
Debrief Notice and Standstill Period (if applicable)	19/12/2019
Contract award	31/01/2020
Add to Contract Register	31/01/2020
TUPE consultation period start (if applicable)	31/01/2020
Place award notice in Official Journal of European (OJEU)	31/01/2020
Place award notice on Contracts Finder	31/01/2020
Contract start	01/06/2020
Initial contract completion date	31/05/2025
Contract completion date – (if extension(s) exercised)	31/05/2027

TUPE/Pensions implications

42. The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) are likely to apply to this proposed procurement exercise. The appointment of a new supplier for, or in the insourcing of, the existing services could amount to a Service Provision Change under TUPE.

43. The proposal to bring in-house the council's soft FM services listed in paragraph 35 presents TUPE and pensions implications for the council as an employer as any supplier employees engaged in the delivery of these services may transfer to the council.
44. TUPE may also apply in relation to any incumbent and new supplier of one of the other hard and soft FM services listed in paragraphs 36 and 37, if that is the outcome of the tender, and in which case may result in the transfer of staff from one supplier to the other and/or their sub-contractors. There may also be pensions implications for the council if there is a transfer to a new supplier from any incumbent supplier of any staff who were originally employed by the council to deliver the service/s and who are member of or who may be eligible for membership of the Local Government Pension Scheme (LGPS).
45. Due diligence work will need to be carried out and staffing information sought from the current suppliers. Once this due diligence information is provided the full TUPE and pensions implications can be more closely determined. The due diligence information will, as relevant, also be made available to bidders within the tender documentation pack.
46. The procurement project timetable will need to include sufficient timelines to ensure that the council and any affected supplier are able to comply with legal obligations that could potentially arise in respect of TUPE.

Development of the tender documentation

47. The further competition documents will be a mixture of council standard documents and CCS general tender documents for this framework agreement, and will be written by procurement and FM professionals. In order to conduct the further competition with the framework suppliers, the following areas will be included, but not limited to, in the final suite of documents: (1) specification of requirements; (2) pricing; (3) competition timescales; (4) evaluation criteria and weightings; (5) evaluation process; and (6) additional terms and conditions such as London Living Wage commitment, service levels, key performance indicators, insurances, implementation and exit plans. The CCS eSourcing tool will be used to undertake this procurement process due to all 34 suppliers already having their details uploaded onto this system. The final documents will be unloaded onto the council's e-procurement system (pro-contract) on conclusion of the procurement process.

Advertising the contract

48. There is no need to advertise separately as this was already done when the framework was set up. All suppliers on Lot 1b that provide services within the 'UK14 - Inner London (East)' region (the region that the council sits within), that can deliver all of the council's mandatory requirements (which will be provided as part of the specification) will be invited to partake in both further competition exercises.

Evaluation

49. The suppliers on Lot 1b will be shortlisted by CSS based on the location they provide their services and also their ability to meet the council's mandatory requirements. The council will then invite the remaining suppliers to further competition and will evaluate the bids based on the information below.

50. The CCS framework agreement allows flexibility in the evaluation criteria, to enable each organisation to tailor to meet their requirements. CFM recommend the evaluation criteria as price (60%) and quality (40%); this is amended slightly from the council's standard 70% / 30% split due to the importance of CFM providing a statutory compliant service for the health, safety and wellbeing of its staff and residents.
51. Pricing (60%) shall be based on value for money for the council and the evaluation will consider the whole life cost of the contracts.
52. Quality (40%) will include (but will not be limited to);
- providing all of the 'mandatory services' required by the council (to be included within the tender documents)
 - providing the above in the required 'geographical location'
 - the use of SME's within the supplier's supply chain
 - added value / innovation
 - social value
 - approach to delivery of the services
 - mobilisation
 - use of supply chain / partners
 - presentations.
53. The evaluation panel that will be formed to evaluate the tender responses will consist of internal stakeholders (within the Council) and specialist external stakeholders as required. Expertise will be ascertained from CFM, Procurement, Legal, Finance and HR during the relevant stages of the procurement process.
54. The suppliers will be invited to tender for both hard FM (including small works projects) and soft FM; however, the suppliers will not be allowed to win both lots (CCS has confirmed that this is permissible under the framework agreement). The methodology for calculating this will be included within the tender documents.

Community impact statement

55. The contracts 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.

Social Value considerations

56. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing a procurement process, how wider social, economic and environmental benefits that may improve the well being of the local area can be secured. The details of how social value will be incorporated within the tender are set out in the following paragraphs.

Economic considerations

57. The successful supplier will be encouraged to develop a local supply chain where possible, however a proportion of components are highly specialised and only available from national suppliers.

58. The supplier will be required to provide apprenticeship opportunities for every £1m spent on the contracts. The contract manager will monitor the supplier and report on progress. The key areas that the council believe are key to the success of any apprenticeship are:
- Minimum contract for 12 months
 - Quality training provision
 - Mentoring and support.

Social considerations

59. The successful supplier will be required to demonstrate that they offer their staff and contractors guaranteed hours (and do not employ them on zero hours contracts), they operate an Equal Opportunities Policy, comply with the provisions of the Equalities Legislation and the Employment Relations Act 1999 (Blacklists) Regulations 2010, and make guidance or policy documents concerning how the organisation embeds equality and diversity available to employees / sub-contractors, recognised trade unions or other representative groups of employees.
60. The council is an officially accredited London Living Wage (LLW) Employer and is committed to ensuring that, where appropriate, contractors and subcontractors engaged by the council to provide works or services within Southwark pay their staff at a minimum rate equivalent to the LLW rate. It is expected that payment of the LLW by the successful contractor for these contracts will result in quality improvements for the council. These should include a higher calibre of staff that will contribute to the delivery of services on site and it is therefore considered that best value will be achieved by including this requirement. It is therefore considered appropriate for the payment of LLW to be required. The successful contractors will be expected to meet LLW requirements and contract conditions requiring the payment of LLW will be included in the tender documents. As part of the tender process, bidders will also be required to confirm how productivity will be improved by payment of LLW. Following award, these quality improvements and any cost implications will be monitored as part of the contract review process.
61. A full equalities and health impact assessment will be included within the tender documentation.

Environmental/Sustainability considerations

62. Throughout the tender process, the appointed suppliers will be required to agree to / adhere to the following;
- not to use single use plastic and to use recycled paper where practical
 - conform to the council's modernised and agile ways of working (hot desking and better use of technology) whilst working onsite
 - encourage the use of low emission vehicles and the minimisation of journeys needed
 - report on the suppliers energy use, water consumption and CO2 emissions to ensure the industry standards are adhered to
 - ensure the disposal of all electrical equipment being replaced is in accordance with the latest Waste Electrical and Electronic Equipment Regulations (WEEE). All new equipment will be low energy rated to meet current regulations

- ensure that all recyclable packaging will be set aside and disposed of via a recycling centre
- ensure that no hazardous materials will be used.

Plans for the monitoring and management of the contract

63. 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.
64. The contracts will be let and managed by CFM.
65. Key performance indicators (KPI's) will be set and challenged to ensure the successful supplier's performance is to the required standard.
66. The CFM contracts team will review all applications for payment and monitor and administer defaults and recovery of costs for poor performance.
67. Monthly progress meetings, to be attended by officers will be arranged and recorded to review performance and compliance.
68. Annual and six monthly performance reviews will be submitted to departmental contract review board (DCRB) and corporate contract review board (CCRB).

Staffing/procurement implications

69. FM and Procurement resource have been identified to deliver this procurement project, and CCS will provide additional support to shortlist the suppliers in the initial part of this procurement process.
70. The likely insourcing of staff under TUPE will increase CFM staff numbers and internal management requirements as well as increasing wider management overheads in the council. The existing CFM contracts team are already performing the contract management functions but the specification, procurement, TUPE and HR will require additional specialist resource to achieve.

Financial implications

71. The proposal is to award two FM contracts. The first contract will cover planned hard FM services including small works projects. The current estimated annual cost is £3.6m for the hard FM element and £3.5m for the small works. For an initial contract term of 5 years plus provision to extend for a further 2, gives a total contract value of £49.8m excluding inflation. The second contract for Soft FM services if also awarded for 5 years plus option to extend for a further 2 at a current annual cost of £5.2m will have a total contract value of £36.2m excluding inflation.
72. The overall cost of this procurement strategy excluding inflation over 7 years is therefore £86m.
73. In addition to the above the strategy involves bringing some services currently delivered under the existing FM contracts, in house. These include the helpdesk service provided by Kier along with a number of administrative / procedural support services.

74. While it is anticipated that for those services brought in house, funding will be released through a reduction in future contracted costs for FM services, this will only be properly evaluated as the process moves towards awarding the contracts.
75. FM services in Tooley Street currently provided in house which include post room, reception, event management and building management are all expected to continue at no additional cost.
76. Other financial considerations will be those associated with TUPE, the context of which is set out earlier in this report.
77. The planned contract arrangements will be funded through resources established within CFM other than those services requested as ad-hoc, where departments have responsibility to ensure they have the necessary funding.
78. This report notes the risk that suppliers are likely to submit higher bids to ensure profitability on the contracts following the widely publicised collapse of Carillion. The financial impact of this will not be known until tenders are assessed. However in the event that additional resources are required to fund either of the contracts, this will be confirmed at the gateway 2 report stage seeking approval to award the contracts and addressed as part of the Council's budget setting process for 2020-21 along with any savings proposals to help fund the cost.
79. Both contracts are likely to be subject to an annual uplift for inflation, details of which will also be confirmed in the Gateway 2 contracts approval report.
80. While this procurement process will be supported by current in house resources, it is recognised that additional expertise and support is also required to ensure that the right outcome is achieved. Plans are in place to help fund the cost of this support.

Investment implications

81. None.

Legal implications

82. Please see concurrent from the director of law and democracy.

Consultation

83. Internal consultation will be undertaken throughout the procurement process.

Other implications or issues

84. None.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (FC18/021)

85. This report seeks cabinet approval to the procurement strategy for a Hard FM service contract including small works projects and Soft FM services to take effect

as the current contracts for these services co-terminate in June 2020 and the financial implications are contained within the body of the report.

86. The services to be procured together with those to be brought back in house are currently fully funded. However the full cost of the strategy will not be determined until the outcome of the tender evaluations are known. The gateway two report seeking approval to award the contracts will specify the full cost and in the event that there is a funding shortfall this will need to be addressed as part of the budget setting process for 2020-21.
87. The proposal for small works projects where suitable to be delivered via the Hard FM contractor is noted. A number of these projects are likely to be funded within departmental capital programmes with CFM ensuring that value for money has been achieved.

Head of Procurement

88. This report seeks the approval of cabinet for the procurement strategy for the Corporate Facilities Management services from June 2020. The procurement strategy covers bring those outlined services outlined in paragraph 36 in-house, with an estimated annual cost of £1m. For Hard and Soft FM Services, two suppliers will be chosen from Lot 1b of the Crown Commercial Service's (RM3830) Facilities Management Marketplace Framework Agreement, who will each be appointed for a period of five years with the option to be extended for up to two further years from June 2020. For Soft FM services, this should be an estimated annual cost of £5.2m, making an estimated total contract value of £36.2m, with an estimated start date of June 2020. For Hard FM Services, this should be an estimated annual cost of £3.6m for hard FM but it will also include up to £3.5m for the small works and capital investment projects, making an estimated maximum total contract value of £49.8m.
89. Cabinet should note that there will be no additional gateway reports for small works and capital projects within the scope of the hard FM contract up to £500k in value. However, works would only be awarded to the main contractor where this is not specialist, the main contract is being at least adequately performed and where a pre-tender estimate can be benchmarked as offering the council value for money. If any of these conditions are not met, then contractors from the council's approved list will be invited to tender for the requirement.
90. Each of the external contracts will pay London Living Wage (LLW) and hard and soft FM contracts will be invited from the same framework but will have two separate providers from the 35 suppliers on this lot of the Framework Agreement (Lot 1b – Total Contract Value £7m - £50m).
91. The contract will be monitored and managed by the corporate facilities management team as outlined in paragraphs 63 to 68. Social Value requirements including apprenticeships will be included in the tender documents and the achievements included in the Gateway 2 report when seeking to award these contracts.

Director of Law and Democracy

92. This report seeks the approval of the Cabinet to the procurement strategy for corporate facilities management (CFM) contract for the council's operational estate outlined in this report. The report recommends that the CFM services be divided into three areas; in-house services, hard FM and soft FM.

93. The council's Contract Standing Orders (CSOs) 5.1.2 provides that any procurement involving the establishment of a council-led Framework agreement or the use of a third party's Framework Agreement is subject to the full requirements of these CSOs, including a Gateway 1 and Gateway 2 report. This report therefore seeks approval to the use of the CCS framework contract for the hard FM and the soft FM. As the agreement has already been tendered in accordance with the EU regulations, the council is not required to undertake a separate EU tendering exercise. The procurement strategy proposes the carrying out of a mini-tendering exercise between suppliers who are parties to the CCS framework agreement, as is set out in the report, and which should enable a best value solution to be agreed with a preferred provider.
94. The TUPE/pensions implications in respect of bringing the services back in-house and the outsourcing of the hard and soft FM are set out in paragraphs 42-46 of this report as well as paragraph 70.

BACKGROUND DOCUMENTS

Background Documents	Held At	Contact
Gateway 0 - FM contract for the council's operational estate	160 Tooley Street, SE1 2QH.	Paul Symington 020 7525 0225
Link (please copy and paste into your browser): http://moderngov.southwark.gov.uk/documents/s73460/Report%20Gateway%200%20Facilities%20Management%20Contract%20for%20the%20Councils%20Operational%20Estate.pdf		

APPENDICES

No	Title
Appendix 1	Suppliers on RM3830 Facilities Management Marketplace (Lot 1b)
Appendix 2	Proposed CFM Services
Appendix 3	Framework Agreement Evaluation (Option 3)

AUDIT TRAIL

Cabinet Member	Councillor Stephanie Cryan, Housing Management and Modernisation		
Lead Officer	Paul Symington, Head of Corporate Facilities		
Report Author	Kelly Sanders, Head of Corporate Contracts		
Version	Final		
Dated	5 November 2018		
Key Decision?	Yes		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title		Comments Sought	Comments included
Strategic Director of Finance and Governance		Yes	Yes
Head of Procurement		Yes	Yes
Director of Law and Democracy		Yes	Yes
Contract Review Boards			
Departmental Contract Review Board		Yes	Yes
Corporate Contract Review Board		Yes	Yes
Cabinet Member		Yes	Yes
Date final report sent to Constitutional Team			30 November 2018

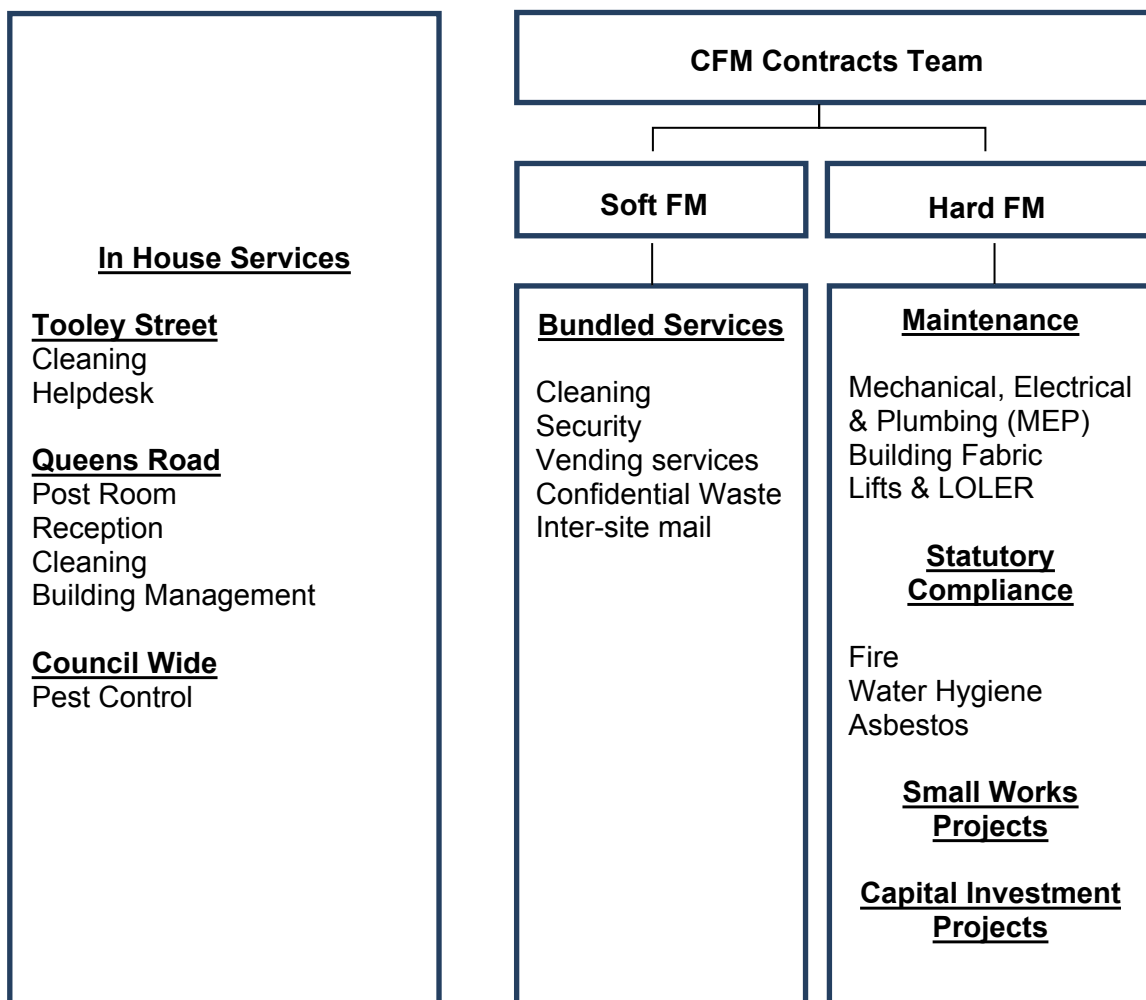
APPENDIX 1

Suppliers on RM3830 Facilities Management Marketplace (Lot 1b)

No	Supplier
1	Amey Community Ltd
2	BAM FM Ltd
3	Bellrock Facilities Management
4	Bouygues E&S FM UK Ltd
5	CBRE
6	Compass Contract Services (Operating as ESS)
7	Ecolog International
8	EMCOR
9	Emtec Facilities Services
10	ENGIE
11	Engie FM
12	G4S Facilities Management Ltd
13	Graham Asset Management
14	Integral UK Limited
15	Interserve (Facilities Management) Ltd
16	ISS Facilities Services Limited
17	ISS Mediclean Limited
18	Mace Macro
19	MEARS
20	Mitie Facilities Services Ltd
21	Mountjoy
22	NG Bailey Facilities Services
23	Noonan
24	OCS Group UK Ltd
25	Pareto Facilities Management Limited
26	Robertson Facilities Management Limited
27	Salisbury Workplace Services Ltd
28	Serco Limited
29	Servest Arthur McKay
30	Servest Group Ltd
31	SES (Engineering Services Ltd) Wates Smartspace FM
32	Skanska Construction UK Limited
33	Sodexo
34	VINCI Construction UK Ltd

APPENDIX 2

Proposed CFM Services



APPENDIX 3

Framework Agreement Evaluation (Option 3)

The council undertook research to ensure the most appropriate framework agreement was used to procure the hard and soft FM services. A summary of the organisations / framework agreements identified are summarised below.

Option 3.1

Organisation	Crown Commercial Service
Framework Reference	RM3830
Framework Title	Facilities Management Marketplace
Framework Lot	Lot 1b (£7m - £50m)
Framework Summary	<p>UK-wide facilities management (FM) services organised regionally and available to all public sector entities. Includes maintenance, cleaning, security, helpdesk etc.</p> <p>Full description: This agreement gives you access to facilities management services across the UK. Suppliers' geographical coverage is classified by NUTS 2 regions (40 regions of the UK as defined by the Nomenclature of Territorial Statistics) to provide you with regional competition and national coverage.</p> <p>There may also be limited opportunities for suppliers to provide international coverage for buyers procuring UK services.</p> <p>Services covered:</p> <ul style="list-style-type: none"> • Contract management • Contract mobilisation • Maintenance services • Horticultural services • Statutory obligations • Catering services • Cleaning services • Workplace FM services • Reception services • Security services • Waste services • Miscellaneous FM services • Computer-aided facilities management (CAFM) • Helpdesk services • Management of billable works. <p>All suppliers can offer mandatory services within each of the above. Suppliers can also provide a number of non-mandatory FM.</p> <p>To ensure buyers have access to the right suppliers, the agreement has 1 Lot which is split into 3 sub-categorised</p>

	lots. Each sub-lot is determined by total contract value: Lot 1a - Up to £7m.....27 suppliers Lot 1b - £7m - £50m.....34 suppliers Lot 1c - Over £50m.....20 suppliers
Start Date	10/07/2018
Expiry Date	09/07/2020 (with the potential to be extended for 2 years)
Suppliers	See Appendix 1
Recommended Option	Yes

Option 3.2

Organisation	ESPO – Eastern Shires Purchasing Organisation
Framework Reference	676
Framework Title	Total Facilities Management Solutions
Framework Lot	Lot 1 - Total Facilities Management Lot 2 - Soft Facilities Management <ul style="list-style-type: none"> • Sub-Lot 2A - Soft Facilities Management (annual requirements over 50 000 GBP) • Sub-Lot 2B - Soft Facilities Management (annual requirements under 50 000 GBP) Lot 3 - Hard Facilities Management <ul style="list-style-type: none"> • Sub-Lot 3A - Hard Facilities Management (annual requirements over 50 000 GBP) • Sub-Lot 3B - Hard Facilities Management (annual requirements under 50 000 GBP)
Framework Summary	This framework provides a complete suite of Facilities Management services for national use by all public body sectors.
Start Date	04/05/2016
Expiry Date	03/05/2019 (Extension Up to 03/05/2020)
Suppliers	<ul style="list-style-type: none"> • Arthur McKay & Co Ltd, • Bouygues Energies & Services FM UK Ltd, • Churchill Contract Services Ltd, • Derwent FM, • Engie, • Eric Wright FM Ltd, • Galliford Try, • Hi-spec Facilities Services, • ISS Facility Services, • Kershaw Mechanical Services Ltd, • Kier Facilities Services Ltd, • Leicestershire County Council, • Lindum Group Ltd, • Mears Facilities Management, • Norse Commercial Services, • Servest Group Limited, • Sodexo Ltd, • Solary FM Service Ltd, • Stadium Facilities Management Ltd, • Sure Maintenance Ltd,

	<ul style="list-style-type: none"> Water Hygiene Centre Ltd
Recommended Option	No – the services provided under these framework agreements do not fully cover the council's requirements.

Option 3.3

Organisation	Fusion 21
Framework Reference	OJEU Notice - 2017/S 068-127841
Framework Title	Compliance and Facilities Management
Framework Lot	Lot 15 – Soft FM Services Lot 16 – Hard FM Services (M&E)
Framework Summary	The Compliance and Facilities Management framework is run by technical specialists and only features pre-qualified, accredited supply partners.
Start Date	03/04/2017
Expiry Date	02/04/2021
Suppliers	<p>Lot 15 – Soft FM Services</p> <ul style="list-style-type: none"> BAM FM Limited Bellrock Property & Facilities Management Ltd Kier Facilities Services Ltd MSS Group Ltd <p>Lot 16 – Hard FM Services (M&E)</p> <ul style="list-style-type: none"> BAM FM Limited Bellrock Property & Facilities Management Ltd Crystal Electronics Ltd Galliford Try Building Limited T/A Galliford Try Facilities Management Kier Facilities Services Ltd NPS Property Consultants Limited
Recommended Option	No – the services provided under these framework agreements do not fully cover the council's requirements.

Option 3.4

Organisation	NHS SBS (NHS Shared Business Services)
Framework Reference	1. SBS/14/HB/MX/8551 2. SBS/17/MN/PZJ/8874 3. NHS/14/HB/MX/8551
Framework Title	1. Security Services (Soft FM) 2. Hard Facilities Management 3. Facilities Management (Soft FM)
Framework Lot	<p>1. Security Services (Soft FM)</p> <ul style="list-style-type: none"> LOT 1 - Manned Guarding (Incl Static and mobile patrols) LOT 2 - Key Holding and Alarm Response LOT 3 - Install of Intruder and Hold-up Alarms LOT 4 - Alarm Receiving Centres and Remote Video Receiving Centres LOT 5 - Install of CCTV Cameras and systems LOT 6 - CCTV Monitoring and Management LOT 7 - Access Control Systems LOT 8 - Fire Alarms, Servicing, Testing

	<ul style="list-style-type: none"> • LOT 9 - Emergency Light Testing • LOT 10 - Lone Working Devices- Staff Call Systems • LOT 11 - Sniffer Dogs • LOT 12 - Total Integrated Security <p>2. Hard Facilities Management</p> <p>3. Facilities Management (Soft FM)</p>
Framework Summary	<p>1. Security Services (Soft FM)</p> <p>To provide Estate, Facilities and Capital teams a compliant route to market for the provision of a full range of Security Services from a wide range of specialisms. Utilising both SME and national supplier's, to enable delivery of a Totally Integrated service, a single service; a bundled service or to provide a one-stop shop for a wide range of services.</p> <p>2. Hard Facilities Management</p> <ul style="list-style-type: none"> • Fully Managed Service • Measured Terms Contracts (MTC) on Painting and Decorating, Mechanical, Electrical, Building • Building Management Services (BMS) • Computer-Aided Facilities Management (CAFM) • Electrical Sundries • Fire Safety Equipment • Removal Services • Rating Support • Roofing and Guttering • Plumbing • Ventilation and Air Conditioning • Building Management Services (BMS) <p>3. Facilities Management (Soft FM)</p> <ul style="list-style-type: none"> • Security Services • Asbestos Management/Removal • General Cleaning and Cleaning Consumables • Grounds and Gardens • Laundry • Lift Maintenance • Legionella/Water Treatment • Portering • Window Cleaning Internal/External • PAT Testing • Health and Safety • Corporate/General Catering • Fully Managed Service • Pest Control
Start Date	<p>1. 01/08/2015</p> <p>2. 25/08/2017</p> <p>3. 01/09/2015</p>
Expiry Date	<p>1. 31/08/2019</p>

	2. 24/08/2021 3. 31/08/2019
Suppliers	Various
Recommended Option	No – the services provided under these framework agreements do not fully cover the council's requirements.

Option 3.5

Organisation	Scape Group
Framework Reference	Various
Framework Title	Built Environment Consultancy Services
Framework Lot	Various
Framework Summary	Our services: <ul style="list-style-type: none"> • Project Management • Quantity Surveying • Building Surveying • Commercial Surveying • Architecture and Design Services • Civil and Structural Engineering • Electrical and Mechanical Engineering • Health and Safety • Highways Consultancy and Engineering Services • Strategic Asset Management
Start Date	Various
Expiry Date	Various
Suppliers	Various
Recommended Option	No – the services do not meet the council's requirements.