

MANCHESTER CITY COUNCIL

REPORT FOR RESOLUTION

Committee: Finance and General Purposes Overview and Scrutiny Committee

Date: 25 May 2006

Subject: New Joint Venture Company encompassing part of City Works

Report of: City Treasurer

1 PURPOSE OF REPORT

To update Members on the process to select a Joint Venture (JV) partner to deliver maintenance and capital services to the Council and other bodies.

2 RECOMMENDATIONS

Members are requested to note the progress of the selection process and the selection of the Preferred Bidder (Morrison Facilities Services Ltd).

Members are advised to note that, following this Scrutiny process, the Chair of the Committee will be requested to agree that the Key Decision will be exempt from call-in.

3 BACKGROUND DOCUMENTS

1. Report to Executive Advisory Committee for the Management of Contracting Services, Hospitality and Trading and Market Functions – November 2004
2. Transforming City Works – Options Appraisal June 2005 v0.04 examining the managed transfer of staff to new entities – available from Contact Officers
3. Report to Finance and General Purposes Overview and Scrutiny Executive – July 2005

4 FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET

The creation of the Joint Venture will secure employment for a significant group of Council staff who will continue to provide revenue works for the

City Council. The loss of direct turnover to the Council will lead to an under-recovery of overheads in Environment and Operations.

5 FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET

None directly, although the Joint Venture will be responsible for delivery of elements of the Council's Capital Programme.

6 CONTACT OFFICERS

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7 IMPLICATIONS FOR

Equality	Environment	Anti Poverty	Employment
No	No	No	Yes

8 BACKGROUND

8.1 In September 2004 the City Council resolved to implement a housing investment strategy to achieve the Decent Homes Standard for all the housing in its ownership. A 'mixed model' approach was agreed which included the creation of an ALMO, four Local Housing Companies and a number of PFIs.

8.2 The development of the ALMO and the Local Housing Companies (LHCs) means in effect that the City Council no longer manages (or in the case of LHCs, owns) the housing stock. This has a direct impact on the City Works organisation that currently delivers the majority of the responsive repairs to the 45,000 council homes as well as delivering £20m per annum refurbishment work necessary to achieve the required decent homes standard. As a result it has been necessary to review the future of the City Works organisation in the context of the housing investment strategy and other initiatives.

8.3 In November 2004, Executive Advisory Committee for the Management of Contracting Services, Hospitality and Trading and Market Functions approved four strategic objectives against which options for change in City Works were considered. These were:

- Continuity of service provision for residents

- Employment security for staff
- Minimise cost to the Council
- Minimal retained risk to the Council post stock transfer

8.4 In July 2005, the Executive approved a Recommendation for proposals for transferring City Works functions to new organisations in the light of housing strategy. This involved the establishment of a new joint venture company for the delivery of maintenance services to the Council, the ALMO and other bodies.

8.5 The Recommendation delegated responsibility for detailed implementation of the decisions to the City Treasurer, Strategic Director (Operations), Director of Housing and City Solicitor in consultation with the Leader of the Council and Executive Members for Direct Services, Finance and Human Resources and Housing.

8.6 The above named Officers have constituted the Housing Options Corporate Board to govern both the Transforming City Works and Housing Investment Options programmes. Other subsidiary governance groups include:

- Transforming City Works Programme Board
- JV Procurement Project Board
- Employee Issues Board

8.7 Responsibility was delegated to the Strategic Director (Operations) and Director of Housing to negotiate and agree arrangements with the ALMO.

8.8 Subsequent to the appointment of the Strategic Director (Operations) to the position of Programme Director – Manchester Improvement Project, the responsibility of his functions has been transferred to the City Treasurer.

9 SELECTION OF THE JOINT VENTURE PARTNER

9.1 The approach adopted utilised the European Union competitive OJEU route on an open ITN (invitation to negotiate) procedure. The outcome allows the bidder offering the most economically advantageous tender to become the Council's Joint Venture partner after a competitive procurement process.

9.2 This approach has been tested with:

- The market via a soft market test involving 15 upper quartile suppliers, which gauged the degree of interest in the proposition.
- Colleagues in other authorities which have entered into joint ventures for delivery of maintenance and capital work on housing and public buildings.

- CCI – the Centre for Construction Innovation
- 4Ps – local government's project delivery specialist
- Partnerships UK - Government established organisation tasked to accelerate the development, procurement and implementation of public private partnerships.

The procurement followed a 3 stage process

9.3 Stage 1 – OJEU Notice and assessment of PQQ

In response to the OJEU notice posted on 15th September 2005, the following companies submitted Pre-Qualification Questionnaires (PQQ) and Invitation to Submit Outline Proposals (ISOP) submissions on 30th September 2005.

1. Accord Plc
2. Connaught Plc & EC Harris LLP
3. Kier Ltd
4. Morrison Facilities Services Ltd
5. Pectel Group
6. Mitie Group Plc
7. United Utilities Contract Solutions Holdings Limited & Gleeson Building Ltd
8. Balfour Beatty Group Ltd
9. Enterprise Managed Services Ltd
10. Mears Ltd
11. F Parkinson Ltd
12. Pinnacle Housing Ltd
13. Vinci Partnerships

The first stage of the evaluation was to assess the PQQs against the criteria of general / technical capability and financial standing as prescribed in the European Procurement Regulations.

This was undertaken by an evaluation team of 14, consisting of a range of Council officers from different Directorates/functions and Northwards Housing (NH) representatives including Shadow Board members.

The group met to consider the PQQ's on 13th October 2005. The scoring indicated that the following companies had met the required benchmark and should therefore proceed to have their ISOP submissions evaluated:

1. Accord
2. Balfour Beatty
3. Kier
4. Mears
5. Morrisons

These companies had clearly demonstrated that they had the necessary experience of delivering the works and services required. They had also demonstrated a comprehensive understanding of MCC and NH's requirement to create and develop a new Joint Venture Company which would ensure the employees of City Works would have job security and provide a high quality, best value service.

9.4 Stage 2– ISOP Evaluation

All five bidders were asked to produce an Invitation to Submit Outline Proposal document at PQQ stage – this required details on the proposition and how it would fit with the Council and ALMO service requirements and broader partnership expectations. There were 31 questions to which bidders had to respond, against defined word limits.

Those organisations successful at PQQ had their ISOPs evaluated against the agreed criteria of:-

- | | |
|--|-------|
| 1. Partnership Proposals / Reality Check | x 10% |
| 2. Service Delivery Proposal | x 40% |
| 3. Legal proposals including staff transfer issues | x 10% |
| 4. Financial Proposals | x 40% |

The evaluation group, which also included MCC's appointed Financial Advisors (Grant Thornton), met on 19th October to consider the ISOP responses and scoring.

From this meeting a list of clarification questions was collated which formed the basis of the ISOP interviews held on 7th November 2005. To ensure that the ISOP interviews remained focused, a core team of 11 conducted the interviews, consisting of a range of Council officers from different Directorates/functions and Northwards Housing (NH) representatives including Shadow Board members.

On completion of the interviews, further information ascertained by interview panel which was returned to the main evaluation team and due consideration was given as to whether bidders ISOP scores should be

amended as a result of the clarifications received. Some scores were adjusted based on clarifications submitted by the bidders.

9.5 Approval of the shortlist to receive ITN.

Following the completion of the PQQ and ISOP evaluation stages, the evaluation team recommended the following companies to be invited to progress to the “Invitation to Negotiate” (ITN) stage of the MCC/NH Joint Procurement Project.

1. Kier Ltd
2. Morrison Facilities Services Ltd
3. Mears Ltd
4. Balfour Beatty Group Ltd

Housing Options Corporate Board approved the ITN shortlist on 18th November 2005.

Northwards Housing Shadow Board approved the ITN shortlist on 29th November 2005.

9.6 Stage 3 – ITN Evaluation

Four bidders were selected at ITN stage. These were Kiers, Mears, Morrisons and Balfour Beatty. However, Balfour Beatty quickly withdrew from the competition.

The Bid Evaluation followed 4 main sections with a 60/40 Quality/Price split with 19 sub criteria, as follows:

Section	Weighting	Category
1. Partnership Incorporating: <ul style="list-style-type: none"> ▪ Business growth/development, marketing and branding ▪ Sustainable regeneration including local employment ▪ Partnering, continuous improvement and efficiency ▪ Operational Management including supply chains ▪ Interfaces with the Council & Northwards Housing 	10%	Quality
2. Service Delivery Proposals Incorporating:- <ul style="list-style-type: none"> ▪ Responsive Maintenance for Northwards Housing ▪ Specialist M&E Services for Housing Services, Northwards Housing and new Local Housing Companies formed as part of the HIO Programme ▪ Capital Works for Housing Services, and Northwards Housing ▪ Small Works for Manchester City Council including repairs, maintenance and minor projects 	40%	Quality

3. Financial Proposals	40%	Price
Incorporating:- <ul style="list-style-type: none"> ▪ Affordability and Economics of the Proposition ▪ Economic Standing and Structure of the Bidder ▪ Robustness and Deliverability of the offering ▪ Pensions ▪ Guarantees and Bonds 		
4. Legal & Commercial Information	10%	Quality
Incorporating:- <ul style="list-style-type: none"> ▪ Legal & Contractual Documentation ▪ Workforce Issues including employment an staffing proposals 		

9.7 Evaluation Scoring

The following scoring principles were used during the evaluation process:

Score	Scoring Principles
0	Rejected – Evidence is unacceptable or non-existent, or there is a failure to properly address any issues.
1-3	Poor – The evidence is deficient in certain areas where the details of relevant evidence require the reviewer to make assumptions.
4-6	Satisfactory – The evidence is acceptable, but with some minor reservations. The response deals only with processes and little output evidence is provided.
7-8	Good – The standard of evidence fully meets expectations.
9-10	Outstanding – The standard of evidence exceeds expectations. The response demonstrates clear and strong evidence of delivery as part of an integrated team and how this has become part of a continuous improvement process.

9.8 Evaluation Teams

The key stakeholders groups (including Northwards Housing) were well represented in the evaluation of Bids, building upon the previous approach adopted at ISOP stage. These were as follows:

Section	Evaluation Teams
Partnership	Team Leader: Jim White (Turner & Townsend) John Lorimer (Corporate Services) Terry Burke (Corporate Services) Rob Dillon (Economic Development Unit) Robin Lawler (Northwards Housing) Larry Patrick (Northwards Housing) Brendan Mason (Manchester Housing) Steve Ramsden (E&O IT)
Service Delivery Proposals	
Service Stream 1 & 3:	Team Leader: Sue Sanderson (Northwards)

Section	Evaluation Teams
ALMO Responsive Maintenance & ALMO Specialist Services	Housing) Steve Gill (Northwards) Chris Glover (Manchester Housing) Joan Fitzgerald (Northwards)
Service Stream 2 & 5: ALMO DHS & MCC Capital Works	Team Leader: Matt Roberts (HIO Team, Manchester Housing) Richard Lockwood (Northwards Housing) David Heys (Northwards Housing) Claire Hopkins (Manchester Housing)
Service Stream 4 & 4b: MCC Public Buildings (£0-£50k) & MCC AMP & DDA	Team Leader: Bob Smith (Corporate Technical Services) Fiona Worrall (Children, Families and Social Care) John Finlay (Corporate Services) Terry Burke (Corporate Services)
Service Stream 4a: MCC Public Buildings (£50k-£500k)	Team Leader: Bob Smith (Corporate Technical Services) Paul Watson (Corporate Technical Services)
Financial Proposals	Team Leader : David Mole (Corporate Services) David Bentley (E&O Finance) Alison Foster (Northwards) Tom Rock (HIO Team, Manchester Housing) Michael Croston (Grant Thornton) Rob Raynes (Turner & Townsend)
Legal and Commercial	Team Leader: Tim Skipworth (Chief Executives) Alison Brearey (Eversheds) Carol Iddon (E&O Personnel) Pete Wilson (E&O Personnel) Paul Castle (Turner & Townsend)

9.9 Parallel Procurement and Effective Benchmarking

It should be noted that this procurement exercise was run in parallel with the following to allow benchmarking of rates and ensure a value for money outcome.

This approach enabled the Council and Northwards Housing to carry out a full market test of the service by number of firms bidding to become the JV partner against those bidding for the same work in a non JV basis i.e. without any employee transfer implications. The two parallel exercises are as follows:

1. Housing Investment Options Framework Agreement – OJEU procurement of partners to deliver Decent Homes capital work for Northwards Housing, Parkway Green and other geographical areas (12 Bids were returned on 07th March 2006).

2. Manchester City Council Small Works Framework – OJEU procurement of partners to deliver maintenance and capital works in a value band of £0-£50,000 and £50,000-£500,000 (11 Bids were returned on 10th March 2006).

9.10 Compliant Bids

Compliant Bids have been received and assessed from all 3 Bidders.

9.11 Variant Bids

Mears was the only Bidder to present a variant bid, which proposed the establishment of the JV Co as a Limited Liability Partnership (LLP). This variant bid was deemed non-compliant in accordance with the Invitation to Tender (ITN) documentation and therefore discarded for Evaluation purposes.

9.12 Full Evaluation Scores including Reality Check Factor

Out of 19 different Award Criterion, MFS scored the highest in 15. Coming second on the remaining 4 to Kier. Kier scored the second highest score in 11 and Mears scored the lowest in 12.

The overall bid position is shown below:

	1. Morrisons	2. Kiers	3. Mears
	Weighted Score (%)	Weighted Score (%)	Weighted Score (%)
Partnership (10)	6.92	4.89	4.31
Service Delivery (40)	29.93	27.01	22.36
Finance (40)	33.57	30.34	24.39
Legal (10)	6.35	6.54	4.80
Overall Totals	77%	69%	56%
Reality Check Factor	1.00	0.95	0.90
Final Scores	77%	65%	50%

The successful bidder, Morrison Facilities Services Ltd submitted a bid that was consistently high in quality and offered the most affordable solution to all involved groups.

Their proposals were particularly strong in the areas of partnership, local economy, understanding of broader Council and Northwards aspirations and their operational capability and experience in delivering the service.

9.13 Reality Check

A Bidder Reality Check with a 0-1 factor was undertaken once the initial scoring was complete. This involved a range of Council officers from different Directorates/functions and Northwards Housing (NH) representatives. Its purpose was to ratify the realism of the proposition with a particular focus upon Partnership and Service Delivery.

A Reality Check factor was then agreed by the Evaluation Team, as follows:

Bidder	Factor	Comments
Morrisons	1.00	A strong proposition reinforced by good understanding of the Councils and wider stakeholder expectations, effective leadership and commitment from Morrisons at all levels
Kiers	0.95	Lacked leadership and was not well evidenced in terms of previous experience. Did not sufficiently address the significance of the Council's role in the partnership and the longer term aspirations
Mears	0.90	Concerns over the viability of their proposals. Specific gaps in operational management, approach to business development and the requirements of the Preferred Bidder phase, including mobilisation and integration

This factor was applied as shown in paragraph 9.12 above.

9.14 City Council and Northwards Housing comparison.

Both the City Council and Northwards Housing marked Morrisons ahead on Partnership, Service Delivery and Finance.

The only variance in scores related to the Legal assessment where Northwards marked Morrisons narrowly ahead of Kiers.

9.15 Timescales

Description	Original Dates	Actual/Forecast
Issue OJEU Notice	03 Aug 2005	15 Sept 2005
Issue ITN	01 Dec 2005	16 Dec 2005

Tender Return Date	01 Mar 2006	16 Mar 2006
Select Preferred Bidder	30 Apr 2006	08 May 2006
Award Contract	29 Jul 2006	31 July 2006
Start Date	28 Aug 2006	28 Aug 2006

10 RISKS AND COSTS TO THE COUNCIL

10.1 In terms of delivery of the recommended procurement approach, the key risk is:

- Delivery to timetable – the timetable allows for an immediate start for the ALMO decent homes standard work after the Audit Commission inspection is completed (circa June 2006) with mobilisation in August 2006

11 EMPLOYEE ISSUES/TRADE UNION CONSULTATION

11.1 Consultation has taken place with the Trade Unions at local and Branch level.

A new Board has been established - Employee Issues Board – previously chaired by the Strategic Director (Operations) with the specific purpose of providing a strategic communications forum. These meetings have been attended by Union representatives from all affected Unions throughout the joint venture procurement process.

11.2 During the bid evaluation period, a group of 15 City Works employees and trade union representatives visited operational depots at Sheffield (Kier), Gateshead (Morrisons) and Wigan (Mears). Each visit consisted of a brief presentation, a tour of the depot and informal meetings with employees who had TUPE transferred to the bidder.

The purpose of these visits was to assess the strengths and weaknesses of each bidder and gain feedback from employees about their personal TUPE experiences. The visits were evaluated by the completion of a brief questionnaire and debriefing session.

It should be noted that all three visits were to different types of organisations that carried out some, but not all, of the service streams included in the JVC.

11.3 Post the selection of the preferred bidder, the Head of Contracting Services met with all the Trade Unions to go through the decision to appoint Morrisons subject to the 10 day “cooling off” period.

The meeting went well and the Union representatives were clearly comfortable with the appointment. They had not had any adverse

reaction from their members and did not expect any problems arising from the appointment of Morrisons.

They were complimentary regarding the way that the communications on the project have been handled and particularly in terms of the appointment of the preferred bidder that they had been advised of the decision at the same time as the Managers and the three bidders.

Effective communications will continue to be a key part of the project as it proceeds through preferred bidder stage.

12 SUMMARY

A robust selection process has been used to select the preferred joint venture partner for City Works. The timetable adopted has also allowed benchmark comparisons to be made with other service providers being procured by MCC.

Key stakeholders, particularly staff, unions and service departments and Northwards Housing, have been fully involved in the procurement process.

The preferred bidder's tender offers best value and is affordable.