

Decision Maker: EXECUTIVE

Date: 23rd March 2016

Decision Type: Non-Urgent Executive Key

Title: GATEWAY REPORT COMMISSIONING - PROPOSED TOTAL FACILITIES MANAGEMENT CONTRACT

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Chief Officer: Director of Regeneration & Transformation
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Ward: All Wards

1. Reason for report

- 1.1 This report updates Members on the Total Facilities Management work streams. This report follows the Executive decision on the 15th October 2014 to develop contract documentation for a bundle of services including Planning, Strategic Property, Operational Property, Facilities Management and Public Protection, with a view to conducting formal market testing.
 - 1.2 The report also updates Members on a second work stream that has been undertaken in tandem with the work above. Officers have worked with the Tri-Borough (Westminster City Council, Hammersmith and Fulham London Borough Council and the Kensington and Chelsea London Borough Council) and Amey Community Limited to identify cost savings which could be realised by contracting via the Tri-Borough framework agreement for Total Facilities Management.
 - 1.3 Subject to the agreed procurement route, this report sets out further options for the delivery of Planning and Public Protection Services.
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2. RECOMMENDATION(S)

Members of the Executive are asked to:

- 2.1 Note and comment on the outcome of staff and trade union consultation, along with the management response, set out in Appendix 4.
- 2.2 Agree additional funding for Operational Property as outlined in para 7.1-7.2 of this report to cover full year costs pressures of £216k p.a. which will be met from the Central Contingency provision for the loss of income from schools transferring to academies.
- 2.3 Subject to the outcome of the due diligence process agree to enter into contract with Amey for a maximum value of £33.7m as a call-off from the Tri-Borough Framework Agreement commencing July 2016 for a minimum period of 5 years (with up to 3 year option to extend) for Strategic Property, Operational Property and Facilities Management. This will deliver part year savings of £177k in 2016/17 (excluding £339k one-off costs) increasing to £275k in a full year as set out in para 7.32 of this report.
- 2.4 Note that if the Amey proposal is agreed, the savings of £116k p.a. relating to Facilities Management approved as part of the 2016/17 Budget, will reduce to £76k p.a. (see para 7.31).
- 2.5 Agree that the Mail Delivery service to schools ceases and that the £58k saving is taken in 2016/17 (see para 7.7).
- 2.6 Agree that Due Diligence will need to be undertaken prior to the contract start date, as set out in para 7.18 of this report, which will require one-off funding totalling net £309k. This will be funded from the 2015/16 underspend in the Central Contingency. Due Diligence will be undertaken by both parties and any significant changes reported back to the Executive prior to any final contract agreement.
- 2.7 Note the additional income that Amey/Cushman and Wakefield believes will be generated through better management of our assets as set out in para 7.8 of this report, which will be phased over 3 years.
- 2.8 Agree that £100k be set aside from the Central Contingency for provision against potential future pension liabilities as set out in paras 7.22 – 7.30 of this report.
- 2.9 Agree that £287k of the overall budget be retained to fund 4 staff within the Client Unit as detailed in para 7.6 of this report.
- 2.10 Note that if the Council enters into a contract with Amey then the £30k fee already paid to Amey, as set out in para 3.9 of this report, for them to undertake a feasibility study will be reimbursed.
- 2.11 Note the potential savings of up to £28k p.a. from the Liberata contract, as set out in para 7.38.
- 2.12 Agree to consult with schools on the withdrawal of the discretionary services as set out in paragraphs 3.27 - 3.30 and delegate to the Director of Corporate Services the authority to give notice terminating these services (but not to extend or renew) with the agreement of the Portfolio Holders for Education and Resources.
- 2.13 Subject to Members' agreement of the above, agree that officers explore the market testing of:
 - Planning Services
 - Public Protection Services

Corporate Policy

1. Policy Status: Existing Policy
 2. BBB Priority: Excellent Council & Quality Environment
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Financial

1. Cost of proposal: £309k net one-off costs plus £216k revenue costs. Savings of £333k in a full year
 2. Ongoing costs: As above
 3. Budget head/performance centre: Facilities Management, Operational and Strategic Property (TFM) and also Planning and Public Protection
 4. Total current budget for this head: TFM £4.7m, Planning and Public Protection £4.2m
 5. Source of funding: N/A
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Staff

1. Number of staff (current and additional): 53 ftes for TFM and 133 ftes for Planning and Public Protection
 2. If from existing staff resources, number of staff hours:
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Legal

1. Legal Requirement: None
 2. Call-in: Applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? No
2. Summary of Ward Councillors comments:

3. COMMENTARY

3.1 At their meeting on the 15th October 2014, the Executive agreed that the following range of services would form the basis of the bundle of services to be market tested as the Total Facilities Management package, subject to any further comments that may be received and finalised at the gateway report stage.

- Operational Property (including statutory compliance)
 - Reactive
 - Planned
- Facilities and Support Services
 - Mail services
 - Committee Room Support
 - Porters and attendants
 - Print management
 - Cleaning
 - Security
- Strategic Property (including statutory compliance)
 - Acquisitions
 - Disposal
 - Management of Non-Operational portfolio
 - Capital Works
- Planning Services
 - Building control services
 - Applications
 - Appeals
 - Development Control
 - Enforcement
 - Strategy and Projects
 - Land charges
- Public Protection
 - Environmental Protection
 - Trading Standards
 - Licensing
 - Food Safety
 - Health and Safety
 - Housing Enforcement
 - Housing Improvement
 - Public Health Nuisance

3.2 This work was being undertaken as part of the Council's broader commissioning approach to the delivery of services.

Background

3.3 In response to the decision taken by the Executive in October 2014, an officer working group has been developing output-based specifications in conjunction with the key Heads of Service and Service Leads. These specifications reflect service delivery at this point in time, i.e. the baseline service.

- 3.4 In bringing this work stream to a close, the Officer Working Group has had to ensure that service information and dates are accurate and can be relied upon for the purposes of market testing. This had been more time-consuming and onerous than initially envisaged.
- 3.5 The service specifications are now complete and have been signed off by the individual Heads of Service. Key Performance Indicators have also been developed and contract documentation is currently being finalised.
- 3.6 In the period following the Executive decision, officers identified a possible opportunity to benefit from joining the Tri-Borough Total Facilities Management Framework and began to engage with Amey and representatives from the Tri-Borough.

The Amey Proposal

- 3.7 The Tri-Borough (composed of Westminster City Council, Hammersmith and Fulham London Borough Council and the Royal Borough of Kensington and Chelsea) has entered into a ten year Total Facilities Management contract with Amey Community Limited (Amey). The collaboration has enabled the Tri-Borough to generate substantial initial and future savings, secure non-financial benefits and create a streamline client function focused on contract management rather than delivery.
- 3.8 The Tri-Borough contract arrangements include a Framework Agreement which allows other London Boroughs to benefit from this procurement route. Such an approach means participating Boroughs avoid substantial procurement costs and secure savings earlier than would have otherwise been possible. The authorities that have recently joined the Framework Agreement are Camden, Bexley, Waltham Forest and Haringey.
- 3.9 Officers have been working with a Tri-Borough team of consultants and Amey to undertake a feasibility study which has identified a minimum level of savings that could be achieved by joining the Framework. This work was costed at £30k, which will be reimbursed if the Council signs up to the Framework. The involvement of Amey and their consultants has greatly assisted the Council in completing work on the specifications and understanding the requirement of the market when seeking to take property services to tender. The work has focused on three out of the original five services areas:
 - Strategic Property
 - Operational Property
 - Facilities Management
- 3.10 Both Planning Services and Public Protection have been excluded from the Tri-Borough work stream as they were not covered by the Statutory Notice that was sent for publication in the OJEU in November 2011 and are therefore not covered by the Framework Agreement. The Framework Agreement permits other London Boroughs to enter into separate agreements with Amey via the call off Agreement.
- 3.11 The Framework went live on the 1st October 2013 following an extensive OJEU procurement process lasting eighteen months. It was estimated to have cost the Tri-Boroughs £1.1m. Expressions of interests were received from 143 organisations of which eleven submitted responses to the Pre-Qualification Questionnaire. From this, five shortlisted bidders were invited to participate in a two stage Competitive Dialogue process. Three of the Bidders were shortlisted and in May 2013 the Tri-Borough cabinets approved the award of the contract to Amey Community Limited for a ten year contract for the provision of hard and soft facilities management services across their estates.

3.12 The key benefits in signing up to the Framework are:

- Realisation of savings at the earliest possible stage. It is likely that, subject to Members' approval to sign up to the Framework, there would be a go live date of the 1st July 2016 dependent on the successful completion of further due diligence work by both parties. This is substantially earlier than would be the case if the Council opted to pursue the procurement route where it is anticipated that the 'go live' date will be 1st April 2017 at the earliest.
- Limited investment required in entering the Framework to generate the identified savings giving rise to contractual and procurement savings.
- Fixed price throughout the life of the contract with the potential for further savings as efficiencies are driven through.
- Risk transfer whereby Bromley has certainty of service delivery and cost.

3.13 Amey will work in partnership with Cushman and Wakefield (previously DTZ) to reduce the Council's property costs and increase the Council's income from property. The proposals from Amey provide both financial savings to the Council as well as service benefits, not least around providing resilience, strategic capacity and commercial expertise that is required as the Council needs to be more efficient in how it provides services going forward, particularly those relating to Strategic Property Management.

Financial Benefits

3.14 The proposal provides for a partnership combining real estate management with strategic asset management. The Amey/ Cushman and Wakefield pricing proposal identifies a number of approaches to achieving savings:

Guaranteed Savings Targets

3.15 The Amey pricing proposal which, subject to due diligence, would deliver guaranteed savings of £210k p.a. from the 1st July 2016 on a budget of £4.4m per annum (4.7%). Amey propose to deliver these savings through operational and staffing efficiencies.

Incentivised Reward Targets

3.16 In addition, Cushman and Wakefield will seek to invest money to:

- Improve systems and processes, including re-structuring and up skilling the Strategic Property Team.
- Establish a strategic asset plan for the entire estate portfolio that will seek to define the work streams to deliver enhanced investment income, rationalise the operational asset base and exploit surplus property to maximise capital receipts.

Cushman and Wakefield will seek to generate a return on this investment on an incentivised basis by growing net investment income (excluding property generated by new capital) by a minimum of £1m (index adjusted) within three years. This will be achieved by:

- Reshaping the investment portfolio to improve returns and income growth prospects.
- Adopting a more commercial approach to managing rents.
- Adopting a more commercial approach to service charge recoveries.

The proposed incentive scheme is based on the following thresholds:

Band 1	0 to £350k of increased income	No fee
Band 2	£351k to £700k	7% of increment
Band 3	£701k to £1m	10% of increment

The figures above reflect that the first £350k of income identified by Cushman and Wakefield will accrue directly to the Council. Thereafter a banded fee will be allocated.

Future Efficiency Savings

- 3.17 Amey have indicated that they believe that there is scope for further efficiencies in the delivery of some of the Operational and Facilities Management Services and have proposed that any future efficiencies in these areas would be shared on an 80/20 basis in favour of the Council (based on 10% this would deliver savings to the Council of £65k p.a.). For example, Amey are currently reviewing the provision of a number of centralised functions including mail room and reprographics across a number of boroughs.
- 3.18 Amey will continue to utilise the Council’s processes and procedures for a period of six months to gain a full understanding of the how the Council operates, the frameworks that are used and the competency of transferring staff.
- 3.19 Following this initial assessment process, Amey will look to integrate the Council’s processes with its own and generate efficiencies where appropriate. In doing so, Amey would commit to ensuring that the Council’s governance rules are accommodated.

Service Benefits

- 3.20 The Amey option provides resilience, capacity, commercial experience and also will provide the Council with flexibility to call off strategic work as required. In the past officers would have to tender and appoint. This will save officer time and also provide financial savings as the bid from Amey allows for a 5% reduction of their current Framework rates.

Due diligence

- 3.21 Amey have indicated, subject to Members agreeing to join the Framework, that they will undertake formal due diligence which requires three months to complete. Due diligence will include sign off of the service plan and specification on which their price will be guaranteed. The costs of Amey’s mobilisation will be an additional cost to the Council but this could be amortised over the life of the contract. It is anticipated that that this cost will be a maximum of £339k (including asset validation, condition surveys and IT mobilisation costs). Amey have proposed to further refine the cost prior to mobilisation and that this will be shared with LBB on an open book basis. The timetable for mobilisation is set out in Appendix 1.
- 3.22 As part of their due diligence, Amey have indicated that they would wish to undertake asset validation work to collect data on all our assets for their CAFM system (Computer-aided Facility Management e.g. the IT systems supporting Facilities Management operations) which they will need to manage and maintain our assets at the right frequency going forward. This one off work will cost £45k. They will also need to undertake full condition surveys on our key sites where we have not already done so, which will cost around £30k.

- 3.23 The condition surveys will provide officers with a better understanding of the level of backlog maintenance in the Council's estate and helping to inform the options that the Council has to consider, not merely with regard to future maintenance but also in order to comply with its statutory obligations. Once this work is completed the Council will be better placed to quantify any future risks and liabilities and this will help inform our asset strategy going forward.
- 3.24 The remaining sites tend to be small, less critical units where Amey's proposal is to carry out only reactive and chargeable works. The indicative costs of condition surveys provided by Amey has been compared to the costs that the Council incurs for similar works and has been found to be in line with the Council's cost expectation.

Market Considerations

- 3.25 In light of the option presented by Amey/Cushman and Wakefield, it is not recommended to continue to pursue one large bundle of services, as the Amey proposal will:
- a) Provide resilience and increased capacity in strategic property to help meet some of our service priorities.
 - b) Potentially generate income through adopting a more commercial approach to asset management.
 - c) Deliver revenue savings earlier.
 - d) Provides economies of scale, as part of a Framework.
 - e) Make savings in officer time around tendering work for projects.
 - f) Make procurement savings.
- 3.26 Officers believe it will be more beneficial to award the services to Amey and then to consider Planning and Public Protection as a separate bundle. This will give us the option to consider joint tendering with other authorities around Planning and/ or Public Protection where the services will have a better synergy and the potential to generate greater savings. Subject to members agreeing to this approach, officers will bring back a gateway report on Planning and Public Protection to a future meeting of the Executive.

Sold Services to Schools

- 3.27 Amey have been quite clear in discussions with officers that sold services to schools for Operational Property, is not an area that they are keen to expand, particularly given that it is operating at a net loss of £24k p.a. on the total budget for Caretaking and Reactive Maintenance. This is a risk area for Amey because of the number of schools converting to academies and work would be likely to cease post conversion.
- 3.28 Officers are therefore recommending that the Council gives 3 months' notice to schools for the caretaking services as is required by the requirements of the Service Level agreement.
- 3.29 The Council has responsibility to undertake statutory maintenance and inspections on all maintained schools and the cost of this is included with the Operational Property budget. This responsibility will continue until such times as those schools convert to academies. Operational property also undertakes through an SLA discretionary reactive services to schools, both academies and some but not all, maintained schools. Officers are also recommending that the Council gives 3 months' notice to end the delivery of all discretionary property maintenance and inspection services for both maintained and academy schools.

3.30 The recommendations to cease discretionary sold services to schools is in line with the approach taken on other such services formerly provided by the Council. Given the impact on schools which continue to use the services then it is recommended that there is a brief period of consultation with the schools. The option of cessation has been covered in the staff consultation. Given the declining income, the Council would have been taking such action irrespective of the consideration of the framework agreement.

4. Planning and Public Protection

- 4.1 Should Members agree, and subject to the outcome of due diligence, to join the Tri-Borough Framework for the delivery of Operation Property, Strategic Property and Facilities Management, consideration needs to be given to how to best manage the two remaining services that formed part of the original TFM Bundle, namely Planning and Public Protection.
- 4.2 The option exists to continue with the contract work that has been developed to date and take these two services to the market, either as a joint lot or as separate parcels. Discussions with the London Borough of Bexley indicate that they would be interested in developing a joint procurement exercise with Bromley encompassing these two services areas, as has been the case with Libraries and Parking Services. By adopting such an approach, both authorities could share in further benefits through economies of scale both in terms of contract development as well as through the market response. No suitable Frameworks have been identified for either of the two services and this is therefore not an option.
- 4.3 It is proposed to market test Planning and Public Protection through a Competitive Dialogue with Negotiation process. In the report to the Executive in October 2014, Members were advised that the newly agreed EU Procurement Regulations were due to be implemented in the UK around the turn of the year. In fact these were eventually implemented on the 25th February 2015. The new procedure allows for a fuller discussion on service delivery arrangements, price and alternative proposals, providing that an identified minimum requirement and the award criteria are unchanged, via direct negotiation. It is considered that the use of this new arrangement provides the best fit for the Council's intended contracting requirements and will be the best allowable approach to secure a successful tender/contract outcome.
- 4.4 The Services that would be included in this bundle are as follows:
- Planning Services
 - Building control services
 - Applications
 - Appeals
 - Development Control
 - Enforcement
 - Strategy and Projects
 - Land charges

 - Public Protection
 - Environmental Protection
 - Trading Standards
 - Licensing
 - Food Safety
 - Health and Safety
 - Housing Enforcement
 - Housing Improvement
 - Public Health Nuisance

- 4.5 Alternatively, Members may opt not to join the Amey Framework and request that all five services are market tested as originally anticipated.

5. PROCUREMENT

- 5.1 The Framework contract documents that will form the basis of the contract (see Appendix 2) were drafted with inputs from external legal team retained by the Tri-Boroughs, who have also created a dedicated client/advisor for the operation of the Framework Users, to ensure sufficient and consistent framework management arrangements. As a result performance by the Service Provider will not only be reviewed by the Bromley client team, but also be over-viewed by the framework sponsors.
- 5.2 As identified in paragraphs 3.7-3.13 above, the Procurement Route used for the delivery of these services utilises an existing Framework Arrangement established by the Tri-Boroughs, which has subsequently been adopted by a number of other London Councils. The contract documents used for the initial tender process (which will form the basis of our own Agreement) provide for a robust, but balanced, approach to contract management. The service delivery arrangements, which are considered to be of additional benefit to the Council, having been drafted by external legal advisors to represent best practice and been tested in use by other authorities. Further information on the details of the Contract can be found in Appendix 2, however the following summarises a number of the more salient details which together provide for comprehensive management arrangements, while maintaining the desired degree of flexibility on service delivery arrangements where appropriate and agreed.
- 5.3 The Contract incorporates Open Book Accounting arrangements, in terms of costs incurred, with access to all associated records by the Client and Audit. The Service Provider has to maintain an embedded Quality Control process and has a duty to inform the Client of service failures which link through to robust Change Control and Performance Management arrangements. These arrangements extend to their supply chain and other partners used in delivery of different areas of the service.
- 5.4 While the Service Provider is obliged to complete work to the standards identified in the output based specification they are also under a duty to ensure all work completed by themselves or their supply chain, are carried out in accordance with Good Industry Practice and Legislation and covered by Parent Company Guarantees and Collateral Warranties. The Client has a right of step-in where continued poor performance is established at the Service Provider's cost.
- 5.5 While provision is made for a 5+3 year Contract Term, the Council also has the ability to give six months' Notice at any time which, subject to the establishment of associated costs already incurred or due, provides further flexibility to the Council if its circumstances change and the contract no longer provides for its needs in the future.

6. POLICY IMPLICATIONS

- 6.1 Moving to a Commissioning Authority is in line with the Council's Corporate Operating Principles and is key to achieving the Building a Better Bromley 2020 Vision in ensuring that services continue to be provided as efficiently and effectively as possible, in light of the financial pressures facing the Council over the next few years.

7. FINANCIAL IMPLICATIONS

7.1 The overall budget for TFM is shown below:-

	2015-16 Gross Budget £	2015-16 Actual Expenditure £	2015-16 Part Yr £	2016-17 Full Yr £
Planned & Reactive Maintenance	1,919,950	1,919,950	0	0
Operational Property	767,640	812,640	78,000	216,000
Facilities Management	1,020,310	1,020,310	0	0
Multi Functional Devices (e.g. printers)				
Contract	290,190	290,190	0	0
Strategic Property	691,010	691,010	0	0
Mail Delivery service	22,520	22,520	0	0
Total Net budget	4,711,620	4,756,620	78,000	216,000

7.2 As you can see from the table above, the Operational Property budget is currently operating at a loss of £78k in 2015/16 which will increase to £216k by 2016/17 due to the impact of schools converting to academies and sold services. Amey have made it clear they are not interested in providing any sold services to school. In the past, core work has been charged to the Schools' Capital Programme to maximise income opportunities and this will no longer be possible (£183k) along with the impact of no longer providing sold services to schools (£33k). This issue has been identified throughout this year in the Budget Monitoring reports. To ensure this service is able to fulfil its core work, additional funding is required regardless of any decision about outsourcing.

7.3 The figures in the table above exclude premises costs such as Business Rates as this will be retained by the Council. It also excludes all income budgets as the Council will want to retain this (£8.2m budget).

Amey Proposal

7.4 The Proposal from Amey/Cushman and Wakefield working in partnership will combine operational real estate expertise with strategic asset management, providing the Council with the reassurance that our properties will be managed to industry leading standards in a pro-active manner. The partnership will provide more capacity and skills in Strategic Property which has been an issue in last few years with the team having to rely on consultants to undertake some of the key priorities of the Service.

7.5 The table below provides a breakdown of the guaranteed savings that will be achieved from the Amey proposal based on a five year contract with the option to extend for a further three years:-

	Budget 2015/16 £	Client	Budget 2015/16 £	Bid from Amey £	Diff £
Guaranteed Saving					
Operational Property	767,640	68,000	699,640	549,640	-150,000
Strategic Property	691,010	150,900	540,110	480,110	-60,000
Facilities Management	1,020,310	68,130	952,180	952,180	0
MFD Contract	290,190	0	290,190	290,190	0
R&M	1,919,950	0	1,919,950	1,919,950	0
Mail Delivery	22,520	0	22,520	22,520	0
	4,711,620	287,030	4,424,590	4,214,590	-210,000
Future Efficiencies				-65,000	-65,000
NET SAVING - AMEY	4,711,620	287,030	4,424,590	4,149,590	-275,000
Mail Delivery - schools & other sites (not required)	58,000	0	58,000	0	-58,000
Total Expenditure	4,769,620	287,030	4,482,590	4,214,590	-268,000
FTE's		4			

7.6 As you can see from the table above, it is proposed at the Council creates a Client Team comprising three managerial posts and one administrative post at a cost of £287k p.a. to manage the client function. It is proposed that the manager of the team is graded at MG4 and will need to have strategic property experience. A breakdown of the proposed structure is shown in Appendix 3. The recruitment to these posts will be undertaken as soon as possible in order that the new Client Team is established during the due diligence process.

7.7 The table above also shows that the Council spends £58k on a mail courier service in schools and other sites which are now no longer required. This saving can be taken in 2016/17.

7.8 In addition to the savings in the table above, the proposal from Amey/Cushman and Wakefield also allows for a further £1m additional income that will be realised through better use of Councils assets. The potential £1m additional income target identified by Cushman and Wakefield will be phased over 3 years, broken down as follows:-

	LBB cumulative £'000	Amey cumulative £'000	Total cumulative £'000
2016/17	-350	0	-350
2017/18	-675	-25	-700
2018/19	-945	-55	-1,000

- 7.9 The incentivised reward target of £1m from 2018/19, of which the Council will receive £945k p.a., is based on experience that Cushman and Wakefield have seen with other contracts when they have implemented improved and more efficient property management systems. They believe that through using better IT systems to the existing platform and by enhancing the supporting systems, processes and management information they will minimise risk and alert where there is the opportunity to develop or maximise income opportunities. The incentivised reward target is about growing net investment income through re-shaping the investment portfolio to improve income returns and income growth and adopting a more commercial approach to managing rents and service charge recoveries (where applicable). This will cover things such as challenging existing utilisation of the assets against the highest and best value that can be derived from alternative uses and maximising value from those assets that are surplus, non-performing or that are identified for disposal.
- 7.10 The final saving offered by the Amey proposal is around future savings from our “core” work that sits within facilities management/operational property based on an 80:20 split. They are confident that they can deliver savings once the contract is up and running of 10% of those budgets (£806k) which will give the council further £65k revenue saving from 2016/17. Savings already identified by the Council for 2016/17 is agreed, will reduce some of this saving.
- 7.11 Efficiencies around facilities management will be achieved through printing whereby Amey is likely to arrange for large scale printing for boroughs within the framework to be pulled together and undertaken in a central area such as an industrial site. Also using all their contracts for maintenance should deliver economies of scale for the Framework.
- 7.12 The table below provides a summary of the additional cost pressures and savings possible from outsourcing of this service as covered in the paragraphs above:-

	Part Yr. 2016/17 £'000	2017/18 £'000	2018/19 £'000
Growth Pressures			
Impact of Academies/sold services (para 7.1 &7.2)	216	216	216
Savings from Amey Proposal			
Guaranteed savings (para 7.5)	-157	-210	-210
Potential Future Efficiencies in service (para7.7)	-20	-65	-65
	-177	-275	-275
LBB savings - Mail Delivery	-58	-58	-58
SUB-TOTAL	-19	-117	-117
Additional Income Target			
Maximise use of Assets - £1m (para 7.8 - 7.9)	-350	-675	-945
TOTAL	-369	-792	-1,004

Over the 5 year contract term the savings from the Amey proposal will achieve savings in the region of £1.375m and £2.750m if the contract is extended by a further 5 years. This excludes any efficiency delivered through better use of our assets (£1m income target). The total maximum value of this contract is £33.7m.

Call –Off Work – Projects

- 7.13 The Council spends significant sums of money on consultants to support the delivery of key projects where there is no one internally that is able to provide this. As an example of this there has been the work on Biggin Hill, the Civic Centre and Acquisition of Investment Properties. Engaging consultants to do this work is often time consuming for officers as there is a tendering process that has to be followed, along with delays to the overall project delivery timetable whilst this work is undertaken. If Members agree to the Amey proposal, this work would be undertaken directly by Cushman and Wakefield going forward. This will be undertaken as part of a call-off contract and the budgets to fund this will be identified at the time the Project is signed off.
- 7.14 Cushman and Wakefield will be investing their own money into this (see para 3.16 above) on the assumption that they will optimise the return on income growth and be the consultants the Council uses for all our strategic property projects. They will seek to generate a return on this investment on an incentivised basis through increasing net investment income and support to the Council on strategic projects, which will no longer have to be tendered for.
- 7.15 Cushman and Wakefield have offered Bromley a 5% reduction on their fees from the current Framework rates. This will enable the Council to procure any strategic work required from the framework at a competitive rate without the need to tender for individual projects. A potential saving on our overall expenditure could be realised as well as officer time as the procurement process will be shortened and therefore future budget savings could be generated quicker.
- 7.16 It should be noted that the current framework is linked to inflation being charged at RPI rates.
- 7.17 In the event that staff are made redundant within the first few months of transfer as part of the due diligence exercise then the Council will be liable for these one off costs. These will be charged to the Central Contingency provision for redundancy/early retirement costs.

Due Diligence and One-off Costs

- 7.18 As part of the due diligence process, there will be additional one-off mobilisation costs of £114k, visual condition survey costs of £30k, asset validation £45k and isolated IT costs of £150k, in total £339k. These costs could either be met up front or amortised over the life of the contract but for the purposes of his report they have been assumed to be one-off costs. The Investment Fund has money set aside to undertake condition surveys which the £30k could be charged against.
- 7.19 The biggest area of risk that will be identified through the Due Diligence process will be the condition of our assets given our decision some years ago to reduce the maintenance budget. The standard TFM model used in the Framework is to have a “no comprehensive limit” but it is likely this will have to be modified with regard to Bromley given our decision a few years ago to delay repairs and maintenance where possible to our buildings, in the light of having to make significant budget savings. Due Diligence will highlight any concerns they have around safety issues and it is inevitable that there will be one- off maintenance costs that will need to be funded. This will be an issue for any tenderer however and is not specific to the Amey proposal.
- 7.20 Until Due Diligence is completed it will not be possible to confirm the overall budget implications so a further report will have to come back to the Executive prior to joining the Framework if the assumptions in this report are significantly different.
- 7.21 It is unlikely that the Council will be able to benefit from savings in corporate overheads as the Amey proposal assumes that the staff will be based on site and therefore accommodation/IT costs have been treated as a pass through cost. If the Council is unable to provide accommodation then the contract sum will increase.

Pension Issues

- 7.22 Under the terms of the proposed Framework agreement, the pension provisions are contrary to the Council's existing policy.
- 7.23 The Framework provides for the contractor to meet the ongoing Future Service Cost only with no liability for any proportion of a service deficit that may accrue, even if in relation to the period post transfer. The contractor would bear the costs arising from any discretionary employer decisions that may be applied, but for some possible exclusions detailed in their proposal relating to ill health retirement. Any further clarification would need to be identified as part of due diligence.
- 7.24 The Council's existing policy with regard to the funding of pension liabilities is to require contractors to meet the cost of both future service and any deficit accrued in relation to the period of the contract. Any liabilities that arise relating to the period up to the contract start date would continue to be met by the Council. This excludes any decisions made or discretions applied by the contractor that may result in additional liabilities for which the contractor would be responsible in full. This takes account of the Council's agreement to 100% fund eligible employees up to the relevant transfer date whilst protecting the Council from liabilities that may arise from actions taken by a contractor. The Council also requires an Admission Body to provide a suitable Bond or Guarantee. It is not clear from the Framework agreement whether this forms part of the proposal and therefore would require further consideration as part of due diligence.
- 7.25 The proposed pension provisions in the Framework would represent a significant departure for the Fund's existing policy, and would place far greater risk upon the Council with regard to meeting any further deficits that may accrue.
- 7.26 The Council has discretion to review the current pensions policy in individual exceptional circumstances (e.g. where significant savings may be realised). However, under the Local Government Pension Scheme Regulations, any deficit that is unable to be met (either in full or in part) by the contractor (or any person providing an indemnity, bond or guarantee) must be met by the "related employer". Any deficits that accrue relating to the period of the contract that is not met by the contractor under the terms proposed would therefore have to be met by the Council and a contribution to the Fund to meet such a deficit would be required.
- 7.27 The actuary has provided a report giving an indication of the level of risk, over the 5 year contract period. This includes the following variables:
- A simple unexpected 5% increase in liabilities (for whatever reason – e.g. changes in demographic assumptions) would equate to shortfall of c£400k.
 - If the net discount were to fall by 0.5%, liabilities would increase by c£800k.
 - A 10% fall in return seeking assets would equate to a shortfall of c£660k.
 - If pay growth is 0.5% higher than the assumed rate, a consequential increase in liabilities may occur of c£150k.
- 7.28 The risks detailed above are neither an exhaustive list, nor are each of them exclusive. The figures represent the build-up of all liabilities not just that post transfer. A broad brush indicator of those in relation to the 5 year contract period (the extent to which the contractor or the Council, should the policy be changed may be required to pay to meet the cost) could be in the region of c£465k. This could be mitigated by setting aside a sum each year from the savings achieved to meet any such payment.
- 7.29 It is therefore proposed that should Members consider that the pensions position be reviewed in this case, a sum of £100k per annum be set aside from the Central Contingency.

7.30 The Council understands that the terms of the Framework agreement are unable to be amended to align with the Council's stated pension's position. However, this would not prevent the contractor participating in a tendering exercise, should the Council wish to market test this service outside of the Framework, although given the number of other local authorities that are using this Framework, the contractor may take a view this would not be worth the time, costs and effort involved.

Savings assumed in the 2016/17 Draft Budget

7.31 A sum of £116k has been included in the 2016/17 Budget relating to facilities management and support. If the Amey proposal is agreed then £40k of this saving will not proceed as it will be delivered within the Amey savings.

Summary

7.32 The issues outlined in the financial section of this report are summarised in the table below:-

	2016/17 Budget £'000	2017/18 Budget £'000	Full Yr. Budget £'000
Amey Proposal			
Contract Savings	-157	-210	-210
Further contract efficiencies	-20	-65	-65
	-177	-275	-275
Mail Delivery - Schools & other sites	-58	-58	-58
Gross Savings	-235	-333	-333
Less new savings assumed in the draft budget	40	40	40
Net Additional Savings	-195	-293	-293
Additional Income Opportunity - Amey	-350	-675	-945
Other costs			
One-off Amey costs	339		
Reimbursement from Amey	-30		
Provision for Pension Risk	100	100	100
Growth Pressures	216	216	216
	625	316	316
Potential Net Savings	80	-652	-922

7.33 The "growth" of £216k p.a. is not linked to the Amey proposal at all and regardless of any decision taken around the future of the TFM services, this money will need to be added into the budget for 2016/17 as a growth bid in order that operational property is able to fulfil core work once schools convert to academies and the Council no longer provides sold services. Amey have made it clear they are not interested in providing any sold services to schools and

therefore the Council will need to give notice now to comply with the conditions within the SLA. This growth pressure will be met from the Central Contingency provision for the loss of income from schools transferring to academies.

- 7.34 Within the Amey bid the one-off costs of £309k net of reimbursement, will be funded from the 2015/16 underspends in the Central Contingency.
- 7.35 The one off work in part relates to condition surveys and updating our asset register which is not as accurate as it could be. Officers consider this to be an important piece of work to help both inform our future asset risks and potential liability which, as an organisation we need to know. This information once produced will also help in discussions around asset disposals and retention.
- 7.36 The provision for the potential pension risk of £100k p.a. may never be required as it will depend on what happens at the end of the contract term and be subject to future actuary valuations. This will be funded from the Central Contingency.
- 7.37 The opportunity that the Amey proposal offers is around future income through better management of our assets (potential additional income of £945k by year 3, and also efficiencies resulting from improved management arrangements. There are also the additional benefits resulting from using Cushman and Wakefield as our preferred consultant on all Projects relating to Strategic Asset Management.
- 7.38 If the Amey proposal is agreed there could be savings arising from the Liberata Contract. Liberata currently process around 14,500 property invoices each year through the Property database Confirm to various organisations, in the future they would only pay one organisation so the volume of invoices will greatly reduce. If Amey does not require all this resource a saving could be realised on the contract of up to £28k p.a. but this will only confirmed following the completion of due diligence. Any saving will be actioned via a Change Control Notice with Liberata during 2016/17.
- 7.39 As part of the contract with Amey, they will be required to commission Building Consultancy Services associated and funded from the Capital Programme.

8. LEGAL IMPLICATIONS

- 8.1 In 2004 the Public Sector Directive introduced, for the first time, clear provisions into European Union public procurement law covering the setting up and running of framework agreements by contracting authorities. These were included in English law through the Public contracts Regulations 2006. The 2006 Regulations under which this Framework was procured have been replaced by the 2015 regulations. However the procurement approach is compliant with both regimes. The Council's interest in the use of the Framework was clearly identified in the advertisement for the framework and If the Council proceeds it will be utilising a properly commissioned Framework Agreement which it is entitled to participate in.

9. PERSONNEL IMPLICATIONS

- 9.1. There has been engagement with staff, trade unions and departmental representatives around market testing of these services since November 2014. This followed the Executive decision on the 15th October 2014 to look at the options for market testing for a bundle of services, which included Strategic Property, Operational Property, Facilities Management, along with Planning and Public Protection. Staff and their representatives have been invited to attend briefing sessions with the key officers. Formal consultation on the proposals outlined in this report commenced on 25 January 2016 and concluded on 24 February 2016. This involved a number of meetings with the affected staff groups and the Trade Unions. The outcome of the

consultation, including key issues and concerns that have been raised by staff, along with the management response is included in Appendix 4.

- 9.2. There are currently 52 permanent staff (42.6 FTEs excluding vacancies) along with an additional 10 casual staff working across the services in scope of these proposals. Any staffing implications arising from any recommendations or any potential award will need to be carefully planned for and managed in accordance with Council policies and procedures and with due regard for the existing framework of employment law. Any further dialogue with Amey and Cushman and Wakefield will consider whether or not the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) as amended (2014) would apply and the consequential legal and financial implications arising from this. If Members agree to enter into a contract with Amey, as a call-off from the Tri-Borough Framework Agreement then some or all of the staff may be subject to TUPE. In this event it is envisaged that the employment of 42 staff would transfer to Amey and that 10 other staff who currently work in Strategic Property would transfer to Cushman and Wakefield.

10. IT IMPLICATIONS

- 10.1 Should the Council award the contract to Amey then officers recommend that we cease all current arrangements for IT and ask the contractor to provide their own IT arrangements.
- 10.2 A workshop will be held to agree the full scope of ICT as required by LBB, the interfaces between different systems and the management information (MI) requirements for the client function.
- 10.3 It is anticipated that the IT mobilisation costs will be a maximum of £150k and these are included within the one-off costs detailed in Section 7 of this report. Around £50k of this is required for licences and hardware and £100k on resources.

11. STAKEHOLDER CONSULTATION

- 11.1 There have been on-going discussions with staff and other affected service users throughout the development of the specification and the dialogue with Amey, with Service Heads contributing to the process. The Trade Unions and Departmental Representatives have also been consulted on progress to date.
- 11.2 Should the Council opt to join the Tri-Borough Framework, Amey will look to include current local suppliers currently providing services in the 3 service areas and consider their inclusion to work with Amey in the future delivery of the service.

12. SUSTAINABILITY/ IMPACT ASSESSMENTS

- 12.1 The decision to join the Amey Tri-Borough Framework is judged to have no or a very small impact on local people and communities beyond those identified elsewhere in the report.
- 12.2 The Framework contract requires Amey to undertake an annual customer satisfaction survey on behalf of the Council which will be utilised to measure the impact of their delivery.

Non-Applicable Sections:	[List non-applicable sections here]
Background Documents: (Access via Contact Officer)	Information held in the Finance and Commissioning Teams, which includes the detailed specifications, form of Tender KPIs etc.