

Wiltshire Council

**Cabinet (Capital Assets) Committee
26 July 2011**

Subject: Award of Mechanical and Electrical (M&E) Servicing Contracts

Cabinet Member: Councillor John Noeken – Resources

Key Decision: No

Executive Summary

As part of the Council's Procurement and Commissioning Programme, Strategic Property Services are in the process of rationalising its existing contractual arrangements for the management and maintenance of its buildings. Cabinet approved the award of a Building Term Maintenance Contract on 24th May 2011, and work has subsequently been focussed on progressing the procurement of Mechanical and Electrical Servicing Contracts for commencement in October 2011.

Regular servicing and planned preventative maintenance of Mechanical and Electrical (M&E) installations within Wiltshire's non-residential property stock is currently undertaken by a large number of contractors. Each of these contracts has its own individual service specification and contract terms, inherited from legacy arrangements that were in place prior to the creation the Unitary Authority.

Procurement of new M&E Servicing contracts is being conducted under the overarching governance of the Procurement and Commissioning Programme. An Opportunity Assessment has been completed ensuring that lessons are learned from previous contracts, and that opportunities are identified, captured and implemented to maximise the savings available through the current procurement process.

A contract strategy has been devised and is being implemented to reduce considerably the total number of separate servicing contracts and to achieve efficiencies and economies of scale. It is expected that approximately 60 separate existing contracts will be replaced by fewer than 7 contracts. The contracts are being procured under the OJEU Restricted Procedure comprising a Prequalification stage followed by a Tender stage.

The initial Prequalification stage has been successfully completed and tenders have been invited from shortlisted applicants. Tenders are due to be returned on 27th July 2011 and will be evaluated in August and early September with a view to putting new contracts in place for October 2011.

It is anticipated that the new M&E Servicing contracts will deliver cashable savings in terms of reduced contract rates for undertaking specified servicing work and will be more efficient to administer than the former contracts, facilitating administrative efficiencies across the Business Services team.

It has been estimated that saving of up to 10% of contract values will be achieved through economies of scale by letting the M&E Servicing Contracts as a small number of bundled packages of services. On a baseline revenue spend of £1.25 million, saving of the order of £125,000 per annum are anticipated, which equates to £10,400 per month. These savings will be captured by the Procurement and Commissioning Programme, and a benefit tracking process will be put in place to confirm that savings achieved match those expected.

This current exercise captures the majority of the Councils revenue spend on servicing of M&E plant and equipment, but a further exercise will follow on smaller packages of services, where the nature of the work is more piecemeal, and the savings and other benefits are expected to be of a smaller scale.

Proposal

That the Corporate Director, Resources be given delegated authority to award M&E Servicing Contracts following the satisfactory conclusion of the formal tendering process that is currently underway.

Reason for Proposal

To put in place means to maintain Mechanical and Electrical installations within the Council's premises following the expiry of the existing M&E Servicing contracts.

Carlton Brand

Corporate Director – Department of Transformation and Resources

Wiltshire Council

Cabinet (Capital Assets) Committee

26 July 2011

Subject: Award of Mechanical and Electrical (M&E) Servicing Contracts

Cabinet Member: Councillor John Noeken – Resources

Key Decision: No

Purpose of Report

1. To seek delegated authority for the Corporate Director Resources to award M&E Servicing contracts on satisfactory completion of the formal two-stage tendering process.

Background

2. The Council is responsible for maintaining over 900 non-residential premises throughout the County comprising school buildings, school caretakers' accommodation, administration buildings, registry offices, highway depots, libraries, social services buildings, youth and community centres, leisure centres, other public buildings and publicly owned sites. These buildings need to be maintained and serviced to enable the Council to meet its statutory duties and to ensure Council services can continue to be delivered.
3. Building Term Maintenance Contracts have already been put in place commencing 1st July 2011 to provide reactive maintenance and repairs to building fabric and to deliver planned building maintenance and refurbishment works.
4. There is a requirement to appoint Mechanical and Electrical (M&E) Servicing Contractors to undertake regular servicing and planned preventative maintenance of Mechanical and Electrical (M&E) installations within these buildings. The scope of requirements is:
 - Servicing: To service and maintain Mechanical and Electrical (M&E) equipment in the Council's property stock throughout Wiltshire
 - Repairs: To provide a call out service to attend to breakdowns of equipment and to undertake repairs.
5. M&E Servicing is currently carried out by a large number of contractors, each with individual service specifications and contract terms resulting from legacy arrangements prior to the creation the Unitary Authority. Annual expenditure on these essential servicing and maintenance contracts (including reactive repairs to M&E equipment) is approximately £1.25M per annum.

Main considerations for the Council

Procurement Strategy

6. The M&E Servicing Procurement Strategy has been devised to meet the needs of the major restructuring of Wiltshire's property portfolio that is taking place under the Campus and Operational Delivery (CAOD) Programme and to deliver the following benefits:
 - To reduce unit costs of M&E servicing contract activities and deliver cashable savings;
 - To reduce the contract administration burden on Property Services' personnel and thereby enable a smaller number of Wiltshire staff to manage M&E servicing of the property portfolio than was previously the case;
 - To provide all necessary evidence of statutory compliance and quality assurance through improved availability of servicing data, reports and test certificates;
 - To maximise market response through appropriate bundling of services in contract packages, to attract national players and local firms to tender;
 - To use current competitive market conditions to Wiltshire's advantage;
 - To manage commercial risk by balancing cost and quality considerations to ensure that critical M&E servicing is carried out to standards that achieve optimum safety, reliability and asset life, all at a fair price.

7. The requirements have been compiled in 7 lots, as follows (approx annual values for servicing element in brackets):
 - Lot 1 (£200k pa) Comprehensive servicing Large Buildings North
 - Lot 2 (£100k pa) Comprehensive servicing Large Buildings South
 - Lot 3 (£75k pa) Heating Ventilating and Air Conditioning (HVAC) Other Buildings North
 - Lot 4 (£75k) HVAC Other Buildings South
 - Lot 5 (£150k pa) Electrical Testing County-wide
 - Lot 6 (£150k pa) Fire and Security County-wide
 - Lot 7 (£100k pa) Legionella County-wide

8. The lot structure was devised to ensure:
 - The widest possible interest in tendering opportunities, attracting national players and local firms;
 - Flexibility to seek multi-lot discounts for certain groupings of lots (Lots 1-4);
 - Providing realistic tender opportunities for smaller, local firms who could bid particularly competitively for specialist services Lots 5-7 alongside the nationals.

9. The lot structure that is being implemented represents a major step change from the multiplicity of small contracts that are currently in place. It provides a robust mechanism for securing savings and benefits without necessarily taking the

ultimate step of putting all servicing requirement in the hands of a single service provider.

10. This progressive approach enables Strategic Property Services personnel to gain experience of working with major providers with a robust delivery model during a crucial period of transformation in the property estate. Experience gained in the operation of these contracts will then enable a future procurement programme to build on the foundations and successes of the current programme, and may see further rationalisation of the supply chain.
11. The initial contract terms will be for periods of 3.5 years from October 2011. Contract period extensions of a maximum of 2 further years may be granted by the Authority, subject to satisfactory performance by the contractors.
12. The contracts are being procured under the OJEU Restricted Procedure comprising a Prequalification stage followed by a Tender stage. Suitably qualified Contractors may apply for one or several lots, and are encouraged to offer discounts if awarded two lots or four lots associated with comprehensive servicing of installations in Large Buildings and / or HVAC servicing in other buildings.
13. The tender evaluation methodology has been developed to ensure that combinations of quality, price and lot discounts can be objectively compared and evaluated to enable Wiltshire to accept the most economically advantageous proposition(s).
14. Price will be evaluated by reference to a quantified schedule of rates, reflecting anticipated servicing activities in the first year of the contract.
15. Quality and price are weighted 50:50 in the tender evaluation to reflect the critical importance of quality of service in ensuring that Wiltshire Council fulfils its statutory obligations with respect to servicing of safety-critical items (gas soundness, electrical safety testing etc) and that high value assets are optimally maintained to extend their useful working lives. Current competitive market pressures and the discount structure will ensure that tender prices deliver value for money.

Progress to date

16. Progress of the implementation of the Procurement Strategy is reported regularly to the Procurement and Commissioning Board. The Prequalification Stage has now been completed and suitably qualified applicants have been invited to tender. Tenders are due to be returned on 27th July 2011.
17. A Contract Notice for the Service Contracts under the heading *UK-Trowbridge: repair and maintenance services of electrical and mechanical building installations* was published in the Official Journal of the European Union (OJEU) ref 2011/S 46-075812 on 8th March 2011 under the Restricted Procedure inviting Expressions of Interest from suitably experienced Contractors.
18. The Contract Notice gave details of the 7 lots and stated that the number of operators who will be invited to tender or to participate would be 5 for each lot. The tender award criteria would be the most economically advantageous tender.

19. A total of 103 firms requested copies of the Information Memorandum and Prequalification Questionnaire (PQQ). Forty three separate firms submitted their responses to the Prequalification Questionnaire by the deadline of 13:00 on 15th April 2011. Some applicants submitted applications for one lot only, others for multiple lots.
20. The procurement timescale is to have new contracts in place for October 2011.

Environmental and climate change considerations

21. Contractors will be required to comply with regulations on Site Waste Management, and Environmental Performance, which commits them to recycling waste, minimising risk of environmental incidents such as oil tanks spillages and the like.
22. Regular and expert servicing of mechanical and electrical equipment will ensure optimum energy efficiency of units and thereby keep CO₂ emissions in check.

Equalities Impact of the Proposal

23. One of the criteria for short listing was that applicants were required to hold and implement an Equal Opportunities Policy.

Risk Assessment

24. The key risks associated with the contract award are listed below:
 - a. Challenge from unsuccessful bidders – this is a risk in all procurement projects. The risk is being mitigated by close adherence to Public Contracts Regulations throughout the procurement process.
 - b. Financial security of contractors – the current market place is considered to be extremely tough, and there is a risk that contractors may come under continuing pressure over the term of this contract. The contract management team will be vigilant in monitoring performance of the contractors. In the event of a company failure, individual lots could be re-tendered relatively quickly now that new contract documentation has been prepared.
 - c. Claims-based approach from contractors – with a greater level of pressure expected in the market over coming years, it is to be expected that contractors will take a stronger line in testing the boundaries of contracts. Specifications and pricing documents have been prepared to provide the contract management team with a set of robust tools for managing the contracts and the contractors, including fixed price schedules for undertaking defined categories of servicing work.

- d. Delay in contract commencement due to TUPE issues – at this stage, it is not clear what the TUPE implications between new and old contractor would be. Complexities in this process could delay the award of some lots of the contract. This will be kept under review with tendering contractors.

Financial Implications

25. The tender pricing schedules provide fixed prices for undertaking carefully specified servicing activities. Multiple lot discounts provide mechanisms for capturing benefits for the Council that will result from contractors' economies of scale.
26. An Opportunity Assessment has been undertaken within the governance of the Procurement and Commissioning Programme to review the appropriateness and adequacy of the procurement strategy and its targeted benefits.
27. The initial scope of work is defined by reference to the quantified servicing requirements of the current property stock. Quantities applied to the priced scheduled of rates will be reassessed as the contract progresses to reflect actual servicing requirements, year on year, in line with changes in property stock resulting from implementation of the CAOD Programme. Rationalisation of property stock, and thereby rationalisation of M&E Servicing requirements, should therefore lead to reductions in annual servicing costs over the lives of the contracts, which are captured within the savings projected by the CAOD programme.
28. A full evaluation of anticipated savings will be undertaken when tenders have been received and fully evaluated. The overall savings are expected to be in line with Strategic Property Services' overall projections for procurement programme savings. In addition, the rationalisation of contract management arrangements has been a factor in facilitating the headcount reduction that has taken place this year in Strategic Property Services, in anticipation of the new streamlined contract arrangements. Further benefits presented across the Business Services Team through handling fewer transactions, are being captured through the relevant workstream within the Procurement and Commissioning Programme.
29. It has been estimated that saving of approximately 10% of contract values will be achieved through economies of scale by letting the M&E Servicing Contracts as a small number of bundled packages of services. On a baseline revenue spend of £1.25 million, saving of the order of £125,000 per annum are anticipated, which equates to £10,400 per month. These savings will be captured by the Procurement and Commissioning Programme, and a benefit tracking process will be put in place to confirm that savings achieved match those expected.

Legal Implications

30. Legal Implications are included within the main body of the report.

Conclusion

31. It is recommended that the Director of Resources be delegated authority to award the M&E Servicing Contracts following satisfactory conclusion of the formal tendering process that is currently underway.

Carlton Brand
Corporate Director – Transformation and Resources

Report Author:
Neil Ward, Head of Strategic Property Service

Background Papers:

The following unpublished documents have been relied on in the preparation of this Report: None

Appendices None