

Mandatory Variant Bids

Subject: Mandatory Variant Bids from BAM and from the Council in-house team

1. Purpose

- 1.1** To report to members of the Project Board the Mandatory Variant (MV) Bids submitted by BAM PPP and by the Council's in-house team and to seek the Board's approval for the award of the contracts for Cleaning and Grounds Maintenance services to the bidder who offers the better value for money for the Council.

2. Background

- 2.1** Council agreed that the schools' PPP Project should be subject to 3 Mandatory Variant bids. These MVs would afford an in-house team from HRES to bid for the provision of the following soft services for the lifetime of the concession:
- Cleaning of internal spaces (MV1);
 - Grounds Maintenance (MV2);
 - Cleaning and Grounds Maintenance (MV3).
- 2.2** Initially, at the ITN phase of the Project, the in-house team submitted bids against the specifications provided by the 3 short-listed bidders.
- 2.3** When the Project Board agreed that the 3 reference bids were compliant, of high quality and too close to call, and that all 3 bidders should be asked to submit a Best and Final Offer (BaFO), it was also agreed that the in-house team should be asked to submit its own final offer for the MVs only after a Preferred Bidder had been chosen. This would allow the in-house bidder to tailor its bid to the specifications provided by the Preferred Bidder.
- 2.4** BAM PPP was subsequently chosen as the Preferred Bidder and the in-house team was asked to prepare MV bids against BAM's revised design specifications.
- 2.5** The in-house bids were duly submitted and the Project Team, supported by its external advisers, conducted an initial assessment of these bids against BAM's reference bid on the following criteria: compliance with the Council's brief, quality, risk and value for money.
- 2.6** Clarifications were sought from both BAM and the in-house team on a range of issues associated with their bids.

2.7 Upon receipt of these clarifications, the Project Team, with the assistance of its Technical and Financial Advisers, conducted a bid equalisation exercise to ensure that the bids were being assessed on equal terms. A risk analysis was also factored into the process.

2.8 The final technical and financial evaluations of the bids from BAM and from the in-house team were carried out on 6 and 7 August 2007.

3. Main Issues

3.1 For both Cleaning and Grounds Maintenance, the bids both from BAM and from the in-house team were evaluated as being compliant with the Council's requirements and as being of similar quality.

3.2 The following adjustments were factored into the in-house bid as part of the bid equalisation procedures:

- an adjustment in the hours for term-time day cleaning to meet the Council's optimum requirements;
- additional hours for summer holiday cleaning of sports halls;
- the cost of managing the interface between the in-house operation and BAM's FM staff;
- the risk to Life Cycle Maintenance costs of the involvement of a party other than the Preferred Bidder in the cleaning and grounds maintenance functions.

The total costs of these adjustments amounted to £35k in Unitary Charge terms.

3.3 The following adjustment was factored into the BAM bid as part of the bid equalisation procedures:

- the fact that BAM had made no allowance for single status settlements, whereas the in-house bid had allowed for an increase of 12% on staff costs;

The affect of this adjustment was approximately £90k in Unitary Charge terms.

3.4 Having allowed for the equalisation factors described in 3.2 and 3.3 above, the comparative costs of the bids are outlined in the table below. It should be noted that the Unitary Charge is abbreviated as UC and the Net Present Value as NPV. All figures are £k.

	<u>BAM</u>			<u>In-house</u>		
	<u>MV1</u>	<u>MV2</u>	<u>MV3</u>	<u>MV1</u>	<u>MV2</u>	<u>MV3</u>
Unadjusted Yr 1 UC (2012/13)	1,079	243	1,322	944	124	1,118
NPV	17,766	4001	21,767	17,836	2,211	20,047

	<u>BAM</u>			<u>In-house</u>		
	<u>MV1</u>	<u>MV2</u>	<u>MV3</u>	<u>MV1</u>	<u>MV2</u>	<u>MV3</u>
Adjusted Yr 1 UC (2012/13)	1,169	243	1,411	1009	134	1,153
NPV	19,248	4001	23,249	18,464	2,221	20,675

3.5 It is therefore clear that, both in terms of Unitary Charge and in terms of the Net Present Value, the in-house bid represents better value for money. Indeed, the net saving to the Council by selecting the in-house bid would be the equivalent of in excess of £150k in Year 1 Unitary Charge terms.

3.6 In addition to the above factors, the project is likely to accrue additional benefits if the in-house bid is chosen. This would arise from a requirement for BAM to re-index their financial model to take account of the removal of Cleaning and Grounds Maintenance from the scope of their services.

4. Personnel Issues

4.1 The main personnel issues associated with the outcome of the Mandatory Variant bids have been reported previously to the Project Board, most recently in the report on the Project's History presented to the meeting of the Board on 26 June 2007.

4.2 The main impact of a decision to appoint the in-house team to carry out Cleaning and Grounds Maintenance of the project schools will be that all cleaning and grounds maintenance staff will remain within the employment of the Council.

5. Financial Implications

5.1 The financial implications of this report are dealt with in Section 3 above.

6. Risk Analysis

6.1 Risk adjustments have been conducted at this stage in the Project as outlined in Paragraphs 3.2 and 3.3 above.

6.2 The pre-Financial Close Key Stage Review will necessitate further risk analyses.

7. Conclusion

- 7.1** Although both sets of bids would fulfil the Council's requirements for the provision of the services concerned, it is clear that, when judged on all criteria, appropriately equalised, the in-house bids represent significantly better value for money for the Council than BAM's bids. Appointment of the in-house team as the Preferred Bidder for Cleaning and Grounds Maintenance would therefore assist with the overall affordability of the Project.
- 7.2** It should be noted that, while BAM's overall bid represented very good value for money when judged against the other two short listed bidders for the Project as a whole, BAM's FM bid was more expensive than the other two bids and was therefore less likely to win in direct competition against the in-house bid.
- 7.3** It is acknowledged that there have been problems in recent years in terms of the perceived ability of HRES to deliver an acceptable standard of cleaning services to schools. These problems have been caused by resources available and by the contractual terms under which the cleaning staff have been working and the cleaning specification used.
- 7.4** However, a contract between the Department of Education and Cultural Services and HRES under a PPP regime will contain a number of important and unprecedented safeguards, including:
- appropriate levels of resourcing;
 - a strict performance regime;
 - measurable performance targets;
 - transparency and immediacy;
 - clear monitoring of response times;
 - agreed financial penalties if the service provider fails to achieve the contracted standards;
 - benchmarking procedures available seven years into the contract;
 - termination of the contract as a possibility if there is persistent failure to comply with agreed standards of service.
- 7.4** It should also be noted that BAM's FM Helpdesk will operate as a single point of contact, regardless of who is responsible for the Cleaning and Grounds Maintenance contracts. This arrangement should help to ensure efficient operational management and swift response times.

8. Recommendations

- 8.1** Members of the Project Board are asked to approve the appointment of the Council's in-house team as Preferred Bidder for the Cleaning and Grounds Maintenance elements of the Project.

- 8.2** Members of the Project Board are further asked to instruct the Project Team to proceed to Financial Close on the terms described in 8.1 above, ensuring that the interfaces between BAM PPP and the in-house provider are defined within the final Project Agreement with the aim of minimising risk and maximising value for money for the Council.

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Background Papers: Notes of previous meetings of the Project Board

Report to Project Board on 26 June 2007 on Project History

Wards Affected: All