

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Cabinet Member

Date: 02/2/2023

Subject: Procurement Strategy for Property and FM Hard Service to Procure a Mechanical Maintenance Contract for its Corporate Estate

Report of: Cabinet Member for the Economy - Councillor Andrew Jones

Report author: Sebastian Mazurczak, Property and FM Compliance & Risk Management; Safety and Energy Management

Responsible Director: Jon Pickstone – Strategic Director for Economy

SUMMARY

To remain ruthlessly financially efficient and to obtain best value out of its supply chain, Property and FM require now to go out to market again to renew its mechanical maintenance contract required to maintain the corporate's estate mechanical assets and meet its statutory obligations. Property and FM are looking to procure a new 5 (3+2) year contract with a specialist supplier to maintain its heating, cooling and other mechanical systems as its current contracts have now come to an end.

RECOMMENDATIONS

1. To procure a mechanical maintenance specialist contractor for Hard FM via Capital E Source, on an open market tender. Contract would be a 5-year (3+2) contract with a break clause in year 3 in case of poor performance and delivery. Contract is valued at £180k per annum totally £900k for the potential 5-year duration of the contract.
 2. To note that the contract would be a fully-inclusive (consumables included) covering statutory planned maintenance and remedials as well as breakdown repair for disciplines covering Heating (boiler, heat source pumps, pressure vessels and heat distribution system); Cooling (HVAC, AC units and refrigeration); Hot water systems as well as BMS (Building Management Systems) Controls.
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Wards Affected: "All"

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	Well maintained buildings will produce massive savings not only in during normal day to day usage but as well staff can be proud to work from and ones

	that are operational with minimal to no disruption.
Creating a compassionate council	Maintaining our council's buildings to suit and meet all person's requirements and needs.
Doing things with local residents, not to them	Safe and compliant buildings members of public can use.
Being ruthlessly financially efficient	A multi-skilled mechanical contract in place that not only maintains our buildings at competitive market prices but one that identifies and pays back to us in savings of well-maintained assets.
Taking pride in H&F	Well maintained building that perform and can be used as flagships of the Council's assets.
Rising to the challenge of the climate and ecological emergency	Buildings maintained to standards that meet our climate and ecological responsibility.

Financial Impact

Total cost of contract is to be £900,000 over a 5-year period (180k per annum). A break clause is to be built into contract. So, after 3 years LBHF can exit the contract without financial penalty, based on performance management of the contract.

Current expenditure is with a range of contractors has been met within the Hard Services revenue budget. This would continue to be the funding source on award of the contract. Linking the contract to CPI (Consumer Prices Index) for an inflationary per year induces a level of cost risk to LBHF budgets as the contract progresses.

Expenditure on mechanical maintenance maintains the fabric of LBHF buildings and should therefore reduce the requirement for future major capital repairs/works and guard against the associate capital financing burden.

Will Stevens, Finance Manager, The Economy, 31/10/22

Danny Rochford, Head of Finance, HRA and The Economy, 21/12/22

Verified by Sukvinder Kalsi, Director of Finance, 04/01/23

Legal Implications

The Council has the power to procure these services as they are required to support a range of its functions.

The value of the contract means that it is above the threshold for the Public Contracts Regulations 2015 (PCR) to apply. The advertising and competition requirements in those regulations therefore need to be complied with. The report recommends the use of an open procurement procedure which will take place in accordance with the procedures set out in the PCR.

This is a high value contract for the purposes of the Council's Contract Standing Orders. The use of an open competition is compliant method of procuring a contract of this value in accordance with CSO (Council s Standing Order) 18.

The value of the contract means that its award will be a Key Decision under the Council's Constitution and will need to be included on the Council's Key Decision list.

John Sharland, Senior solicitor (Contracts and procurement)
17 October 2022

DETAILED ANALYSIS

Background

1. In 2019 H&F Corporate Property and FM pulled out of a 10-year Total FM Facilities Contract with Amey CL. and decided to bring all its professional contracted management services in-house to manage as part of it FM model.
2. At the time, many short term (1-2 year) contracts were setup with various M&E and consultancy disciplines to assist with handover and to help Property and FM embed itself, in its in-house model.
3. All of Property and FMs short term contracts have now coming to their end and Property and FM from start of 2022, has been diligently procuring full term maintenance contracts to replace its temporary ones.
4. The Mechanical discipline has many small contracts covering various aspects from hot water supply, pressure vessels, heating and cooling, so was found to be both administrative and resource intensive as well as cumbersome to manage and financially inefficient.
5. This procurement strategy recommends grouping all of the mechanical disciplines under one umbrella and secure a large contract to manage all the mechanical aspects of hard services and keep the FM team lean. Also moving to new carbon efficient technologies like heat source pumps, a competent one-stop-shop mechanical specialist would be ideal to help Property and FM not only to maintain its current aging asset but as well help move forward with planning retrofitting new technologies when current building assets come to the end of their usable life.

Reasons for Decision

6. All of Property and FM's Hard Services mechanical contracts have come to their end in various mechanical disciplines and Hard services require a new mechanical contractor to service and maintain the Corporate Estates Assets.
7. Property and FM Hard Services require a mechanical contractor specialist as its both a business and an operational critical function to maintain our corporate buildings in state of good repair to be used by our staff which provide critical services out of them but as

well to maintain the corporate landlord's statutory obligations for buildings to meet all legislative requirements.

8. Moving all mechanical requirements covering hot water and supply, heating, cooling and other auxiliary equipment under one contract would be easier to manage as well as would be more attractive to potential tenders which in turn would be more favourable for FM to obtain a one-stop-shop mechanical specialist.
9. Our carbon footprint would also be reduced by downsizing to a single larger contractor that is established, as likely has sustainable carbon reduction practises embedded within its practice already and increase in flexibility with multiskilled labours attending callouts, meaning less vehicles instead of having many smaller contractors that cannot meet moving into a carbon zero supply chain.
10. With H&F move towards carbon zero, new technologies like heat pumps, BMS optimization and solar thermal with full integration of solar panels are only really known to by mechanical specialist of multi-disciplinary companies with little competency at present available amongst smaller firms.
11. Procuring a longer 5 (3+2) year contract would also bring in more promising financial benefits that can be fixed for the next 5 years with agreed price increases (set to inflation) set over the term which would also aid with budgets and forecasting.

Contract Specifications Summary

12. The full scope of works for this contract consists of carrying out planned preventative maintenance of all installed mechanical assets within the H&F corporate estate containing (and not limited to) air-conditioning; ventilation; boilers and heating; pressure vessels; hot and cold-water systems for both domestic and commercial assets, and building management systems and controls, that the contractor is required to be adequately qualified and accredited to.
13. The contract would be a 5 year with a review end of year 3 with regards to performance, delivery, and quality. If Contractor meets all their KPIs (Key Performance Indicators), then the contract will run for a further 2 years, otherwise the break clause would be instigated.

Procurement Route Analysis of Options

14. The option of not procuring any contract is not a consideration as that would bring H&F into a host of jeopardy. Firstly, leaving all the corporate estate buildings at risk with of operational failure once the aging assets start failing and business critical services would not be able to function out of them. It would also bring H&F in jeopardy of breaching legislative requirements for failure of maintaining its assets. Finally on safety grounds, unmaintained mechanical equipment is dangerous and could cause serious harm. This can be mitigated by having a full in-house engineering team but would H&F at a disadvantage as:

- Setup and running costs outweigh volume of work and greater savings achieved by outsourcing as well as all risk is retained by the council which would require to hold adequate liability cover.
 - Currently there is a severe shortage of adequately skilled staff and would also limit amount of skill set that would be brought in-house unlike a specialist who has a team of skilled tradesman in various disciplines.
 - Does not encourage innovation and limits the council to access to resources available in the market.
15. Property and FM could continue to utilise the same current contractors however each are out of contract which puts H&F into liability, with no control and at a financial disadvantage. Signing contracts with them all on repeat direct awards, would also breach procurement regulations and the council's standing orders. So, this option is not being considered either, especially where the council is to be ruthlessly financially efficient. Other disadvantages:
- Continued use of same contractor limit incentivisation to deliver and contractor start to drop in performance.
 - Pricing start to increase and job creep becomes more evident hence more resources are required to monitor contractor.
 - Does not give other local SMEs repeat opportunity
 - Restricted to goods and services of that contractor which limits innovation.
16. Going through a framework was considered and various suitable frameworks were reviewed, like the LHC and Fusion 21, however many of the disciplines are split between Lots hence more than one procurement would need to be run. This would not guarantee one winning tenderer and tenders that were under one lot, if not signed to others, would potentially miss out on the opportunity. Having to many contractors carrying out similar roles, increasing time and increase resource required to manage as well as not financially economical. Also, many of the contractors listed within the suitable lots were also generic FM providers with a supply chain that they subcontract the work out to various contractors. On these grounds this route would not be pursued. Other disadvantages:
- Must go by the Terms and conditions set by the Framework
 - Does not encourage use of local suppliers (e.g. SMEs) and would miss the opportunity.
17. Final option, is to proceed with an open tender. For this procurement exercise, it is seen as the most favourable solution as it opens doors to various skill sets available out in the market and can specify exactly what is required by Property and FM. These skills set needed can then be packaged as one contract. It opens avenues up of collaborative working, innovative and improved services which builds savings. These are also short term (with a break clause in year 3) which gives the ability to change and adapt requirements as per need of the council and keeps suppliers on their toes.

Market Analysis, Local Economy, and Social Value

18. The mechanical sector is a mature, well-developed and competitive market with many local tradesmen plumbers, heating and controls and air conditioning specials available within this borough or even neighbouring boroughs however would be available to

greater London businesses and SME. Many of these are multiskilled and expanding their services to beat their local competition. An open tender via our tendering portal capitalEsourcing would potentially yield a large amount of interest to which Hard FM would need to set specific criteria at first stage of tendering that each would need to meet to reduce the group pool specific to the region and expertise sought by Property and FM.

19. This would give large opportunity to the local community as generally companies would need to recruit within or close to the borough to meet the demands of the contract as well as through Social Value could offer various incentives from apprenticeships, local school summer job experience and working with local trusts and charities. Being local and multiskilled, there would be less demand on travel to sites mean less impact on the environment as well.

Risk Assessment and Proposed Mitigations

20. Please summarise the key risks for the procurement and proposed mitigations.

<i>Risk</i>	<i>Comments and mitigation</i>
Lack of tenders entering bids or lack of tenders meeting required standards	The procurement exercise could yield no viable tenders. In that case, frameworks will be considered as a secondary fall-back option, split between most suitable lots to encompass as much of disciplines and that they are evenly split.
Prospect tenders submitted do not cover all discipline required.	Any discipline shortfall will be reviewed in form of need & volume of work required, and if it poses a risk and level of risk. If urgently required, then a second separate mini tender will be published on invite only post further market research of local tradesmen. If work is minimal then discussions will be held to subcontract work under main contract. e.g. BMS controls
Tenderers did not meet Social Value requirements.	Tenders would fail the process if they have not submitted sufficient social value. If no submissions with adequate social value, then a general message would be sent to all parties within, giving advice on requirements of social value and let the tender re-opened for another short period to give <u>ALL</u> parties the opportunity to better their social value submissions.
Tenderers which are high risk.	As of part of 1 st round evaluations, any tenderers not having adequate proof of competency/accreditation; inadequate insurance levels; prior HSE (Health and Safety Executive) convictions, too low turn-over; low credit rating or 80% of work done by their in-house engineers will automatically fail to move to next stage.

Price submission higher than envisaged.	Pricing of materials and parts are currently very volatile in the markets with sharp increases seen monthly. Generous consideration has been submitted and should not surpass Cabinet Member sign off. Pricing schedule is also set out for prospect tenders to lock in pricing for next 3 years and gives opportunity for inflation as well as helps with future budgetary forecasts.
Finding of a quality contractor with right expertise at the right price.	The weighting of the procurement has been set almost equally against price to quality with a marginal shift towards price. Its set at 55%/45% respectively. Cost of maintenance has risen significantly and recently been a major bullish indicator on economy however the level of expertise required needs to be above standard.

Timetable

21. Please include an estimated timetable of the competition process through to contact commencing.

Key Decision Entry (Strategy)	14/12/2022
Contracts Assurance Board (Strategy)	4/1/2023
SLT/Cabinet Member/Cabinet Sign off (Strategy)	10/1/2023
Find a Tender Service Notice	10/1/2023
Closing date for clarifications	07/02/2023
Closing date for submissions	20/2/2023
Evaluation of Tenders	21/2/2023
Key Decision Entry (Award)	27/2/2023
CAB (Contracts Assurance Board) (Award)	8/3/2023
SLT/Cabinet Member (Award)	10/3/2023
Find a Tender Service Contract Award Notice	13/3/2023
Contract engrossment	17/3/2023
Contract mobilisation and implementation	20/3/2023
Contract Commencement date	3/4/2023

Selection and Award Criteria

22. The headline Quality/Price ratio being recommended, its set at 45%/55% respectively. Initially it was decided that they are equally important however cost of maintenance has

risen significantly with price of materials and parts as well as availability being a major bullish factor on economy however the level of expertise required to move forward is an inherent risk, hence the application of new technology and maintaining aging assets till they can be upgraded needs to be above standard.

23. The quality questionnaire is weighted at 45% of the contract and based round the core values of the council. Below are the 5 key quality questions that will target this and how they weighted.
- **Staff competency and company accreditations – Weighted at 33%** - Part of Health and Safety, as well as legislative obligations and best practise, competent tradesman must be used for all these works and companies require specific accreditation to be approved for disciplines. FM are asking for their job experience, accreditations that they hold to undertake these works, and proof that their staff are competent to meet criteria.
 - **Work Methods and Assessment of Risk – Weighted at 25%** - Property and FM require to see their generic method statements specific for these types of works, demonstrating how their organisation would deliver its services and working protocols safely, on a daily basis, within the Borough. Additionally, ONLY ask for 5 key risks, to what they would consider are the highest priority to their staff in undertaking their works and how they would mitigate their risk. This forces them to evaluate the works then rather just provide a plagiarised generic risk assessment.
 - **Emergency Response Capability – Weighted at 20%** - Business continuity is a critical business concern and of operational importance for the Council. Prospect Tenderers nee to demonstrate how they would assign their manpower and maintain staff levels (sickness cover, annual leave, etc) to meet this contract requirements, as well as provide for 24/7, seven days a week cover in case of emergency breakdowns to be in attendance within 2-3 hours from initial call.
 - **Social Value – Weighted at 22%** - This is potentially a large contract and one that has the capability to generate significant social value to the council. Split evenly 50/50 between the questionnaire that they need to fill in and their method statement, Tenderers need to demonstrate how they would benefit the council if they won this contract. The council is also committed towards zero carbon by 2030 which means it will require same movement and support from its supply chain. Tenderers need to demonstrate how your organisation will work the council meet their target and assist the council with meetings ours. Tenderers who do not commit to working with the Council to meet this target will fail this question and be awarded a score of 0.

Contract Management

24. This contract will be daily run by the FM helpdesk and the Contractor's dedicated team and contract manager. Due to the size, various mechanical disciplines and the workload of the contract, the contract management team will meet on a weekly basis (via Teams), which are required to run such a contract as it can quickly escalate out of control with regards to keeping track of weekly reactive works coming in and out, monthly PPMs to complete, remedials being planned in for breakdowns and project work. During the

weekly meet, KPIs (Key Performance Indicators) are set within the agenda and contractor will be assess by:

- Number of outstanding jobs which are overdue.
- Dependant of severity, each work is graded between a P1 which is critical, and attendance needed with 2-4 hours and a P4 which gives 1 month for completion. Contractor is assessed in meeting those targets.
- Jobs delivered within agreed timescale post initial call out and within budget.
- Receipt of paperwork from site (copy of job sheets), within agreed timescales (timescales agreed for each discipline at pre-start contract meeting). Jobsheets also to be clear and signed and off as true reflection of events/activities on site.
- Invoicing received in appropriate manner post receipt of Job sheets
- Quotations in line with agreed contract standard prices.

25. A Senior Property and FM Manager will either attend these weekly contract meetings during implementation, resolve any issues or if problems arise else will receive weekly minutes that are reviewed when contract is running smoothly. The Senior Manager will then decide to withhold funds if works not completed to satisfactory standard and the organisation must rectify its fault before payment is released or if withheld if no job sheets or lack of information on invoices come in.
26. The contractor will submit to the in-house senior contract's manager (Senior Property and FM Manager) details of what contributions were made over the course of the contract and what set financial social value KPI measures were achieved. Contractor would also declare the number of local employments offers made or apprenticeship schemes as well as school holiday job experience or charity work for the community. This too will be monitored by the social value team within the council.

Equality Implications

27. There are no equality implications or risks relevant for this contract as procurement is with regards to asset maintenance.

Sebastian Mazurczak, Corporate Property Compliance, Risk and Energy Management,
21/11/2022

Risk Management Implications

28. Given the nature of the plant being worked upon and the numerous statutory Health and Safety duties arising, Officers provide assurance that the Quality questionnaire is 45% and confirmation of the breakdown of areas of detailed consideration within. Officers should retain evidence of both submission and evaluation against these important criteria and ensure submission is clear and understood.
29. Officers will need to ensure when new contract is commenced that procedures and processes to dovetail with any issues arising from the external statutory inspections arranged via the insurance service remain effective

Ray Chitty, Head of Insurance, 19th December 2022

Climate and Ecological Emergency Implications

30. The Climate and Ecological implications are positively associated with the procurement of a skilled mechanical contract and its delivery of all Property and FM legacy maintenance issues of the existing services to managed not only on the risk management issues of working plant within the corporate states but to tackle climate carbon in plant inefficiencies.
31. This means that the service will be able to identify any principal risks in carbon management to the achieve it objectives by recording them and undertake that they are allocated, measured, reviewed, and mitigated. The programme contributes positively to the management of property, environmental risk and maintaining our statutory environmental compliance.
32. Performance management of this contract shall remain the responsibility of Property and FM Department. For example, the gas boiler replacement program. Carbon savings from the new strategy would contribute further to carbon savings through smarter procurement thus this is contributing positively to the management of carbon management and environmental compliance.

Climate and Ecological Emergency implications completed by Corporate Property Compliance, Risk and Energy Management, 27/11/2022 in consultation with Hinesh Mehta, Head of Climate Change, 27/11/2022

Local Economy and Social Value Implications

33. It is a requirement that all contracts let by the council with a value above £100,000 provide social value commitments that are additional to the core services required under the contract. These commitments must amount to at least 10% in value of the price of the contract proposed.
34. The procurement meets the requirement will need to be registered when the procurement will be carried out for contractor submissions.

Local Economy and Social Value Implications completed by Paul Clarke, Social Value Officer, 16/11/ 2022.

LIST OF APPENDICES

Appendix 1: Mechanical Tender Pricing Schedule

Appendix 2: Climate Implication Toolkit