

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet

Date: 09/01/2023

Subject: Procurement Strategy for the Housing Caretaking Service

Report of: Cabinet Member for Housing and Homelessness, Councillor Frances Umeh

Report author: Mark Lowthian Director Housing Transformation

Responsible Director: Jon Pickstone, Strategic Director of Economy Dept

SUMMARY

The Housing Caretaking Service maintains clean, tidy and safe surroundings for residents in council housing stock across the borough through cleaning and inspection regimes to internal communal and shared external residential areas.

The existing service which has been delivered by Pinnacle since June 2013 was initially due to come to an end on 30th June 23. A short-term extension to this contract will be implemented with a revised contract end date of 30th March 24.

This paper sets out the options reviewed for the caretaking service following the ending of the current contract, which included longer-term extension of the current contract, in-housing the service or carrying out a re-procurement exercise.

Cabinet is asked to accept the recommendation that the service is re-procured via a Competitive Procedure with Negotiation, for a period of 5 years with up to 2 years extension, for the reasons outlined in this report.

RECOMMENDATIONS

1. To agree that Appendix 1 is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
2. To approve the reprocurement of the Housing Caretaking service, via a competitive procedure with negotiation, to start on 31st March 2024, for a period of 5 years with the option of up to 2 years extension, for an anticipated cost of up to £32,000,000.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	Social value requirements will be set within the tender ensuring that at minimum social value of 10% of the value of the contract is delivered. Given the high value of the contract this will mean high levels of social value delivery required – this is likely to mean bidders focusing on local recruitment opportunities and spend through local supply chains which support the building of shared prosperity in the borough.
Creating a compassionate council	A high-quality caretaking service ensures that blocks and estates remain clean and tidy and helps to maintain a pleasant surrounding environment for residents. Providing a responsive service which flexibly meets the needs of residents demonstrates a compassionate approach.
Doing things with local residents, not to them	Resident consultation on the caretaking service has been carried out and the feedback received, both from a general consultation process and work with the Repairs and Estates Services Working Group, has shaped the scope and specification for the tender – to ensure that the service delivered is in line with resident expectations.
Being ruthlessly financially efficient	A competitive procurement process with negotiation should drive a strong value for money outcome, with the opportunity for initial bids submitted to be stress tested and negotiated with bidders to either increase offers or identify areas where costs could be decreased. Letting a 5-year contract will encourage competitive costs, due to the stability of a relatively long-term contract. In addition, we will make it clear from the outset that the successful bidder will need to be able to deliver clear and transparent breakdown of costs to enable appropriate service charge setting for residents, enabling the council to appropriately recoup the cost of the service through the caretaking service charge, maintaining cost neutrality of the service.
Taking pride in H&F	Delivering a high-quality caretaking service across housing stock keeps council home communal and shared spaces clean, safe and tidy and demonstrates the pride taken in the surroundings for residents.
Rising to the challenge of the climate and ecological emergency	The specification will outline the requirement for a sustainable and climate friendly service delivery, particularly in terms of chemical usage, and the

	requirement to deliver a green fleet, with bidders expected to outline how they will support the council reaching its target of net zero by 2030.
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Financial Impact

Expected costs

The report seeks an approval for the re-procurement of the Housing Caretaking service via a competitive procedure for a period of 5 years with the option of up to 2 years extension, for an anticipated cost of around £32m (including assumed CPI values), for the whole 7-year period.

This estimated contract value is based on a series of assumptions which include an allowance for inflation.

Budget and Financial Plan

The current year (2022/23) budget for caretaking and cleaning contract is £3.810m. The Housing Revenue Account (HRA) long-term financial plan assumes that the contract is ongoing and that the full cost of the contract including management and overheads will be recouped through service charges. This means the net cost to the HRA should be nil.

The current budget includes an element for variable costs of £0.562m which relates to an enhancement to the cleaning contract agreed during 2017/18 by the Strategic Director of Housing. These costs are variable as they are dependent on the actual cost of labour incurred in delivering the contract.

The estimated contract value of £32m over 7 years includes the additional cleaning charged through the variable element of the current contract.

This report is not intended to approve budgets but is seeking approval of the procurement strategy. A further report will be required to approve the appointment of a contractor and to set out the detailed financial implications. Should current budgets need to be realigned to reflect the outcome of the procurement process, this report will need to be approved by the appropriate decision maker in line with the financial regulations (as service charges will cover the full costs of the procurement, the expectation is that there would be no net impact on HRA budgets).

The short-term extension referred to in this report is expected to be funded from existing budgets.

Value for Money

Finance officers have supported service colleagues in modelling the financial implications of several options for reprocurement and an analysis of this is set out in the body of the report.

The detailed financial analysis completed (set out in Appendix 1) supports the recommendation to explore the reprocurement of the caretaking and cleaning contract.

Tenants and leaseholders will be consulted in the decision to reprocure given they will be required to pay for the service. This will include the potential impact on tenants and leaseholders in terms of increases in service charges.

Finance officers will support Estate Services colleagues in exploring the degree to which there is scope to remove the additional variable costs of the current contract from the expected value of the to be reprocured contract. This would constitute a £4.6m reduction in the current £32m procurement estimate for the contract over 7 years.

Financial risks

The current contract is subject to uplifts in line with CPI. Given the current levels of inflation in the economy and the possibility of this persisting, there is a risk that the costs of any re-procurement will increase significantly. This will result in higher charges to tenants and leaseholders with additional pressures on household budgets and the potential for a deterioration in income collection performance within the HRA.

Caretaking and cleaning expenditure is a recoverable cost through service charges, therefore it is important that annual uplifts of service charges are in line with expenditure uplifts agreed in the contract so that the risk of any shortfall in the HRA is minimised. Additionally, any variation in the level of service or configuration of the service which affects the cost of the contract and / or any variation in the cost of internal overheads and management costs will need to be considered in order to maintain cost neutrality for the HRA.

Completed by: Danny Rochford, Head of Finance, 21 Sep 2022

Verified by Andre Mark, Head of Finance, 21 Sept 2022:

Legal Implications

This report seeks approval for the procurement strategy in respect of a new caretaking services contract. The recommended strategy is for a competitive procedure with negotiation. This procedure fulfils the requirements of the Public Contracts Regulations 2015. It is also compliant with the requirements of the Council's Contract Standing Orders provided the Head of Procurement approves the use of this procedure.

The decision is a Key Decision (see Article 12 of the [Constitution](#)) and the report must be submitted to Committee Services for publication on the Council's website.

The appropriate decision maker is the Cabinet.

Angela Hogan, Chief Solicitor, Contracts and Procurement, 30 August 2022

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

Proposals and Analysis of Options

1. The caretaking service is delivered across the council housing stock in the borough, including low, medium and high-rise blocks, gap sites and sheltered housing as well as some communal grounds e.g. play areas and car parks. It delivers a service to over 250 sites in the borough and around 13,500 properties are in receipt of some form of caretaking service (approximately 72% of properties are tenanted and 28% of properties are leasehold).
2. The fundamental purpose of the service is to maintain clean, tidy, and safe surroundings for residents, both in internal communal, and shared external areas.
3. This includes wide-ranging activities such as regular cleaning of communal areas, litter picking, removal of graffiti, lift safety checks, opening of playgrounds and in more recent years supporting fire safety initiatives such as removal of items from communal areas.
4. Pinnacle's contract commenced on 30th June 2013 for an initial contract period of ten years, with an option to extend for up to another five years. The contract will be extended until 30th March 2024, (this extension is covered in a separate report) to enable time for a comprehensive re-procurement and mobilisation period. The reasoning behind not extending the existing contract for the full 5 years is outlined further below.
5. As part of the exploration of the best option for the ongoing delivery of the housing caretaking service from 2023 onwards the following three options were analysed, all of which are covered in more detail in the attached Appendix 1:
 - Long-term contract extension (five years).
 - Insourcing the service to deliver direct.
 - Reprocurement of the service.
6. These options were considered in the context of:
 - The need for an updated scope and specification for the service – given that the existing service started 10 years ago, there have been a number of changes in the wider landscape which mean the current specification is not wholly fit for purpose, for example:
 - i. Service gaps, including cleans of concierge offices, enhanced cleaning in sheltered housing and covid cleans (which are currently negotiated and paid for out of scope)
 - ii. Increased focus on fire safety initiatives in recent years which the service supports
 - iii. A greater requirement for regular preventative and specialist cleaning works.
 - The introduction of new council strategies, in particular the Social Value strategy (as the current contract pre-dates this strategy there are no social value obligations).

- The results from the resident consultation carried out in June/July 2022
- Cost and service charge considerations, given that the service will need to be fully funded through the residents' caretaking service charge.

Resident Consultation

7. An online and postal Housing Caretaking Consultation Survey has been conducted – with mailouts to all tenants and leaseholders in receipt of the caretaking service. The consultation sought resident views on the current outsourced service, the future specification for the service and the future delivery model.
8. The consultation was designed in collaboration with the resident Repairs and Estates Services Working Group
9. The consultation was sent to residents on 1st July 2022 and remained open for feedback until 22nd July 2022.
10. In addition, consultation was held with both the Repairs and Estates Services Working Group and the Housing Reps Forum
11. 1030 individual responses were received. 524 (51%) were received by online return and 506 (49%) were received by postal return.
12. This represents an 8% response rate. The feedback analysis report regards this response rate as typical for consultations.
13. Highlight results were as follows:
 - 52% of residents expressed a preference for the council to directly deliver the service
 - 12% of residents expressed a preference for a contractor to deliver the service
 - 36% of residents expressed no preference for who delivers the service

Although there was a small preference for direct delivery, for the reasons set out in this report the recommendation is to pursue a competitive tendering exercise for service provider delivery.
14. In addition, residents highlighted local employment and apprenticeship opportunities, supporting community groups through volunteering and extra support for sheltered housing residents as particular areas of social value they would like to see delivered in a future service.
15. In terms of resident representation, we have a resident-led Estate Services Working Group (ESWG) who co-produce improvements and enhancements on estates and monitor all estate service provision. The ESWG reports to the Housing Representatives Forum which is the central body for all TRAs to meet and work with each other and officers and therefore representation is multi-layered and far-reaching.

16. To support co-production, the Disabled Residents Housing Strategy Implementation Group (DRHSIG) will be encouraged to participate in future discussions. The DRHSIG strategy lists an objective to increase “disabled residents’ participation through our resident involvement work to shape and influence housing service.
17. As well the direct involvement of DRHSIG members, this group strengthens and widens co-production further as the DRHSIG actively encourage other disabled residents to take part too.

Service Charges

1. Tenants and leaseholders who receive a caretaking service pay for this through a specific caretaking service charge. Historically the cost recouped from residents has not fully covered the cost of delivering the service but throughout Summer-Autumn 2022 a ‘service charge normalisation’ exercise was carried out to explore bringing service charges, including the caretaking charge, in line with the cost of delivery of the service.
2. This exercise has brought forward proposed changes to existing service charges which are the subject of a separate Cabinet paper.
3. The principle moving forward following this exercise would be that the caretaking service charge for residents accurately reflects and covers the cost of delivery of the service, as this is the only cost sustainable way to maintain the service.
4. As such all of the options outlined for the ongoing delivery of this service were assessed on their likely cost and potential impact this would have on residents’ individual service charge costs. Details on the potential cost impact on average service charges is outlined in Appendix 1.
5. It is worth noting that these considerations are taking place at a time when high inflation, and ongoing energy price rises are placing pressures on the day-to-day cost of living for many people.

Option 1: Long-term contract extension

6. The current Pinnacle PSG contract has the option of an extension of up to 5 years taking it through to June 2028.
7. A comprehensive set of benefits and risks of this (and all) option(s) are outlined in the attached Appendix 1 Business Case, but a summary of the most relevant points are described below.
8. Key Benefits:
 - Extending the contract would be the least labour-intensive option, with no procurement or (de)mobilisation period required – the latter of which can be times of lower performance levels.

- The provider has a strong understanding of the council, stock and service and is generally performing to acceptable levels.
- Contract costs are known – although they would continue to rise in line with CPI annually.

9. Key Risks:

- The service is 10 years old and there are gaps in the current scope and specification. Additional scopes of work would need to be varied into the contract, through negotiation with the existing provider, likely at additional cost. There will not be the incentive to offer best prices or value for this given the lack of a competitive exercise.
- The service has no contractual social value commitments associated with it and following Legal advice we would not be able to vary these in at this point. Given the high value of the contract this could lead to the loss of £2million + of social value delivery across the next 5 years.
- The current contract pre-dates the London Living Wage Accreditation of Hammersmith & Fulham and a number of employees do not receive the LLW. Requiring an uprate to LLW as part of a long-term extension without the incentive to deliver value through a competitive exercise could lead to unnecessarily increased cost.

Option 2: In-housing the service

10. Prior to the caretaking service being outsourced in June 2013 it was directly delivered by LBHF employees, and there is the option to bring this service back in-house and once again directly deliver it for residents.

11. Key Benefits: There are numerous benefits to delivering an in-house caretaking service, particularly around service quality and performance.

- Ability to be flexible in response to the needs and preferences of residents and the borough, redeploying resources and refocusing effort without the constraints of contractual terms and conditions.
- Ability to directly control performance and make changes quickly to address any areas of under-performance, or indeed build on areas of positive performance.
- Ability to deliver efficiencies and synergies with other in-house estate-based services, including the repairs DLO and Housing Management team (which include estate compliance roles) to reduce fragmentation, improve joined-up working and increasingly direct deliver estate-based services.

12. Key Risks:

- Cost: The modelled cost of delivering an in-house caretaking service is significantly more expensive than modelled outsourcing costs due to increased base staffing costs and the HRA recharge overheads. This option is more expensive in total to deliver and would have a disproportionate impact on resident's service charges.

- The council has not directly delivered a caretaking service on housing estates for 10 years, and whilst there is a strong client management team in place with a good understanding of the service, there would be the need to develop operational delivery expertise and establish new supply chains.
- This would require a large-scale TUPE exercise of over 100 employees.
- Direct exposure to the risks of the market including cost and wage inflation.

Option 3: Re-procuring the contract (recommended option)

13. Key Benefits:

- Opportunity to update the service scope and specification to align with current service requirements and resident preferences. The resident consultation carried out will inform the scope and specification.
- An invite to the wider market to bid should increase the likelihood of competitive costings and innovative solutions being proposed to produce a high quality but competitively costed service.
- Opportunity to introduce social value commitments in line with the council's Social Value strategy which could see up to £2million social value delivered across a 5-year period.

14. Key Risks:

- There is no guarantee of savings or cost parity being delivered by a procurement exercise, and so costs are predicted rather than known at this point. Bidders are likely to be bidding during a climate of high inflation and long-term economic uncertainty which may lead them to price in higher levels of risk into their bids.
- Should a new provider be appointed to deliver the service this will result in the need to (de)mobilise the service and these can typically be times of lower performance.
- The service will continue to be constrained by the contractual terms and conditions set, which will impact its ability to flex to changes in the council landscape in the longer-term.

15. Following the review of the above options (which are more extensively outlined in the Appendix 1 Business Case), it is recommended that Option 3: Re-procuring the contract is taken forward and implemented as it is deemed to be most likely to be cost-effective whilst delivering the outcomes required.

Procurement Options

16. There are a number of options as to how the procurement exercise for this service could be conducted. As the value of the service is above threshold it will need to be carried out in line with the procurement regulations. The options considered are:

Option 1: Open tender

17. An open tender would enable a wide range of bidders to submit a full tender.

18. However, given the size of the contract, this is likely to be a substantial tender with large amounts of information and method statements required. An open tender may deliver too many bids without a rigorous initial quality screening and does not provide any opportunity to negotiate on the bids to produce innovative solutions to ensure best value and make sure the service offer best reflects the requirements.

Option 2: Restricted tender

19. A restricted tender would enable an initial quality screening through a selection questionnaire and then a set number of tenders invited from the highest performing bidders.

20. This would ensure effort is focused on the highest performing bidders and enable a thorough full tender exercise. However, as above there would be no opportunity to scrutinise the tenders with the ability to negotiate on certain points to foster innovative solutions to ensure best value.

Option 3: Competitive tender with negotiation (recommended)

21. This is an extended version of the restricted procedure outlined above with the additional benefit of a negotiation stage. This means the council will be able to scrutinise the initial tenders submitted and hold negotiation sessions with the bidders prior to the submission of final tenders.

22. This is the recommended option to ensure that the final bids submitted best reflect the requirements of the service and deliver innovative solutions to ensure best value, given the fact this is a large, high value and strategically important contract.

23. The negotiation process will enable exploration of more innovative operational delivery models and material and equipment solutions to deliver best and added value and ensure sustainability of service.

Procurement Approach and Selection Criteria

24. The intention is to deliver a competitive procedure with negotiation which will incorporate the following stages:

- Selection Questionnaire to test minimum standards of bidders.
- Invitation to Submit Initial Tender – to assess bidders cost and quality.
- Negotiation stage – to focus on specific areas of bids and work with bidders to improve offers and identify areas to innovate in terms of service delivery.
- Invitation to Submit Final Tender – final assessment of cost and quality offering.

25. At each stage there will be limits to the number of bids invited through to the next stage as outlined below:

Selection Questionnaire	Unlimited
Invitation to Submit Initial Tender	Up to 5 bidders invited to this stage
Negotiation Stage	Up to 3 bidders invited to this stage
Invitation to Submit Final Tender	Up to 3 bidders invited to this stage

26. The Selection Questionnaire will predominantly be pass/fail with some additional technical ability questions which will be scored. Bidders will be ranked and up to 5 bidders (dependent on numbers of bids submitted) will be invited to submit an Initial Tender.
27. The initial tender exercise will be evaluated on a 60% quality, 40% price basis. Bidders will be ranked and up to 3 bidders will be invited to the negotiation and final tender stage.
28. Social value will be evaluated at 10% of the overall bid as per the council strategy (and therefore at this stage will have a 16.7% quality weighting).
29. The Final tender stage will be evaluated at 50% quality, 50% price to ensure best value and further incentivise competitive costing at this stage. Social value will continue to be evaluated at 10% of the overall bid (and therefore at this stage will have a 20% quality weighting).
30. Working the quality: price ratio in this way should ensure that the high-quality bids are prioritised for progression to the latter stages of the tendering process, at which point bidders will be additionally incentivised to deliver competitive pricing.

Contract Monitoring and Management

31. Once the contract has been awarded, a range of measures will be taken to ensure quality is monitored (via quality assurance) and managed (via quality control).
32. In relation to quality assurance, the contract will be monitored and managed by the Housing Estates Team via the processes set out in the contract terms and conditions and the contract KPI schedule. In relation to the process, the KPI schedule currently consists of eight 'SMART' KPI's which assess contractor performance in the following areas: health and safety, quality, customer satisfaction, complaints, time to respond, resource management. On a monthly basis, the housing estates team will use desktop and site monitoring to monitor performance. Findings and issues will then be discussed/resolved through working with the supplier at monthly contract management meetings. The only exception to this process is the KPI for customer satisfaction. This KPI will be monitored annually via the customer satisfaction survey.
33. Regarding quality control processes, underperformance against KPI targets will attract performance failure points. From year two onwards, the total of these points may result in a financial penalty being applied to the contract (up to 2% of the annual contract fee per KPI not met). Alongside this, KPI failure

and performance improvement will also be managed via contract default notices and supplier improvement plans.

34. It is important to note that this schedule is currently in draft stage and the final version is subject to review by the resident led Estate Services Working Group who have inputted and co-produced with officers.

Social Value

35. Social value will be a requirement of the tender with bidders expected to commit a minimum of 10% social value delivery against their submitted overall contract value.

36. At this point the council has not prescribed what social value outcomes should be and it will be at the bidders' discretion to outline what they are able to deliver.

37. However, the negotiation stage will provide an opportunity to scrutinise social value offers in detail with bidders and develop these to provide best outcomes for the council.

38. As outlined above social value will be evaluated at 10% of the overall evaluation score at both stages.

39. The successful bidder will be expected to register with the Social Value Portal for monitoring of social value delivery.

Reasons for Decision

- A solution for the caretaking service needs to be put in place following the ending of the extended contract in March 2024.
- A procurement via a competitive tender with negotiation is deemed to enable the best value and delivery model to successfully deliver the service in the medium term.

Equality Implications

- There are no negative equality implications noted from completing the impact assessment. Having an effective caretaking/cleaning service should ensure that communal areas remain clean, safe, and free from potential hazards, which could disproportionately affect residents who have reduced mobility/stability and are at a greater risk from falls.

Risk Management Implications

40. The report recommends undertaking a competitive procedure with negotiation to lead to the award of a new long-term contract for this service. This is in line with the Council objective of being ruthlessly financially efficient and will also

enable the service specification to be brought up to date to meet the needs of residents and to deliver social value benefits through a new contract.

41. A detailed assessment of the risks and proposed mitigations relating to each of the three service delivery options set out in this report is included in the detailed business case which is set out in Appendix 1.

David Hughes, Director of Audit, Fraud, Risk and Insurance, 1 September 2022

Climate and Ecological Emergency Implications

- An updated service specification for this contract will have an increased focus on sustainability. This will include a requirement to have a green fleet in place of petrol/diesel vehicles and to reduce vehicle usage where possible (e.g. through geographic patches, greater sharing of vehicles etc), and electric/battery powered equipment where applicable.
- Bidders will also be assessed on their general approach to sustainability, in terms of sourcing materials and equipment and how the lifespan of these are maximised through regular care and maintenance to ensure minimal replacement.
- Use of cleaning products/chemicals will be required to be as environmentally friendly as possible whilst still being appropriate for the services required.
- Whilst social value commitments will not be prescribed within the tender it is likely that some commitments will relate to supporting climate friendly initiatives and projects across estates.

Verified by: Hinesh Mehta, Head of Climate Change, hinesh.mehta@lbhf.gov.uk, 31st August 2022

Information Management

- No IT implications are considered to arise from this report. If during procurement the use of IT or other technologies are proposed, Digital Services should be consulted.
- IM Implications: A Data Privacy Impact Assessment (DPIA) will need to be completed to ensure that all the potential data protection risks around any new contract are properly assessed with mitigating actions agreed and implemented.

Implications completed by: Cinar Altun, Strategic Relationship Manager, Digital Services

Local Economy and Social Value Implications

- Paragraph 42 in this strategy commits the procurement will adhere to the Social Value Policy approved by Cabinet on 11th May 2020 and effective from 15th May 2020. Social Value should be a part of the award criteria and will make up a minimum of 10% of the overall assessment as noted in paragraph 45. Social value key performance indicators (KPIs) should be part of the contract terms. To be considered, bids will include a proxy social value amount that is a minimum of 10% of the price quoted in the bid as noted in paragraph 42.
- Paragraph 12 outlines the preferred social value contributions in the resident consultation. Residents highlighted local employment and apprenticeship opportunities as desired. These contributions should not add to the cost of the contract. In addition, it is noted that supporting community groups through volunteering and extra support for sheltered housing residents as particular areas of social value they would like to see delivered in a future service. The menu of social value measures (“TOMs”) may be tailored to steer bidders to measures desired. However, paragraph 43 notes that this strategy will not prescribe social value outcomes.
- Bidders will be required to register on Social Value Portal to enter social value quantitative responses. The successful bidder for each contract is responsible for paying the Social Value Portal management fee for the term of the contract as noted in paragraph 46.
- It is advised that the commissioner works closely with Legal Services to ensure appropriate social value clauses are included in the contract, so that the council can enforce its right to compensation if social value commitments are not delivered.

Comments added by Paul Clarke, Economic Development Officer, 30, August 2022

Consultation

- Comprehensive resident consultation has taken place as part of the approach to inform the ongoing delivery approach of this service as part of our commitment to ‘doing things with not to residents’. Headline figures have been included in the body of the report.

LIST OF APPENDICES

Appendix 1: Caretaking Service Business Case EXEMPT