

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Jon Pickstone, Strategic Director of the Economy Dept in consultation with the Cabinet Member for Housing and Homelessness

Date: 11/03/2024

Subject: Extension of Pinnacle Caretaking Contract

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SUMMARY

This paper requests authorisation to apply an extension of approximately 14 months to the existing Pinnacle Caretaking contract, from 31st March 2024 to the 11th May 2025 at an anticipated value of £5,321,019.

The extension is provided for within the current contract, which gives the option of extending the original contract term for up to five years.

This extension will enable sufficient time to deliver an effective procurement exercise for the longer-term delivery of the service, with an updated service specification to reflect resident and officer expectations of the service and new requirements of the Social Housing (Regulation) Act.

Given the large size and value of the service, it is deemed prudent to award this extension to ensure there is sufficient time to procure, implement and mobilise the long-term solution.

RECOMMENDATIONS

1. That a contract extension be granted to Pinnacle Ltd in respect of the Housing Caretaking service, extending the service from 31 March 2024 to 11th May 2025, at an anticipated cost of £5,321,019.

Wards Affected: All

Our Values	Summary of how this report aligns to the H&F Values
Building shared prosperity	As part of the existing contract the provider contributes to a 'Community Fund Pot' which is used to support local community initiatives. As part of this extension Pinnacle will be required to ensure all employees working on the contract are paid London Living Wage.
Creating a compassionate council	Delivering a quality cleaning service ensures that residents live in clean and tidy blocks and

	that a pleasant environment is maintained in their surrounding area. The existing service is subject to quality inspections and regular performance reviews.
Doing things with local residents, not to them	A comprehensive resident consultation is being held on the longer-term delivery model of the housing caretaking service which will inform the scope, specification, and delivery approach of the service. Delivering this extension will mean the council has sufficient time to build in resident feedback and priorities to the ongoing service, for example through the tenant satisfaction measures survey and other resident forums.
Being ruthlessly financially efficient	Delivering an extension to the current contract means cost is known and in line with current contract terms and conditions. It will also enable time to ensure long-term delivery solution is thoroughly interrogated to deliver best value. The service will continue to be recharged at cost to residents as part of their caretaking service charge, maintaining sustainability of the service.
Taking pride in H&F	Delivering a well-performing cleaning service demonstrates pride in the appearance of our blocks and estates. This extension will ensure continuous delivery whilst ensuring time to put in place a high-quality long-term solution.
Rising to the challenge of the climate and ecological emergency	Whilst the extension will be broadly delivered on the existing specification and scope, additional requirements relating to supporting a carbon net zero approach will be included in the long-term delivery solution, including requirements for electric fleet and use of environmentally friendly products.

Financial Impact

Costs

The anticipated annual cost of the contract extension is £4,781,206.

This represents an increase on the current cost of the contract. This is due to:

- the Council's policy which requires that staff under the contract are paid the London Living Wage, and
- contractual inflation (based on September CPI of 6.7%).

Following the first full year of the extension (April 2024 – March 2025), an inflationary uplift based on September CPI 2024 will be applied to the cost of the contract extension from April 2025 – 11 May 2025.

Budget

A provision to cover the increased cost of the cleaning contract extension and to reflect the increased income from service charges has been incorporated within the 2024/25 Housing Revenue Account budget. There is a net nil impact on the budget overall and this is expected to be approved by Cabinet on 12 February 2024.

The amendments to the expenditure budgets are set out below:

23-24 contract budget	£4,194,700
24-25 contract cost of increase from NLW to LLW	£433,500
24-25 inflation uplift (6.7%) - £310,100	£310,100
24-25 Total Cleaning contract cost budget	£4,938,300

The £4.93 million figure currently in the 24-25 budget is different to the £4.78 million agreed annual figure as the budget had to be set prior to negotiations being completed. Following negotiations with Pinnacle Ltd, the Council has secured a lower annual contract cost than that anticipated within the budget. A virement will be made at the start of the year to correct the income and expenditure budgets. There is a net nil effect on the net HRA budget.

Tenants and Leaseholders

The increase in annual service charge is expected to be in the region of £43.80 for tenants (£0.84 per week) and £41.37 for leaseholders (£0.80 per week).

The Head of Finance will be presenting the proposed changes to tenant service charges at Sheltered Housing Forum on 16 January, Housing Representatives Forum on 23 January and Housing & Homelessness Policy & Accountability Committee on 30 January.

Risks

The higher charges to tenants and leaseholders that will result from an increase in the cost of the contract will place additional pressures on household budgets and the potential for a deterioration in income collection performance within the HRA.

Completed by: Phil Wyard, Senior Accountant, Economy (HRA)

Verified by: Danny Rochford, Head of Finance, (HRA & Economy), 10/01/23

Legal Implications

The provision of these services is a statutory requirement under the Landlord and Tenant Act 1985 and the Housing Act 1985. The Council is therefore obligated to continue to provide these services pending the outcome of the new procurement process.

The above contract falls within the scope of the Public Contracts Regulations 2015. Any extension therefore needs to fall within one of the categories listed in regulation 72 which sets out the circumstances in which a contract can be varied without a new procurement. The original contract contained a clause allowing this extension. The exercise of this option is allowed under regulation 72(1)(a) which allows for modifications which were provided for in the contract provided that they do not change the overall nature of the contract.

The variation of the contract to include a requirement that employees are paid no less than the London Living Wage is also permissible under regulation 72(1)(e) as the modification is not “substantial” for the purposes of the regulation. This is because none of the conditions set out in regulation 72(8) apply: The change does not make the contract materially different in character; it would not have affected the procurement process if originally included; it does not change the economic balance of the contract in favour of the contractor; it does not extend the scope of the contract considerably; there is no change of contractor.

The proposal complies with Contract Standing Order 25 which allows for extensions if they were provided for in the original contract and the award report.

This is a key decision under the Council’s constitution and needs to be included on the key decision list on the Council website.

John Sharland, Senior solicitor (Contracts and procurement)
29th November 2023

Proposals and Analysis of Options

1. The proposal is that an approximately 14-month extension is granted to the existing Pinnacle Caretaking contract, taking the contract up to 11th May 2025.
2. This is the second extension to be granted on the contract, but still falls within the original extension provision in the contract which enables up to 5 years to be granted.
3. This will allow sufficient time for the service to be reprocured, implemented and mobilised to an updated service specification, shaped through resident consultation.
4. An initial procurement exercise of the service was closed in September 2023, following a service review and in consultation with the Lead Member for Housing. This was closed following the Selection Questionnaire stage with guidance from the corporate procurement team.

5. The closure of this exercise was agreed due to new legislation requirements e.g. Social Housing Act, impending feedback from the new Tenant Satisfaction Measures and wider service pressures and changes, which meant the procurement scope should be widened to take in to account these important changes.
6. As a result of closing the procurement exercise there will be no new contract in place on the 30th March 2024. It is therefore required that an extension is delivered to the existing Pinnacle contract.
7. This will give time to produce a revised service specification in line with resident and officer expectations and the new Social Housing legislation.
8. As a high-profile service which has a significant impact on the daily experience of our residents it's important the specification and service design is right going forward.
9. It is therefore proposed that the existing contract is further extended until the 11th May 2025. This will enable time to update the service specification, consult with residents and carry out a new procurement exercise.
10. If this does not happen and the contract ends on 30th March 2024 there would be a gap in the service with no provider delivering cleaning and associated tasks.
11. The council requires delivery of the service to fulfil it's landlord obligations, and it is funded by service charges paid for by residents – it is therefore not an option to have a period of no service delivery.
12. Given the large size and value of the caretaking contract it is prudent to award the extension until May 2025.
13. The contract explicitly allows provision for this extension (indeed the option is available to extend this contract for up to 5 years).
14. At the end of the extended contract in May 2025 a new contract will be in place following the procurement process.

Option 1: Authorise an approx. 14-month extension to existing contract (recommended)

15. Deliver an extension to the existing caretaking contract with Pinnacle, to allow sufficient time to implement the long-term solution.
16. This is considered sensible given the large size of the service (100+ employees) and contract value, to enable sufficient time to deliver a procurement exercise.
17. It is also provided for within the existing terms of the contract and means the continuation of service delivery to residents from a provider who understands the stock and service.

Option 2: Do not authorise an extension and allow the contract to end in March 2024

18. This is not recommended as it is not possible to effectively reprocure and mobilise an effective replacement within this timeframe given the size and value of the contract.
19. It would potentially leave a period of poor service delivery for residents and/or a period with no contract in place. This is not an option given our obligations as a landlord to keep communal areas clean.

Option 3: Long-term contract extension

20. The contract gives the option to put in place an extension up until June 2028.
21. However, given the service contract is 10 years old it predates a number of council strategies, including social value requirements, and has a number of service gaps in the specification.
22. Expectations and requirements of the service have moved on in the last 10 years, as well as wider legislation, and with the recent introduction of the Social Housing (Regulation) Act it is important that an updated service specification reflects this.
23. It's therefore deemed that a simple long-term extension of the contract would not be most beneficial for the service.

Existing service delivery

24. The current service is delivering to a 'good' standard with key KPIs met over the last year.
25. The headline Key Performance Indicator is the percentage of contract inspections which achieve a pass against the quality standard. The target for this is 85%. Pinnacle have consistently achieved this target over the last two years and most recently achieved 89% of passes against the quality standard.
26. Pinnacle have delivered the service for the last decade and have a good understanding of the stock and the general requirements of the service.
27. As a short-term contract extension the service will broadly continue in line with existing provision within the contract. The focus will be on:
 - Ensuring the delivery of a high-quality cleaning service across relevant blocks, gap sites and sheltered schemes, with key daily, weekly and monthly tasks fulfilled e.g., sweeping, dusting, hoovering etc;
 - Ensuring communal and shared external areas look and feel cared for, for example through prompt graffiti removal, litter picking and fly-tip removal;
 - Promoting safety across estates through compliant inspection regimes (e.g. playgrounds, wet/dry risers) and support of fire safety measures (e.g. removing items from communal areas);

- Increasing flexibility within the service through a newly developed ‘rapid response’ capability which can respond directly to residents’ concerns, and target specific areas to bring these up to standard at no additional cost to residents. This will be bespoke to the needs of specific estates.
- Working with Pinnacle to develop an action plan in response to the Tenant Satisfaction Measures survey to address areas for improvement identified.

28. The Client Management Team will continue to work closely with the service to monitor performance and work with residents to ensure service delivery reflects their expectations.

29. Whilst there are some existing service gaps and additional scopes of service which would benefit the service, these will be built into the long-term service delivery from May 2025 onwards.

Contract Negotiations

30. Pinnacle have indicated they are willing to continue to deliver the service for the extension period.

31. The extension of the contract will be on the existing terms and conditions, except LBHF have required that all individuals working on the contract are paid the London Living Wage, to bring the contract in to line with council policy.

32. This will result in a salary uplift for some staff and a resultant increase to contract cost but ensures good terms for individuals working on behalf of LBHF.

33. This will result in an additional £305,822 to the annual contract cost. This cost will be incorporated within the 24/25 service charge for residents to maintain cost neutrality of the service to the council.

34. In line with the terms of the contract the extension will be subject to an inflationary uplift in line with CPI in March 2025 (The 2024 uplift has already been calculated and included within the total contract value provided in the paper).

Contract Management

35. The Client Management Team will continue to be responsible for the contract management of the service with oversight managed by the Head of Estate Services, alongside the Quality and Performance Manager.

36. Existing KPIs are as follows:

KPI	Target
Percentage of customers satisfied with the delivery of services within the scope of the contract, measured through annual customer satisfaction	80%

questionnaires carried out by a third party	
Percentage of Stage 1 complaints that escalated to Stage 2, as logged by LBHF in the Council's corporate complaints management system iCasework	<5%
Percentage of inspections (led by H&F Client Team Inspector) which achieve a pass or excellent grade at inspection	85%
Percentage of reported flytips removed or reported to the refuse contractor within 1 working day	100%
Percentage of recorded graffiti removed within the target time. Timescales for either offensive and non-offensive graffiti are 24 hours and 7 days respectively	100%

37. Contract Management meetings will take place every 6 weeks, at which there will be a strong focus on performance management and review of the KPIs. In particular there will be a focus on the percentage of quality inspections which are passed.

38. To assure quality each site is inspected on a six-weekly basis by Estate Services Contract Monitoring Officers (CMO's) to ensure quality standards are maintained in accordance with the specifications. Real-time technology is used to document findings whilst onsite. Completed inspections are sent automatically to the contractor and uploaded into a cloud data base allowing instant access for rectifications.

39. Action plans for substandard sites are automatically produced with time scales for rectification. The CMO revisit to ensure works have been carried out and/or give further time for improvements.

40. Sites that fail inspection on three consecutive occasions are reviewed alongside service complaints and visited by the Head of Service and/or Quality & Performance Manager and raised in six weekly contract meetings.

41. The contractor is given an agreed timescale to rectify non-performance via a SMART action plan. If this is not delivered against financial penalties for non-performance are applied, and ultimately a Performance Default Notice can be issued if required.

New procurement process

42. With the initial procurement closed and contract extended, this presents an opportunity to adjust the procurement timetable and develop a specification that is more reflective of what the council and residents require.

43. With two new Tenant Satisfaction Measures this will provide timely specific feedback for an improved specification that better reflects residents needs and services better aligned with new legislative requirements.
44. Together these efforts will provide a more comprehensive draft specification and lead to a contract award that will better contribute to the maintenance and upkeep of communal areas, keeping these safe and pleasant for our residents, and ensuring the service better meets their expectations, as well as working more effectively in conjunction with wider council services including environment, housing management and community safety teams.
45. The new procurement process is subject to a separate procurement strategy which has greater detail and which will require Cabinet approval.
46. A Project Board will be established to oversee the (pre)procurement activity to mitigate risks of delay, as the timetable to the tender launch and general contract implementation is challenging.

Risks

47. Key risks and mitigation strategies of the proposed contract extension are outlined below.

Risk	Mitigation
There is no contractor in place following the end of the existing contract term on 30 th Mar 24	Deliver the recommended 14 month extension to the current Pinnacle contract as outlined in this report to enable time for a compliant procurement process and subsequent mobilisation of a new contract.
Pinnacle do not accept the contract extension and stop delivery of the service at the end of the contract term on 30 th March 2024.	Contractual conversations with Pinnacle management have confirmed they are prepared to deliver an extension to the contract, and agreement has been reached on the cost of this extension. Following the approval to proceed all extension paperwork will be issued.
The contract extension is not long enough to deliver the procurement exercise given the prolonged nature of a competitive procedure with negotiation and the requirement for enough time to mobilise a large workforce.	A Project Board has been established to oversee the Cleaning Services Project Plan. This Plan sets out clearly the key milestones and dates to ensure that the new service is procured and mobilised by May 2025. Senior stakeholders are aware of the tight timeframes on which the procurement must operate and resources are geared to support this, with dedicated procurement and legal support assigned. Risks and issues will be highlighted fortnightly and managed as appropriate.
There is poor operational performance	There will be strong contract

during the period of the extension.	management in place against agreed KPIs. The performance management framework will be followed with financial penalties applied as applicable. 6 weekly contract management meetings will address areas of under-performance and the development of some rapid response capability will help to target specific poor performing areas quickly.
The uplifted cost of the service due to the LLW requirements is not recovered	The new cost of the extended service has been included within the 24-25 budget setting process. The Service Charge team will use this to set appropriate caretaking service charges for tenants and leaseholders for 24-25 to ensure cost recovery.
Resident dissatisfaction at continuation of a service which does not reflect all of their expectations	The Estates Services Team c will continue to engage regularly with residents through forums and working groups e.g. Housing and Estates Services Working Group, to improve the current service delivery and ensure feedback is included within the long-term model. Clear communication will go out to residents via the HRF, TRAs and general comms on the procurement plan for the service and how this extension fits within that longer-term goal. The Council will additionally work with Pinnacle to identify any immediate improvements to service delivery as a result of the Tenant Satisfaction Measures feedback carried out at the end of 2023.

Reasons for Decision

48. The decision is recommended to ensure continued effective delivery of the caretaking service across housing estates whilst the longer-term solution is defined, procured and implemented.

Equality Implications

49. 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

50. There is a service and reputational risk that Pinnacle identify this as the final extension to the engagement and that as a result service levels decline. To mitigate this, it is proposed that payments are made as part of delivery quality and timeliness and that this be included in the contract extension.

Verified by Jules Binney, Risk and Assurance Manager, 01-December-2023

Climate and Ecological Emergency Implications

51. There will be minimal changes to climate implications of the service delivery as a result of this extension as this will be on existing terms and conditions.

52. The service is based out on estates in office space and rotas are managed in such a way to minimise travel through geographic patches.

53. The longer-term service delivery from 2025, subject to a separate procurement strategy paper, will include updated specifications around sustainability and use of green fleet and equipment to support the council's move to be carbon net zero.

Verified by Jim Cunningham, Climate Policy & Strategy Lead, 11th December 2023

Consultation

54. Resident consultation on the long-term delivery scope and specification of the caretaking service will take place over the coming months. This has started with the recent Tenant Satisfaction Measures sent to all tenants.

55. Feedback from this exercise will directly inform the development of the specification.

56. Further consultation will take place with the Housing and Estates Services working group and Housing Reps Forum.

57. As part of the procurement of the service leaseholders will additionally be formally consulted through the S20 consultation process.

58. Residents will be informed around the extension of this contract and the implications of the London Living Wage uplift on service charges across January and February, specifically through:

- Head of Finance annual service charge updates to resident forums including Housing Representatives Forum and Sheltered Forum.
- The Director's brief at Housing Representatives Forum
- Targeted communication to all TRA chairs
- General resident communications update as part of the wider procurement project.

LIST OF APPENDICES

None