

Tri-Borough Executive Decision Report

[Note: For the purposes of the statutory record, this report will be accompanied by the relevant sign-off sheet used at each authority that is party to this decision. Such record will be retained at each such authority.]

Decision maker(s) at each authority and date of Cabinet meeting, Cabinet Member meeting or (in the case of individual Cabinet Member decisions) the earliest date the decision will be taken	<i>Full Cabinet</i> Date of decision: 13/05/2012	
	<i>Full Cabinet</i> Date of decision: 02/05/2013	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
	<i>Full Cabinet</i> Date of decision: 13/05/2012	 City of Westminster
Report title (decision subject)	Tri-Borough Total Facilities Management Award of Contract	
Reporting officer	<i>Derek Myers, Joint Chief Executive, RBKC and H&F</i> <i>Mike More, Chief Executive, WCC</i>	
Key decision	Yes	
Access to information Classification	Part A	

1. EXECUTIVE SUMMARY

- 1.1 This report seeks approval fully to outsource the provision of 'Total Facilities Management' (TFM) and to award a Tri-Borough contract accordingly.
- 1.2 For the purposes of the Public Contracts Regulations 2006 (as amended) London Borough of Hammersmith & Fulham (H&F) is the contracting authority and the Royal Borough of Kensington and Chelsea (RBKC) and Westminster City Council (WCC) were named in the Official Journal of the European Union (OJEU) as "Participating Authorities".
- 1.3 These abbreviations are used throughout the report:
- H&F London Borough of Hammersmith & Fulham
 - RBKC Royal Borough of Kensington and Chelsea
 - WCC Westminster City Council
 - TFM Total Facilities Management
 - ICF Intelligent Client Function
 - FM Facilities Management
 - OJEU Official Journal of the European Union
 - PA Project Agreement
 - FA Framework Agreement
 - IAA Inter-Authority Agreement
 - TBAMPB Tri-Borough Asset Management and Property Board
 - PMS Performance Management System
 - KPIs Key Performance Indicators
 - OPI Operational Performance Indicators
 - TOC Tri-Borough Owned Company
- 1.4 The Business Case approved by the three Cabinets set a target of £2 million of savings per annum to be achieved at the conclusion of the tendering exercise. This target has been exceeded and, based upon current arrangements the solution proposed by Amey Community Ltd has identified average net savings of approximately £6 million in the first year and more when further contracted efficiencies are realised.
- 1.5 The report also sets out the Intelligent Client Function (ICF) that will manage the contract and requests approval to commit £1.7 million p.a. for the establishment of an ICF.
- 1.6 Finally, the report details and seeks approval to spend £750,000 (£250,000 per Authority) to mobilise the TFM contract and cover external costs from May to September 2013. The intention is that this should be from existing budgets. For H&F, source of funding will be the Efficiency Projects Reserve.

2. RECOMMENDATIONS

- 2.1 It is recommended that Cabinet:

1. Award the Tri-Borough contract for the provision of TFM (“the Project Agreement”) to Amey Community Limited with the services commencing on 1 October 2013 for a period of 10 years (with an optional 3 year extension).
2. Award a London-wide Framework Agreement for the provision of facilities management services to Amey Community Limited for a period of four years.
3. To note that the initial £2 million savings identified in the Business Case have been met and that the potential net savings over the life of the contract could now significantly exceed this.
4. To authorise the Bi-Borough Executive Director Transport and Technical Services at H&F and RBKC in conjunction with the bi-borough Head of Legal Services at H&F and RBKC, the Director of Corporate Property at RBKC and the WCC Strategic Director Housing Regeneration and Property with the Head of Legal Services to agree to any final amendments to the PA and FA deemed necessary and to conclude the PA and FA accordingly.
5. To approve the structure of the ICF at a net annual cost of £1.7 million to be funded from existing FM budgets.
6. To agree that RBKC will be the host employer for the ICF.
7. To approve the proposed high level Governance arrangements and principles of the Tri-Borough Inter-Authority Agreement, subject to any other report thought necessary at a later date.
8. To authorise the Executive Director for Finance and Corporate Governance (LBHF), the Town Clerk and Executive Director of Finance (RBKC) and the Chief Operating Officer (WCC) to enter into a Tri-Borough agreement in respect of TFM underpinned by a s113 agreement for the client function.
9. To note the methodology for allocating costs and indicative costs of TFM for each Borough.
10. To give approval to spend £750,000 (£250,000 per Authority) required to mobilise the TFM contract from May to September 2013. This will be split equally between the boroughs on the basis that the work required to deliver the TFM project in each borough is broadly the same. It is anticipated that the £250,000 can be met from existing facilities management budgets but in the event that this is not possible, it may be necessary to call on funding from borough contingency budgets. For H&F in particular, this will need to be funded from the Efficiency Projects Reserve.
11. To review the structure and form of the ICF at a future date (no earlier than 12 months from contract commencement) with a view to considering a Tri-Borough Owned Company (TOC), should that prove to be commercially and operationally advantageous.

3. BACKGROUND

Aims and Objectives of the Tri-Borough TFM

- 3.1 The TFM project is designed to standardise the delivery of FM services across RBKC, H&F and WCC. This alignment is aimed at optimising costs and headcount, improving the standards of service and improving management information.
- 3.2 The services would be fully outsourced¹. Please see Appendix A for scope of functions and services to be delivered.
- 3.3 The Tri-Borough Councils manage their estates in different ways. WCC already operate as a very 'thin' in-house client whilst H&F are a 'mixed economy' of in-house and outsourced contracts and RBKC have mainly in-house property functions. Consequently a programme is required to align FM provision in each borough. To succeed, the provider will be required to work collaboratively with a single client team establishing a unified delivery and management model across the Councils.
- 3.4 The Councils will be purchasing an end-to-end managed service rather than a simple contracted labour force for delivery with the aim of using common processes in comparable ways to reduce costs, improve compliance and increase flexibility of service across the Councils.
- 3.5 This approach should generate significant efficiencies for FM operations, providing opportunities for convergence and further rationalisation. It also provides a credible option for all other 30 London boroughs ("Participating Bodies") and Greater London state schools (including schools maintained by other London boroughs, free schools and academies) to call-off services via a Framework Agreement that has been procured simultaneously with the main contract. London Boroughs and Schools will each have the opportunity to buy into this in order to benefit from the procurement cost savings, speed of implementation and economies of scale.

Proposals and Options

- 3.6 The current FM functions across the three authorities deliver the following main services with the support of other borough resources:
- Repairs and Maintenance
 - Facilities Management of 'soft services' such as cleaning, security and catering/vending
 - Minor projects (of up to £250,000 per project)
- 3.7 The current budget for the Tri-Borough FM function (the "baseline budget") is £26.166 million:

¹ TFM Services Specification Definition document

Tri-Borough Authority	Annual Cost £(000)
Westminster City Council	11,127
Royal Borough of Kensington and Chelsea	7,111
London Borough of Hammersmith & Fulham	7,929
TOTAL BASELINE BUDGET	26,166

- 3.8 Following centralisation of property functions in H&F in April 2010 and RBKC in June 2011, it was nevertheless likely that further efficiencies could be achieved through the outsourcing of their FM services whilst WCC were already considering a retender of their FM contract(s). A 'High Level Options Appraisal'² was undertaken reviewing the various procurement models, including the option of retaining independent arrangement in each Borough. This recommended a joint procurement to realise savings in both procurement and service delivery and to contribute to Tri-Borough working.
- 3.9 Such a solution requires a major FM provider to rationalise and deliver a range of services of high quality. Consequently, it was decided not to pursue the limited supply chain framework provided by Buying Solutions (a predecessor of the Government Procurement Service) but the procurement would focus on as broad a range of providers as possible.
- 3.10 As anticipated, the level of interest in this initiative has been intense and embarking on a tendering exercise using the Competitive Dialogue procedure has enabled the Project Team to identify the key issues and develop an effective solution in close collaboration with the best-in-class range of contractors available.
- 3.11 Subsequent interest from other Partnering Authorities has driven the need to consider a wider application of the procured benefits. So that these external interests could be accommodated, the decision was made to create a two-tier procurement. As such the Councils were seeking an innovative private sector partner to develop and provide a fully outsourced, managed solution for FM, through a strategic partnering arrangement (the Project Agreement) for the Councils' estate and schools maintained by the Councils, and a separate framework (the Framework Agreement) for Participating Bodies who can 'call off' the same services for their own estate. The proposal is made to ensure benefits are reaped by the Councils. Please see Appendix B for the contractual set-up.
- 3.12 The Framework Agreement will allow other Participating Authorities and their educational establishments that are maintained from the public purse (including educational establishments in the Tri-Borough Councils' areas), to call off services, as required, during the framework period. This will allow

² The Tri-Borough FM Service Review - High Level Options Appraisal, 7 May 2011

those boroughs and schools to contract with the TFM supplier. There is no obligation on schools to purchase services through these contracts.

- 3.13 A number of TFM briefing sessions have been held with London Boroughs, highlighting the opportunity to call off FM services through the Framework Agreement. To-date, there has been considerable interest from other boroughs.
- 3.14 The 'Business Case'³ and the 'Statement of Decision'⁴ report outlining the proposals for a fully outsourced managed solution for corporate facilities management and detailing the procurement proposals benefits, risks and potential savings to be achieved were approved by the Tri-Borough Cabinets in January 2012. The report also gained approval to draw down budget provision to fund identified external costs and other internal costs to be met from existing budgets.
- 3.15 H&F acted as the Contracting Authority for the purposes of the Public Contracts Regulations 2006 (as amended) and was named as such in the Contract Notice published in the OJEU. The tendering of the contract and the framework agreement has been undertaken in accordance with H&F's Contract Standing Orders. Consequently, Cabinet Member approvals have been sought at all key stages from selection of the bidders taken forward through Expression of Interest stage, reduction of bidders at the end of stage 1 of Competitive Dialogue and Invitation to Submit Final Tenders⁵.
- 3.16 This programme has been a major initiative for the Tri-Borough Councils. It has been regularly reviewed and endorsed by the various tri-borough fora.

TFM Benefits

- 3.17 Contracting with an outsourced shared services provider offers several financial and non-financial benefits to the three boroughs.
- 3.18 The TFM project had an initial savings target of £2 million pounds per annum across the three councils and an analysis of the pricing submissions from all the bidders indicate that this target will be exceeded. Consequently targeted savings for each of the three councils of at least £333k in 2013/14 (part year), increasing to £667k in 2014/15 and onwards will be met.
- 3.19 The financial case comprises:
- (a) Procurement cost reductions – arising from joint Tri-Borough procurement compared to the three boroughs undertaking separate procurements.

³ Tri-Borough Total Facilities Management Business Case, February 2012

⁴ WCC Statement of Decision Report – Tri-Borough Total Facilities Management', 30 January 2012

⁵ H&F TFM Procurement Report – Stage 4, 14 November 2012

- (b) Operational cost savings – a minimum £2 million (6 per cent) annual saving in operational costs across Tri-Borough.
- (c) Income generation – opportunities for additional income and or cost savings as a result of associated economies of scale arising from the Framework being offered. This would be dependent on the number of Partnering Authorities who decide to buy into the framework.

3.20 The non-financial benefits of TFM comprise:

- 3.20.1 Process and system standardisation across Tri-Borough – consistent service quality standards, systems, processes and data sets to yield significantly more capital and revenue savings, facilitating rationalisation of the estate through better space utilisation and sharing of assets
- 3.20.2 Statutory compliance – a consistent and robust auditable approach to the management of statutory compliance across the Tri-Borough estate
- 3.20.3 Transparency and visibility – effective and real time delivery of management information enabling improved control of the estate.
- 3.20.4 Scalability – the improved ability to flex both the estate and head count matching operating costs to the demands of the estate.

3.21 All of these benefits were secured for the Tri-Borough Councils through the dialogue process with provisions built into the contract and performance management system.

3.22 At service commencement, the Tri-Borough Councils will experience very little change in service, albeit a new single TFM service provider and a single Help Desk number for queries and service requests.

3.23 However, over the next 18 months, the service provider, in partnership with the ICF, will be looking to introduce further efficiencies and where new business can be won to spread overheads and consequently reduce costs overall.

4. PROCUREMENT APPROACH AND OUTCOME

4.1 Statutory notices were sent for publication in the OJEU. On 26 July a Prior Information Notice (Reference: 2011/S 141-234373) appeared and on 5 November 2011 the Contract Notice (Reference: 2011/S 213-347911) was published. Expressions of interest were received from 143 organisations of which 11 submitted responses to the Pre-Qualification Questionnaire (PQQ).

4.2 The top five shortlisted Bidders were invited to participate in Competitive Dialogue which commenced in mid May 2012. The Bidders' interim detailed solutions were received on 6 July 2012.

- 4.3 Following evaluation, three of the Bidders were shortlisted for the next stage of dialogue (these being Amey Community Ltd, Carillion LGS Ltd and Interserve [Facilities Management] Ltd) which began in August 2012. The dialogue officially closed on 14 December 2012 when all outstanding issues and queries had been resolved and the Councils issued an “Invitation to Submit Final Bids” (ITSFB).

5. THE TFM CONTRACT

Contract Outline / Key Provisions

- 5.1 The TFM Contract will be let jointly by the three Authorities for a period of ten years with an option to extend for a period or periods of up to a further three years.
- 5.2 All three Authorities will jointly let the Framework Agreement which will be available for the Participating Bodies and educational establishments for a period of four years. It is anticipated that call-offs under the Framework Agreement may be for periods that are longer than four years, but will have co-terminus expiry dates with the main Tri-Borough contract.
- 5.3 This is in effect a “fixed price” model that effectively manages the estates of the Tri-Borough Authorities as a single estate, delivering a consistent level of service.
- 5.4 The “fixed price” will be adjusted annually in line with the indexation in line with the Retail Prices Index excluding mortgage interest payments (RPIx). The first adjustment will be at the anniversary of service commencement and then on the same day annually.
- 5.5 The fixed price will also be subject to the contractual change control allowing for changes in the estate and services i.e. if the Tri-Borough Councils decide to remove a building from the TFM scope, then the fixed price would be reduced accordingly.
- 5.6 Within the fixed price, Amey have allowed for £2.8 million per annum to be utilised to deal with minor works. The annual programme for minor works will be developed in conjunction with the ICF and signed-off by the Strategic Partnership Board.
- 5.7 The TFM supplier will work to a suite of output based specifications that meet the requirements of the Tri-Borough Councils. These were subject to consultation and sign-off by the relevant officers prior to commencement of dialogue. Any minor variations in requirements will be absorbed by the supplier.

- 5.8 The contractual payment mechanism (“paymech”) defines the process of supplier invoicing, payment and reconciliation.
- 5.9 The ICF will then allocate the service (and ICF operational) costs to the individual authorities based on the agreed cost allocation methodology⁶.
- 5.10 The agreed cost allocation methodology is dependent on the completion of a detailed Service Matrix by the service provider which allows the all-in fixed price to be broken down into separate services and buildings as required by the Tri-Borough Authorities.

Contract Performance Management

- 5.11 The performance management framework comprises a balanced scorecard populated with a set of agreed Key Performance Indicators (KPIs) and Operational Performance Indicators (OPIs) upon which the performance of the contractor will be judged.
- 5.12 The KPIs reflect the strategic requirements of the Councils. They will be used to calculate a deduction in the fees paid to the Service Provider where agreed standards are not achieved. Conversely, the Councils have agreed to additional payments for performance considered above the levels expected and delivering additional savings or innovations to the Councils that align with its strategic requirements.
- 5.13 Regular market testing and benchmarking reviews have been built into the contract to ensure value for money is achieved throughout the lifetime of the contract. In addition, there will be an option to exit the contract early in the unlikely event of failure or continual poor performance by the supplier.
- 5.14 With the PMS, a continuous service failure below an acceptable level over a 3 month period can escalate to a ‘Critical Service Failure’ which is deemed to be a breach of contract within the Project Agreement. If the issue is not resolved, it can lead to termination of the Project Agreement.

Remedies

- 5.15 In addition to the performance management framework, the Project Agreement permits the Councils to reclaim direct losses in accordance with common law, statute that are incurred from service failures. This allows the Councils to reclaim losses where there has been a major impact for which a performance deduction would not represent adequate compensation.
- 5.16 The Councils have the ability to “step-in” to perform the contract in the case of breach or for some other reason.

⁶ Tri-Borough Total Facilities Management Cost Allocation Methodology, March 2013

- 5.17 The Councils have the right to terminate the Project Agreement early even if the service provider is not in breach. In that case, the Councils would be liable to pay breakage costs which would include items such as the costs (if any) of the service provider extracting themselves early from contracts it has entered into in respect of this project; redundancy costs; any unrecovered mobilisation costs; and the cost of demobilisation. The service provider has submitted a profile of these costs which would decrease during the lifetime of the contract. There is no payment made for loss of profit.
- 5.18 The Project Agreement includes extensive monitoring and audit provisions so that the Councils can ensure that the management information the service provider is supplying is accurate.

6. CONTRACT MANAGEMENT AND GOVERNANCE

Intelligent Client Function (ICF)

- 6.1 The purpose of the ICF is to provide a means of directing and managing the performance of the Service Provider and managing the Performance Management System. A single team will do this on behalf of the Tri-Borough Councils. The ICF will also be responsible for stakeholder engagement, complaints resolution and managing the communications between Councils and the service provider. The proposed structure of the ICF is provided in Appendix C.

Governance between ICF and TFM Supplier

- 6.2 The TFM Project Agreement describes the governance arrangements that will be established between the ICF and TFM Supplier post service commencement.
- 6.3 There will be two Partnership Boards attended by both Amey and Tri-Borough staff. The Operations Partnership Board will focus on day-to-day operational issues and risks. The Strategic Partnership Board represented by senior managers / directors from Amey and Tri-Borough Authorities will focus on strategic issues and risks including maximising opportunities presented by TFM. During mobilisation, the Strategic Board will oversee the delivery of the integrated mobilisation plan. Appendix D outlines the high level arrangements that will be in place.

Governance between ICF and Tri-Borough Authorities

- 6.4 Consistent with the arrangements for other services there will be no executive committee made up of councillors from the three Authorities but progress, opportunities and problems will be reported to the relevant Tri-Borough Member Steering Group. Any formal decisions will be taken under each Council's constitution. Appendix E describes the options that were considered.

The Tri-Borough Inter-Authority Agreement

- 6.5 Work has commenced on developing a Tri-Borough Inter-Authority Agreement which sets out the principles by which the Tri-Borough Authorities will work together for the duration of this contract.
- 6.6 This agreement is in draft form and will be developed and agreed during May/June 2013. The agreement, together with the various schedules, will provide a suitable framework to operate a combined service to manage the TFM contract.
- 6.7 The agreement will follow the same format as existing Tri and Bi-borough legal agreements being the parties' aspirations for a "high trust" model and is intended to represent a prudent minimum to ensure the parties have a clear understanding of the arrangements and to provide suitable processes to resolve any disputes. The key principle underpinning the agreement is the sharing of staff using s.113 of the Local Government Act 1972 under which staff of one authority can be treated as the staff of another for the purposes of their statutory functions.
- 6.8 The three Cabinets are requested to authorise the Executive Director for Finance and Corporate Governance (LBHF), the Town Clerk and Executive Director of Finance (RBKC) and the Chief Operating Officer (WCC) to enter into a Tri-borough Inter authority agreement for TFM. Please see Appendix F for the IAA timeline and Appendix G for proposed "high level" principles that will form the basis of this Agreement.

7. FINANCIAL AND RESOURCES IMPLICATIONS

- 7.1 The original TFM project budget, including mobilisation and transition costs, was originally estimated to be £1.31m. This comprised £981k representing the costs for external professional consultancy, legal costs and IT development costs and £330k representing "internal" costs (such as recruitment costs, room bookings, costs of back filling internal staff) that were expected to be funded from existing revenue budgets across the three Councils. It was also assumed that a fully operational ICF would be in place by the time of contract award and would undertake most of the mobilisation activity. Please see the table below for the funding requirement as agreed in the original business case.

TFM Funding requirement⁷				
Borough	Funding £(000)			Comments
	External costs	Internal costs	Total	
LB Hammersmith & Fulham	327	110	437	£327,000 from the Efficiency Projects Reserve to fund external costs; other costs to be met from internal FM budgets
RB Kensington & Chelsea	327	110	437	£327,000 from the transformation reserves to fund total project costs
Westminster City Council	327	110	437	£327,000 from Council resources to fund total project costs
TOTAL	981	330	1,311	

- 7.2 It was noted in the Cabinet report in January 2012 that there was a risk that a proportion of the internal costs identified would need to be back filled via external resources as the programme workload increased. Regular finance reports have been presented to the Tri-Borough Asset Management and Property Board which have shown the need to back fill internal costs because of the complexity and high levels of technical and professional advice required during the procurement phase of the project.
- 7.3 Additional external costs have also been incurred due to the work required to determine how the ICF should be set up in order to run the contract and maximise all commercial opportunities associated with the framework.
- 7.4 Overall £250,000 per Authority additional external funding is required across the three Councils to fund the mobilisation and transition costs. This has arisen for the following reasons :-
- 1) The need to backfill internal resources with external resources.
 - 2) Additional external costs incurred on the Client side set up and implementation.
 - 3) Additional external costs required for the completion of the mobilisation and transition phase of the project due to the fact that the ICF will not be operational until service commencement date.
- 7.5 It is anticipated that the £250,000 for each Council can be met from existing facilities management budgets but in the event that this is not possible, it may be necessary to call on funding from borough contingency budgets. For H&F in particular, this will need to be funded from the Efficiency Projects Reserve.
- 7.6 Initially it was expected that the TFM project would deliver at least £20 million over the ten year life of the contract. The project could now significantly exceed this when contracted efficiencies are delivered.

⁷ Executive summary- Cabinet Report 9th January 2012.

- 7.7 A contingency fund will be set up across all three boroughs for the duration of the contract which would be normal for a contract of this magnitude and complexity. This will provide for any unspecified work which the Councils need to agree to supplement the contracted arrangements.
- 7.8 This is set at 15% of the fixed price submission from year 1 onwards. If this contingency sum does not need to be applied, each borough will get additional savings from non-utilisation of this provision. The contingency sum can be adjusted in the light of experience
- 7.9 The evaluation criteria was structured in such a way that throughout the detailed solution stages 60% of the evaluation criteria related to the qualitative aspects of the proposals and 40% to commercial aspects (finance and legal documentation). At the ITSFB, the percentages changed to 70% commercial and 30% quality. This approach was intended to encourage bidders to submit innovative solutions during the early dialogue before obtaining the best commercial proposals at the conclusion of the tender.
- 7.10 Three final bids were received and evaluated. The results following the completion of the scoring of the ITSFB stage are shown in the Part B report.
- 7.11 As noted above, this is a “fixed price” model that manages the estates of the Tri-Borough Authorities as a single estate. A cost allocation methodology has been agreed by the Tri-Borough Finance Directors, the principles of which are outlined in Appendix H.
- 7.12 The agreed cost allocation methodology depends on the completion of a detailed Service Matrix by the service provider which allows the all-in fixed price to be broken down into separate services and buildings as required by the Tri-Borough Authorities. The contractor must make this service matrix available to the Councils by September 2013, before contract commencement.
- 7.13 It is expected that there will be changes to the allocation of costs at the end of the mobilisation period and therefore the allocation of savings across each of the Boroughs may change accordingly. The extent of any changes cannot be determined until September 2013. The overall savings for the three Boroughs will not change as the price for year one (and subsequent years) is a fixed contract price.
- 7.14 As the detailed Service Matrix is not currently available, the Finance Directors have agreed to split the cost of the TFM service in 2013-14 in the ratio: 40:30:30 (WCC:RBKC:H&F) as this sufficiently represents the split of the baseline budget by Authority. This will be subject to reconciliation at service commencement.

- 7.15 Based on this split, each Tri-Borough Authority should be able to meet its committed savings targets for 2013/14 (as shown in the table below). The Service Matrix, once completed, will provide accurate costing by building which will determine borough cost allocation for 2014/15 onwards.

Borough	Committed savings target (£m)	
	2013/14	2014/15
Westminster City Council	0.6	0.6
Royal Borough of Kensington & Chelsea	0.2	0.7
London Borough of Hammersmith & Fulham	0.33	0.67
TOTAL	1.13	1.97

- 7.16 The Finance Directors believe that the scale of savings achievable under the contract outweighs the disadvantage of the uncertainty of their allocation between boroughs from 2014-15 onwards. They recommend agreement.

- 7.17 The development of a detailed plan for the delivery and effective mobilisation has been undertaken. Five months has been allocated for this mobilisation phase with a team consisting of 15 FTEs. The costs of the mobilisation (shown in the table below) will be £750,000 divided equally across all three Boroughs (i.e. £250,000 each).

Mobilisation activity	Cost	ftes
Technical	96,000	2
HR	32,000	1
Commercial	72,000	1
ICT	20,000	1
Communications and Consultation	16,000	1
Programme Management and PMO	80,000	3
Schools and other external activity	10,000	1
Legal and Governance	34,000	3
Finance	40,000	1
ICF Mobilisation including recruitment costs	150,000	1
ICF Operational costs	200,000	n/a
TOTAL	750,000	15

8. STAFFING AND EQUALITY IMPLICATIONS

- 8.1 Across the Tri-Borough Authorities, approximately 150 council staff and over 500 third party suppliers' staff will be affected.

- 8.2 It is anticipated that the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) will apply. If it does, the Councils will ensure that that where relevant they adhere to all TUPE and other related employment legislation including statutory consultation with the affected staff and trade unions. Staff and Trade Union briefings and consultations have been on-going since autumn 2012.
- 8.3 It is expected that the majority of the impacted staff will transfer to the TFM Supplier on service commencement and a lesser number may secure roles within the ICF. The key principle underpinning the ICF will be the sharing of staff using s.113 of the Local Government Act 1972 under which staff of one authority can be treated as the staff of another for the purposes of their statutory functions.
- 8.4 An Equalities Impact Assessment⁸ has been undertaken and maintained during this project.

9. LEGAL AND PROCUREMENT IMPLICATIONS

- 9.1 The procurement has been carried out in accordance with the competitive dialogue procedure set out in Regulation 18 of the Public Contract Regulations 2006.
- 9.2 In accordance with the Tri-Borough Procurement Protocol this tendering exercise has been undertaken using H&F's Contract Standing Orders who have acted as the Contracting Authority in this procurement.
- 9.3 Legal advice on the procurement process has been provided through the project's legal advisors, Sharpe Pritchard.
- 9.4 The project has been audited by the appointed auditors Deloitte⁹ who have confirmed that due process has been followed and that the timescales for completion of the procurement exercise are on schedule.
- 9.5 Whilst the risk of challenge cannot be ruled out, the risk of a successful challenge is believed to be low, based upon knowledge of how the Councils conducted the procurement overall.
- 9.6 The dialogue with bidders resulted in an amended suite of contracts. The mark-ups of the project agreement, framework agreement and call-off contract received from all three bidders were substantial with most provisions accepted as drafted. Through dialogue, further commercially favourable positions for the Councils have been secured. This particularly applies to Amey Community Limited who were the leading bidder in the legal evaluation

⁸ Tri-Borough Total Facilities Management Equalities Impact Assessment

⁹ Internal Audit Report: Total Facilities Management Procurement Stage 1, December 2012

9.7 Officers will continue to work with the Preferred Bidder in order to finalise the contract and associated documentation to ensure a successful contract closure.

10. RISK MANAGEMENT

10.1 A full programme risk register¹⁰ has been in place since the start of the programme. Risks have been assessed for probability and impact and actions agreed and undertaken to mitigate these risks.

10.2 The top level risks have been reported on the weekly Flash and other regular programme reports.

10.3 The risk register continues to be updated in line with the different stages of the programme.

10.4 The procurement proposal contributes positively to the management of budgets and areas of risk are incorporated in the body of the report. Risk Management of the Programme has been the ongoing responsibility of the Programme Board for the procurement and risk management will need to be successfully maintained through the mobilisation and transition stage. Whilst the proposal outlines the contractual remedies, in the event of service or performance failure, the Councils' resilience plans should be amended to reflect the changes that will be necessary during transition and develop a managed exit strategy.

11. APPENDICES

Appendix A: Scope of functions and scope of services

Appendix B: Contractual Set-up

Appendix C: ICF Organisation Structure

Appendix D: Governance Arrangements

Appendix E: Inter-Authority Governance Options

Appendix F: Inter-Authority Agreement Timeline

Appendix G: Principles of the Inter-Authority Agreement

Appendix H: Tri-Borough TFM Cost Allocation Methodology

Appendix I: Background Information on Amey Community Limited

12. BACKGROUND PAPERS

None

¹⁰ Tri-Borough Total Facilities Management Risk Register

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Glenn Woodhead (WCC FM Strategy
Manager)

Email: gwoodhead@westminster.gov.uk

Tel: 020 7641 6270

Raj Patel (Transformation Programme
Manager)

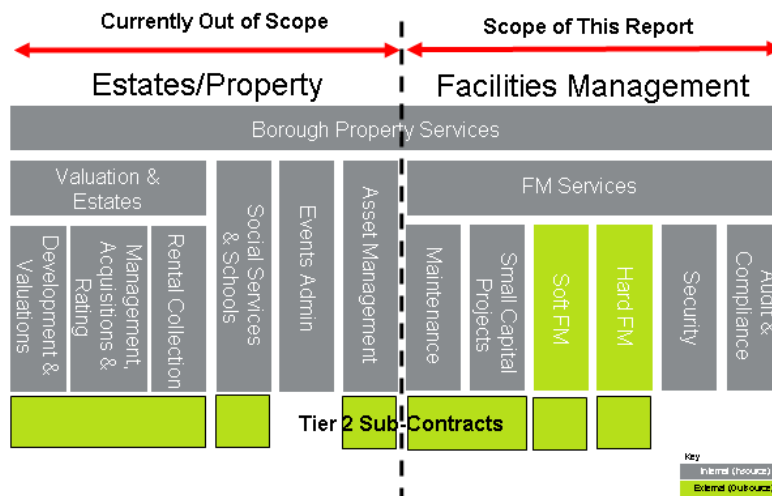
Email: rajesh.patel@rbkc.gov.uk

Tel: 020 7361 2853

Appendix A - Project Scope

The following diagram represents the current generic arrangement of what is in-scope and what is out of scope for the project. These include related Property areas of Asset Management, Investment and Business Assurance (i.e. Health and Safety, environmental, business support, audit & procurement etc). These FTE's and their costs have not been included within the scope of this project being limited to the scope FM Services only. Changes to the delivery model will, in all likelihood have an impact on these adjacent areas. As such whilst the scope of this project is the FM services only, it is understood that there exists a close interrelationship between FM with other related Property services and the benefits of these synergies may prove beneficial in future. Such interrelationships have been recognised within the programme by the 'Tri-Borough Asset Management and Property Board' as represented by the 'Asset Strategy' and 'Office Accommodation' work streams.

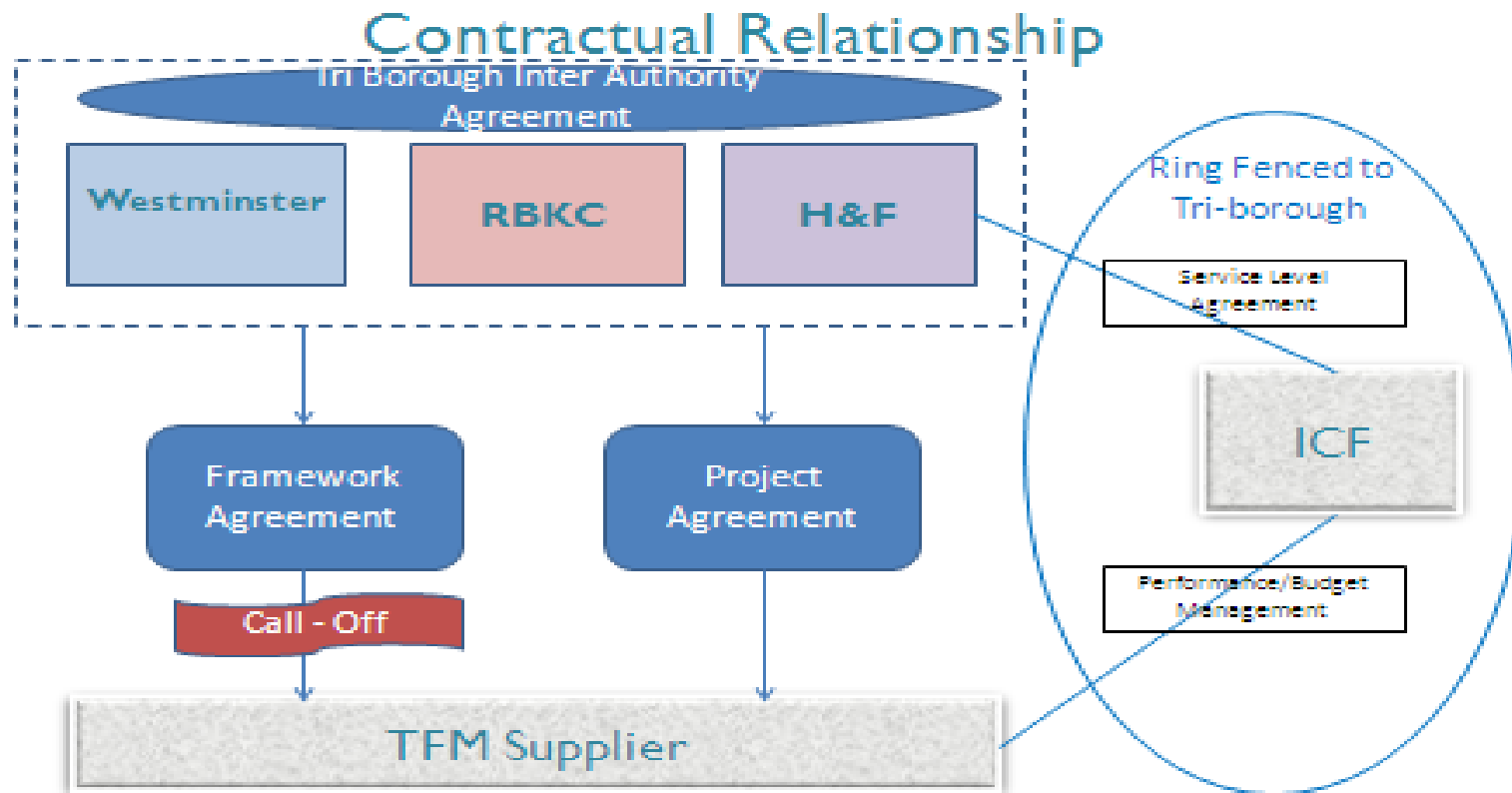
Generic Property Model (Block Diagram)



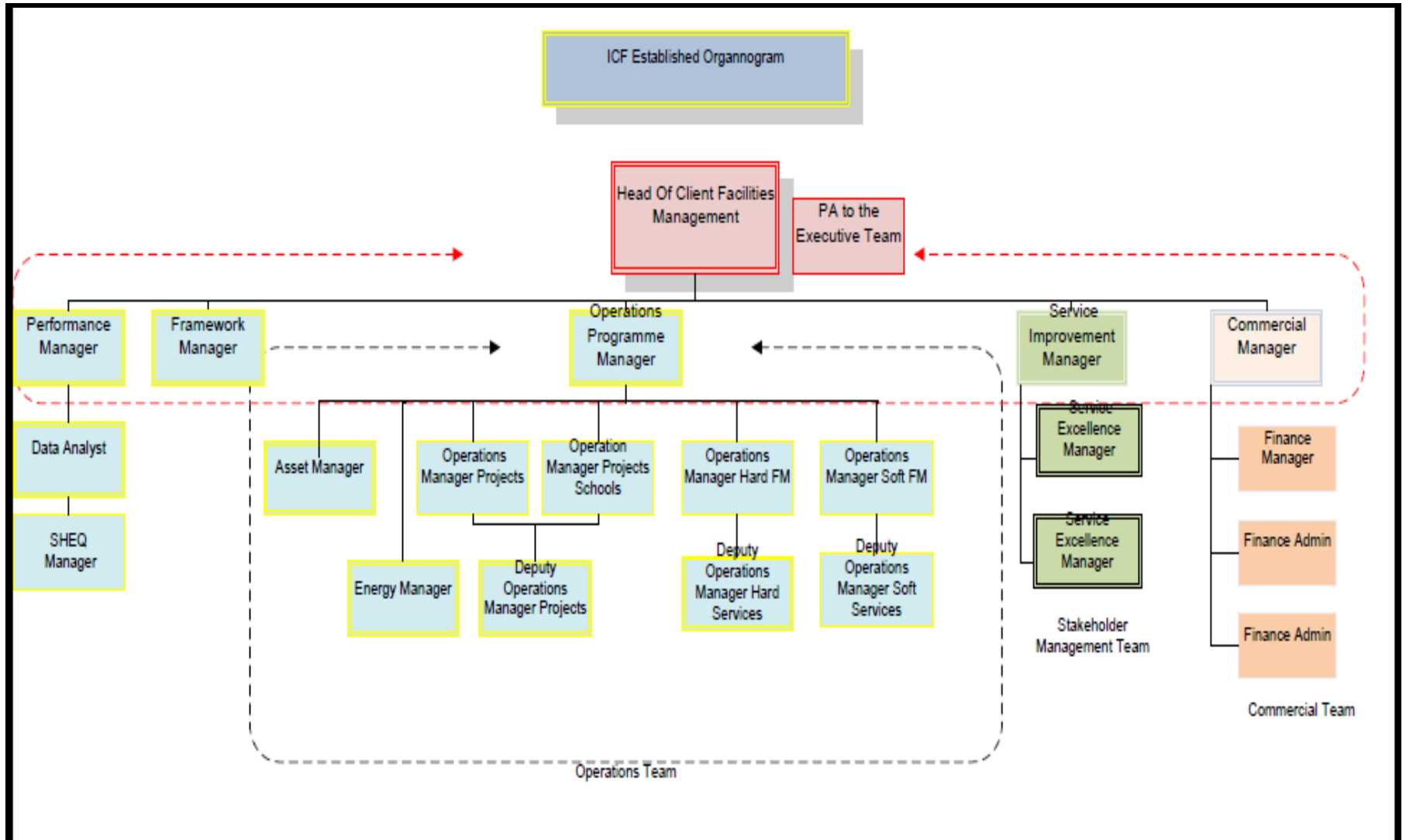
The following table lays out the generic scope of FM service being procured in both the Project and Framework agreements. Further, these service lines will be delivered to varying standards as allowed for in the output specifications. For instance, cleaning services will be procured to variable standards as required to meet customer service requirements in Council administrative buildings, to reflect their multiple uses and purposes. However, other service lines and/or building will not require such a complex service specification.

GENERIC & HIGH-LEVEL SCOPE OF SERVICES	
MANAGEMENT & ADMINISTRATION	<ul style="list-style-type: none"> Performance Monitoring Management of Sub-Contractors
MANAGED SERVICES	<ul style="list-style-type: none"> Health and Safety Management Risk Management Environmental Management Business Continuity Planning
HELPDESK & CAFM	<ul style="list-style-type: none"> Room Booking / Lettings Management Computer Aided FM (work scheduling, management reporting)
HARD AND SOFT FM SERVICES	<ul style="list-style-type: none"> Reactive Repairs and Maintenance Planned Repairs and Maintenance Cleaning Post, Reception, Mail, Portering
STATUTORY COMPLIANCE	<ul style="list-style-type: none"> Health & Safety Legislation e.g. asbestos, legionella, gas management Environmental Legislation

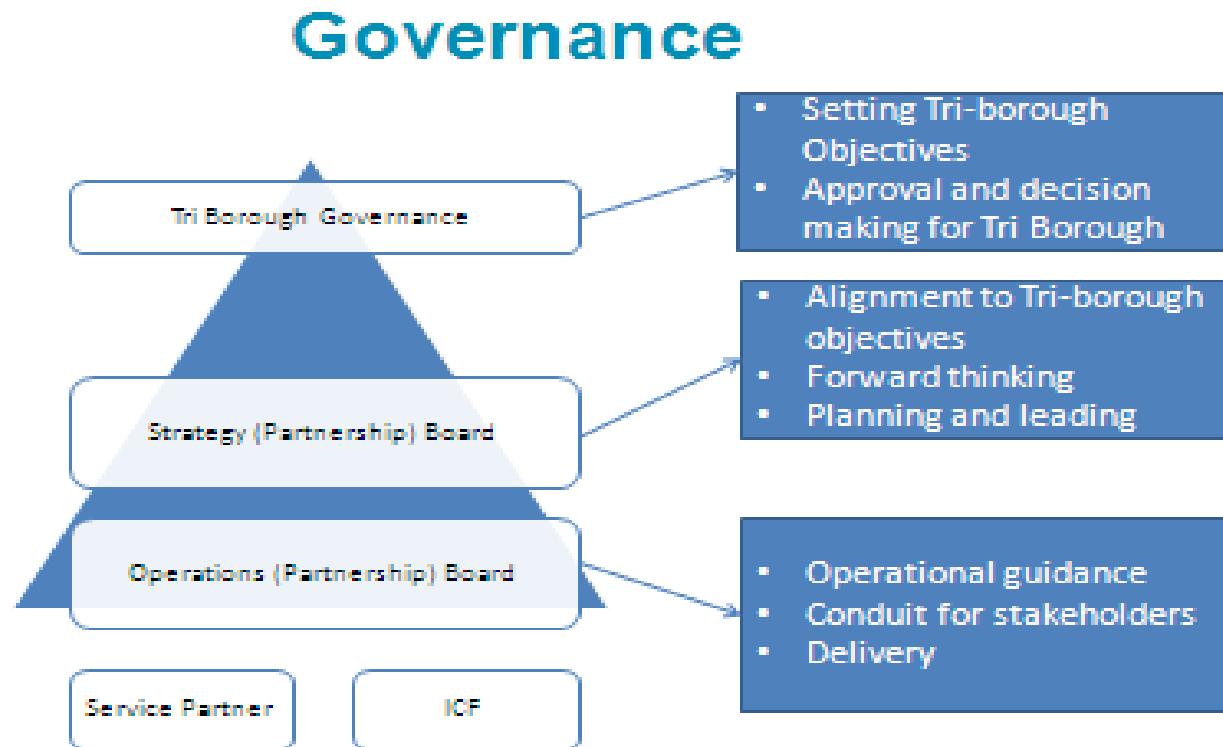
Appendix B: Contractual Set up



Appendix C: ICF Organisation Structure



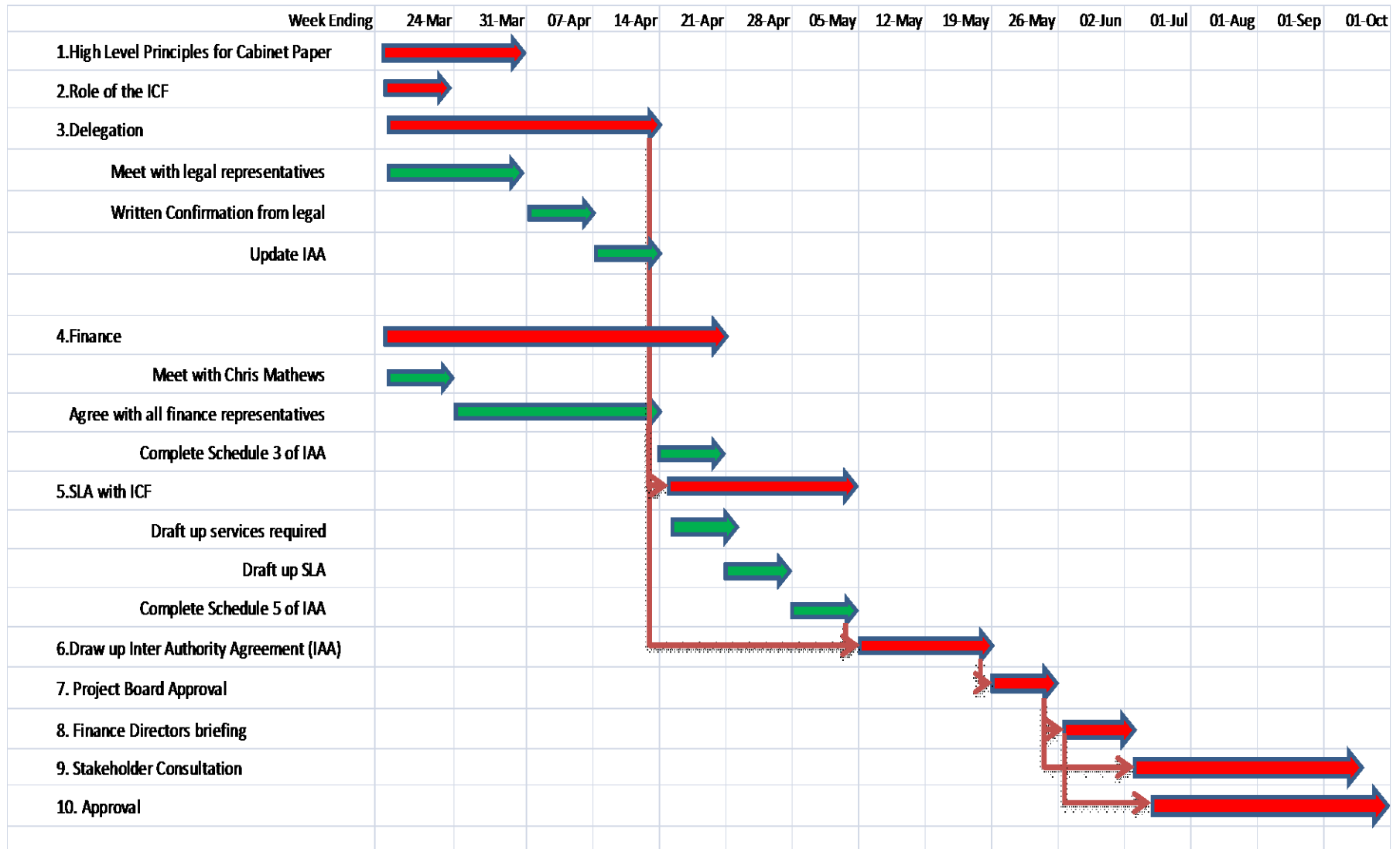
Appendix D: TFM Governance Arrangements



Appendix E: Inter-Authority Governance Options

	OPTION 1: LEAD MEMBER STRATEGY BOARD	OPTION 2: DELEGATION OF POWERS	OPTION 3: JOINT COMMITTEE
CAN THE BODY MAKE CONSTITUTIONALLY BINDING DECISIONS?	No	Yes	Yes
IMPACT ON SOVEREIGNTY	No impact on sovereignty.	The day to day responsibility for the areas delegated would be exercised by the local authority or officer to which the powers have been delegated.	The day to day responsibility for the areas delegated would be exercised by the joint committee.
COST CONSIDERATIONS	Least costly	More costly than Option 1 but cheaper than Option 3.	Most expensive but the costs should be covered by the savings delivered under the TFM contract.
EASE OF TRANSFER TO COMPANY STRUCTURE	N/A	N/A	The joint committee structure could easily be transferred into a company structure at a later date.

Appendix F: Inter-Authority Agreement Timeline



Appendix G: Principles of the Inter Authority Agreement

A. Initial Set Up

1. The services which the client-side will provide to the Tri-Borough Authorities will be stated in Schedule 5 of the Inter Authority Agreement, in summary they include:
 - Contract performance management in line with the Project Agreement
 - Invoice checking, validation and cost apportionment by Borough
 - Management reporting
 - Complaints resolution
 - Ensure compliance with all H&S and relevant legislative requirements
 - Manage the minor capital works programme within the scope of TFM
 - Auditing, benchmarking, agreeing common standards and best practice in the management of FM services
 - Stakeholder engagement to ensure TFM service meets requirements
 - FM Advice
 - Management of the ICF team in accordance with host borough's policies
 - Support the appropriate Tri-Borough policies and objectives
 - Assist the TFM supplier in growing the Framework as agreed at the Strategic Partnership Board
2. RBKC will host the service and will provide fully furnished office accommodation, ICT infrastructure and all support services required by the ICF.
3. The initial set up costs will be divided up equally between the Tri-Borough Authorities.

B. Member Steering Group Details

4. The exact make-up of and Terms of Agreement for the Member Steering Group is to be agreed, however, there will be at least one member from each of the Tri-Borough Authorities. Any changes to its Terms of Agreement will be subject to approval by the Cabinets of the Tri-Borough Authorities.
5. Whilst the Member Steering Group will not have any decision making powers, its functions will be:
 - Advisory body to direct the Director of Corporate Property (RBKC)
 - Review annually the ICF Performance
 - Review and recommend to each Cabinet the:
 - annual capital expenditure
 - any additional expenditure requirements

- Recommend to Director of Corporate Property to approve any major changes to contract or service delivery
 - Resolve deadlock at Tri-Borough
 - Strategic Risk management at Tri-Borough level
6. A procedure for allowing other councils to become members of the Member Steering Group will be proposed.
 7. One or more of the Tri-Borough Authorities will be permitted to withdraw from the Inter Authority Agreement, subject to the agreed lock-in period, notice period and payment of costs to the other boroughs

C. Commercial Matters

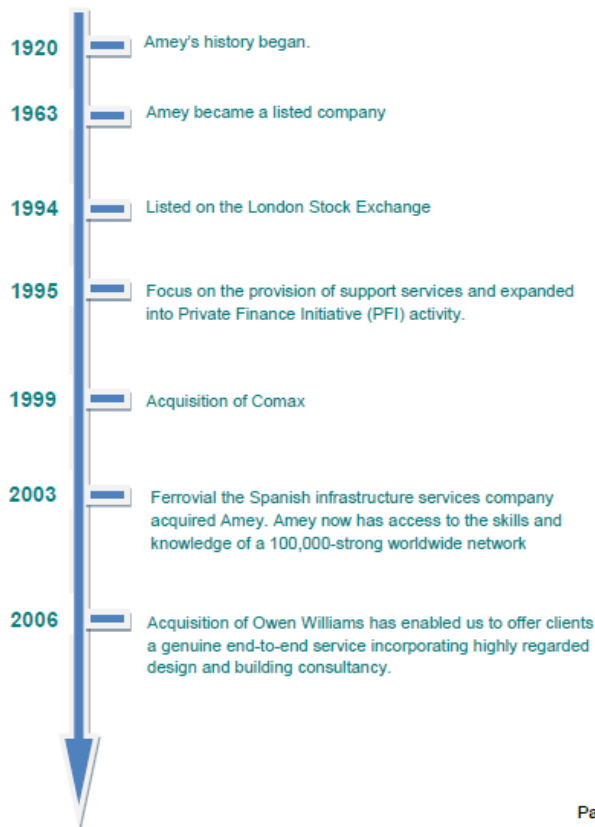
8. The costs of running the TFM client side be recorded using the existing Hosting Authority systems and processes
9. Each of the Tri-Borough Authorities will contribute equally to the running costs of the ICF and also split equally any intellectual property rights. All losses, claims, expenses and demands incurred in relation to the operation of the ICF will also be shared equally. The hosting Authority will not make a profit from running the ICF.
10. The hosting authority will require an indemnity from the other two boroughs, details of which will be covered in the IAA
11. The allocation of TFM supplier costs will be determined by the agreed Cost Allocation Methodology and is subject to the TFM supplier actual allocation costs at October 2013.
12. If other councils or schools wish to purchase the clienting service they will be charged 12% of total TFM value subject to a minimum cap of £200k
13. Any of the Tri-Borough Authorities will be permitted to stop receiving the client service, subject to:
 - An initial 2 year lock in period
 - 12 months notice
 - Payment of any redundancy or associated costs
14. A client side SLA will be developed and agreed and reviewed annually
15. The Hosting Authority's policies will govern issues such as audit, FOI, data protection and confidentiality.
16. If capital expenditure is needed, each Authority's contribution will be:
 - Specific to each borough
 - Or equally for investments relating to the ICF
17. Staff will perform their work for the ICF under Section 113 Agreements. Any employment claims which pre-date the hosting model to be dealt with by the relevant Authority.

Appendix H: Tri-Borough TFM Cost Allocation Methodology

Service Line	Allocation Methodology	Mechanism
Hard Services including Revenue Small Works	By Building	Service Matrix
Soft services	By Building	Service Matrix
TFM Suppliers Central Management Costs	Allocated by same % as hard and soft services spend	Service Matrix
Help Desk & CAFM	Allocated by same % as hard and soft services spend	Service Matrix
ICF Costs	Equal	Equal
Print	Specific per Borough	Actual costs allocated to Borough
Capital Works	Spending by specific capital project	Allocated to relevant Borough

Appendix I: Background Information on Amey Community Limited

Amey is one of the UK's foremost integrated service providers, specialising in end-to-end solutions in the local authority, central government, schools and aviation sectors. With approximately 21,000 staff, Amey offers their clients a wide range of services such as consultancy design, intelligent transport management and facilities management and have been providing services within the UK since 1920.



As one of the leading integrated public service providers in the country, Amey operate from over 130 offices across the UK and over 1,000 client sites and depots. Amey have a well-established presence in London and the Home Counties and have a corporate office in London with their headquarters located in Oxford.

Amey pride themselves on being able to support organisations by delivering effective solutions underpinned by leading-edge technology and a genuine partnering philosophy.

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Amey's primary business can be summarised as:

- Integrated FM Services: Provide a full range of high quality FM services in order to maintain healthy, productive and efficient working environments in order for clients to receive the maximum benefits from their facilities.
- Effective Public Services: Transforming frontline public services, including the local and central government sector specifically, where Amey deliver effective solutions to drive transformation and efficient outcomes.
- Transport: Providing passenger services and the freedom to move around quickly and safely using the nation's motorway, trunk road and rail networks and airport terminals.
- Local Communities: Shaping places, connecting communities and supporting local economic development.
- Education: Enabling opportunities for learning and attainment through improved environments.

In 2003 Amey was acquired by Ferrovial - One of the world's leading infrastructure companies, with a workforce of approximately 70,000 employees and operations in more than 15 different countries.

It is present in sectors such as construction, airports, toll roads and services. Over the years, Ferrovial has secured its position as a global firm thanks to its sound performance and a strong commitment to society, innovation and the environment.

Ferrovial Services is a major European player in the areas of both management and maintenance of transport infrastructure and environmental services.

The Ferrovial business model focuses on sustainable growth, underpinned by a portfolio of high quality, long term businesses. This approach to sustainable development is starting to be recognised in financial markets. For the seventh consecutive year, Ferrovial has been included in the DJSI World and the DJSI STOXX, and for the fourth year in a row, it is part of the FTSE4Good index and is listed in the Madrid Stock Exchange.

Ferrovial's activities focus on four business lines:

Services

- Amey: The U.K.'s leader in infrastructure upkeep and facility management for public administrations and companies.
- Cespa: One of the leading Spanish companies in waste management and street cleaning services, leader in parks and green areas maintenance.
- Ferroser: One of the leading companies in the Spanish and Portuguese markets in infrastructure upkeep and facility management services.

Highways

- Cintra: One of the largest private toll highway developers in the world in terms of the number of projects as well as investments.

Construction

- Ferrovial Agroman: Engages in civil works, building, and industrial projects and is one of the world's leaders in infrastructure development.
- Cadagua: The company is recognized as a pioneer and leader nationwide in the field of engineering and the construction of Water Treatment Plants.
- Webber: One of the main road construction companies in the State of Texas (United States)
- Budimex: Is the leading Polish construction company in terms of business volume and market capitalization.

Airports

- LHR Airports, formerly known as BAA: The owner of Heathrow Airport, one of most important in the world in terms of air traffic, as well as Southampton, Glasgow and Aberdeen airports providing services to more than 109 million passengers in 2011.