

CABINET PROCUREMENT & INSOURCING COMMITTEE

CONTRACT EXTENSION REPORT

Contract Extension Report	
Title of Report	Security Framework Contract
Key Decision No.	FCR S230
CPIC/HPB Meeting Date	4 September 2023
Classification	Open
Ward(s) Affected	All Wards
Cabinet Member	Cllr Chapman
Key Decision	<p>Yes</p> <hr/> <p>This results in the Council incurring expenditure or savings which are significant having regard to the Council's budget for the service/function.</p>
Group Director	Dawn Carter-McDonald, Interim Chief Executive
Original Cost of Contract	£20,827,370
Value of Proposed Variation	£11,765,542
Total cumulative value of the contract including all previous variations and the proposed variation if agreed	£39,431,003

1. Cabinet Member's Introduction

- 1.1 The Council's security service is a highly visible and fundamental part in the delivery of front facing services in key Council premises such as the Hackney Service Centre and Town Hall. It also helps to ensure safe and secure estates for many of our residents with concierge services.

- 1.2 The Council has a strategy of insourcing services where viable, and officers have carried out detailed work to assess potential options for insourcing all or part of the services provided through the security contract. While initial costings, shown below, indicated that the insourcing of this service would be challenging financially an external review (also detailed below) indicated that there is a viable way forward for a major part of the service, albeit with some additional capital investment. The report requests a short extension of the existing external contract while options for insourcing are actively pursued.
- 1.3 As part of this evaluation, the Council has worked diligently to ensure that lessons learnt from previous insourcing of services and the wider legal and regulatory landscape for providing security services are carefully considered.
- 1.4 I commend this report and the recommendation for an extension of the existing security arrangements. This will enable the Council to give full consideration and complete an exhaustive investigation into insourcing parts of the service where this may be a viable option.

2. Group Director's Introduction

- 2.1 This report requests approval to extend the current security framework contract for Council regular and reactive security requirements and concierge services for Hackney residential blocks for a 24 month term.
- 2.2 Assessment of insourcing options, supported by external experts, has identified the potential for elements of the service to move to an insourced model, with other aspects considered more suitable to continue as an outsourced model.
- 2.3 The proposed extension will allow further development of options for future service redesign, in line with the Council's wider insourcing strategy.

3. Recommendations

Cabinet Procurement & Insourcing Committee is recommended:

- 3.1 **To note the work undertaken on the possible insourcing of major parts of this service.**
- 3.2 **To agree a 24 months extension of the current Corporate Security contract with CIS Security Ltd with 12 and 18 month break clauses, while these options are actively pursued.**

4. Related Decisions

- 4.1 Contract Extension - July 2022 CPIC
- 4.2 Security Consultancy Contract award - ref DN669030

5. Background and details of the proposed variation

- 5.1 The contract between the Council and CIS Security Limited, commenced on 4th August 2018 for four years and was extended for 12 months until 3rd August 2023.
- 5.2 In this time officers have been carrying out significant work to analyse the Council's security service requirements and consider options for insourcing (or partial insourcing) of the security services. This work has included thorough consideration of potential risks associated with insourcing the service, including operational, financial, reputational and legal/regulatory considerations.
- 5.3 The current security framework comprises three service lots. The three lots are:
- Lot A. Civic buildings security including guarding, key holding and alarm response
 - Lot B. Vacant Premises & Estate security
 - Lot C. Residential concierge service
- 5.4 In order to comprehensively interrogate the current security service and thoroughly test the viability of insourcing, the Council first produced a full cost breakdown structure of the Council's current arrangements. This cost structure comprised:
- All staffed security hours required by the Council and delivered by the service provider
 - All supervisory hours
 - Vehicle, equipment & material costs
 - Management resources

In so doing, we were able to assess the service as a whole in order to identify possible efficiencies achieved from economies of scale, as well as break the service right down into smaller more manageable business models.

- 5.5 From the onset of the exercise we considered the legal complexities and issues around the Private Security Industry Act 2001 (PSIA 2001), including reflecting experience from the management of the Council's CCTV service. The requirements of the legislation mean that in providing a security service to customers, the 'directors' of the Council would be required to be licensed by the Security Industry Association including Mayor & Councillors.
- 5.6 Further legal advice and local authority benchmarking clarified that the section of the PSIA 2001 Act relating to licensing of Directors only applies in circumstances in which security services are being delivered to a third party. So there is therefore no requirement for the Mayor & Members to be licensed when the Council in fact delivers the security service to itself (licensing would be limited to those directly involved in the delivery & management of the

service).

5.7 We carefully considered parts of the service for which there may be licensing implications under the law and excluded them from the insourcing review. This also included specialist services such as dog handlers. As well as safeguarding the Council by providing a degree of certainty around legal requirements, these service elements also fluctuate in demand requiring a high level of flexibility in the ability to scale up and scale down resources. This makes planning resources for these parts of the service difficult and therefore better suited to outsourced provision.

5.8 Following this stage of the review, the service elements that were omitted from further consideration of insourcing options included:

- Event Security (involving third party clients such as weddings, MP surgeries, etc)
- Vacant premises & estate regeneration security (involving third party clients, dog handlers and unstable demand)

With these elements omitted from the cost breakdown structure, the following areas of the service were considered through further analysis:

- Corporate security guard services
- Residential concierge services

5.9 This represents the bulk of the Council's security service for which the vast majority of staff work. The modelling took account of all security hours currently being delivered for these services and the cost implications if they were to be converted into full time Council posts on the basis of:

- Standard 36 hour working week
- 4 weeks holiday entitlement
- 1 week sickness leave (assumed a realistic average across the workforce)

5.10 The Council Security (Lot A), which comprises the civic buildings, hostels, events & other Council sites has a core workforce of 50 staff.

5.11 The Vacant premises security (Lot B), which comprises regenerations sites and projects has a core workforce of 27 staff.

5.12 The Residential Concierge security (Lot C), which comprises the 13 tower blocks and is funded by residents, has a core workforce of 26 officers.

5.13 These numbers do not include supervisory, management or response officers working across more than one Service Lot. There are 119 total staff working in the service.

- 5.14 Once we modelled application of the Council's terms and conditions for staff to the security hours, this increased the number of staff the Council would need to cover these hours from the 119 staff currently delivering them under the current contract to 142; which would represent an increase of 23 full time staff to cover the Council's baseline security requirement.
- 5.15 Lessons learnt from previous insourcing exercises such as the cleaning service and parking service were used to plan suitable resources. We were realistic about the levels of resources that the Council would need to efficiently cover sickness/holiday absence and build-in sufficient resilience in order to scale up & down to meet short notice demand such as business continuity arrangements.
- 5.16 We also considered the management resources currently assigned to the Council by our current service provider, and analysed management structures and service plans detailed in previous security tender submissions. This enabled the development in the modelling of a management structure that was deemed sufficient and proportionate to the service in order to effectively manage the delivery of the Council's security requirements. This was then used within the cost breakdown structure for a proposed insource model.
- 5.17 No existing Council Service management infrastructure could be identified to absorb the security service, whether as a whole or in its segmented parts simply due to the size of the service. It delivers three times more service hours than the cleaning service and would involve the management of over 140 staff plus the management of further contracted staff.
- 5.18 Our assessment indicates that insourcing the security service under the current model would cost the Council an additional £581K per annum to deliver the same requirement for the Corporate Manned Guarding (Lot A) and Residential Concierge Service (Lot C)

6. Overview of Financial Findings

Tabled below are the financial findings of the Council's internal review:

Service	Cost		
	Contracted	Insourced	Difference (contracted vs insourced)
Option 1 Corporate Manned Guarding	£2.923M	£3.486M	(£563K)

30 sites			
Option 2 Residential Concierge 13 blocks	£1.314M	£1.698M	(£384K)
Option 3 Corporate Manned Guarding & Residential Concierge Combined	£4.238M	£4.819M	(£581K)
Option 4 Corporate Manned Guarding 9 corporate sites only	£1.469M	£1.784M	(£315K)
Option 5 Town Hall Front of House only	£76K	£107K	(£31K)

7. External Service Review

- 7.1 The Council does not currently hold the expertise and management infrastructure necessary to produce an informed insourced model that would satisfy the risks to the Council.
- 7.2 The Council also recognised the responsibilities of public venues that are expected to be brought in by [‘Martyn’s Law’](#). We also understand that service users are approaching the Council with increasingly complex needs due to pressures such as the housing and cost of living crises. This underlines the importance of the Council having an effective and compliant security service in place.
- 7.2 Therefore, given the importance of the security service in upholding the safety of its staff, residents and public, and the integrated way with which it is delivered with Council front facing services, the Council opted to commission an external review of the service using independent professional security specialists.
- 7.3 The external review assessed a snapshot of the Council’s portfolio comprising 16 sites across all Contract Lots of the framework over the course of 3

months. The purpose of the review was to identify if there were opportunities present within the Service capable of delivering the anticipated £581K increase in staff costs estimated for an insourced model.

8. External Review Findings

- 8.1 The external review identified that the Council does not currently have the required maturity in service experience or infrastructure to insource at this point in time and under the current model. It is considered that doing so at this time would bring notable security risks.
- 8.2 The review identified a potential for a 25% spend reduction for Lot A. Having assessed part of this service with a monetary value of £1.69M, the external review indicated the potential for £425K reduction in this spend, subject to investment (including investment in new technology) required to realise these savings.
- 8.3 The total projected spend reduction for Lot A if the findings from the analysis of the snapshot of 16 sites are extrapolated across the entire service would be £671K, which exceeds the £581K spend reduction required to fund the potential partially insourced model. This would facilitate the Council implementing a modern fit for purpose and future proof service as well as offset additional revenue spend required to bring staff onto Council employment terms and conditions.
- 8.4 The full value of investment required to realise the potential cost reduction will need to be quantified through a further full review of the service. Indicative findings suggest £281K capital expenditure would be required to deliver the potential £425k reduction in revenue spend for the 16 sites in the snapshot that was covered in the review.

9. Opportunities for Insourcing

- 9.1 The Council's review of options has identified insourcing and cost efficiency opportunities within Lot A, where there may be the potential to notably reduce revenue spend sufficient to fund the additional costs of an insourced model.
- 9.2 Lot B is unlikely to be suitable for insourced provision due to the instability in demand and most of these elements being funded by capex budgets or other one-off spend.
- 9.3 Lot C remains problematic for insourcing due to the financial arrangements in place with funding of the service and HRA recharge mechanism.

10. Council Strategy

- 10.1 Following the assessment outlined above, the Council now proposes a two part strategy comprising:

- A. Proceeding to tender the service elements that have been identified as needing to be provided by outsourced provision
- B. Progressing with the insourcing review for those elements where opportunities for efficiencies and spend reduction were identified.

10.2 The Table below sets out that proposed action plan

	Further insourcing assessment	Tender
Service Lot	LOT A	LOT B LOT C
Sites	<ul style="list-style-type: none"> ● Civic ● Hostels ● Other Council premises 	<ul style="list-style-type: none"> ● Vacant premises (regen) ● Residential Concierge ● Events
Staff	48	55
Timeframe	18-24 months	9-12 months

9. Alternative Options (Considered and Rejected)

9.1 Option: Not to extend

9.2 The option not to extend was considered and rejected on the basis that the Council has a duty of care to provide safe and secure environments for its staff and visitors.

9.3 Option: Retain Fully Outsourced Service

9.4 The Council rejected the option to retain a fully outsourced service as it has been able to identify efficiency opportunities that may facilitate the implementation of a modernised insourced model for parts of the current service.

9.5 In its obligation in delivering its Sustainability & Insourcing Policy, the Council has opted to explore these opportunities further rather than procuring all elements of the service.

9.6 Option: Insource the Current Model

- 9.7 The Council rejected the option to insource the service under the current security model as it is unable to identify funding to meet the increased oncosts identified.
- 9.8 The Council also recognises the need for modernisation within the service so understands that insourcing under the current model and reforming the service thereafter would bring added costs associated around service modernisation and rationalisation of resources, such as potential redundancies and pension payments.
- 9.9 The Council also understands that a simple “lift and shift” exercise would present a high risk of existing staff leaving due to earning caps placed under a Council model that do not apply within the outsourced provision.
- 9.8 Therefore in order to future proof the service and make sure that suitable resilience is built-in, further assessment of security roles and salaries in line with industry benchmarking will be necessary.

10. Justification for the proposed contract variation

- 10.1 The Council was able to remove subsidies for resident concierge services over the last four years. This was achieved under the current contract with the Council’s subsidy reduced in annual phases: last year the full cost of the concierge service was recovered from tenants and leaseholders.
- 10.2 Though we initially believed that we would need to omit the concierge service from review as essentially the Council would be providing security to “customers”, the financial arrangements in place meant that we were not directly billing for the service and these are included as part of the wider housing management service charges.
- 10.3 However we assessed the recharge values across the resident account and Section 20 consultations would be necessary under law to implement an insourced model. The residents could reject the proposal, which would mean that the insourced model could not legally progress.
- 10.4 We have calculated that based on the financial findings of our review that the average increase in resident recharge for an insourced concierge service would be £449 a year per tenant / leaseholder.
- 10.5 Given the current cost of living crisis it is not felt that benefits from insourcing would be proportional to the increase in costs to the residents and the HRA is not able to revert back to its historic position of subsidising the service due to the Council’s own financial pressures.
- 10.6 As part of its review the Council consulted other London Authorities for benchmarking and lessons learnt from their own arrangements. A case study was used to assess the mechanics, practicalities and outcomes of insourcing the concierge service.

10.7 The case study showed that though this security service had been brought in-house by another local authority, the residents received a significantly reduced service and still at an increased cost to the LA in the region of £250K in added on-costs.

11. Whole Life Costing/Budgets

11.1 The initial contract commenced 4 August 2018 until 3 August 2022 with a value of £20,827,370.

11.2 The first contract extension ran for 12 months from 4 August 2022 to 3 August 2023 with a value of £6,838,090.

11.3 The proposed extension is to run from 4 August 2023 to 3 August 2025 with a value of £11,765,542.

11.4 The proposed extension period will have the following contracted costs with yearly increases of c.5% due to typical LLW uplift.

Contract Lot	Service	Year 1	Year 2	Total
Lot A	Civic buildings security including guarding, key holding and alarm response	£2.758M	£2.896M	£5.654M
Lot B	Vacant Premises & Estate security	<£1.547M	<£1.624M	<£3.172M
Lot C	Residential concierge service	£1.433M	£1.505M	£2.938M

12. Risk Assessment/Management

Risk	Likelihood	Impact	Overall	Action to avoid/mitigate risk
Procurement related commercial risk of challenge to contract extension from other potential contractors / bidders	Low ▾	Medium ▾	Low ▾	Provided that LBH meet the commitment to, concurrent with extended contract period, mobilise an insourced service and/or run a procurement competition, then there is little risk of a challenge as the challengers

				<p>would also have the opportunity to bid for the contract.</p> <p>The cost of litigation against such a revenue/profit opportunity within each contract lot is also likely to discourage challenge, including those without merit and vexatious.</p>
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13. Savings

- 13.1 There are no savings identified in the recommendations in this report, although there may be opportunities for future savings/invest to save once the further analysis that is proposed has completed.
- 13.2 Full cost recovery for the residential concierge service will continue for the proposed 24 month extension term.

14. Sustainability Issues and Opportunities, Social Value Benefits

14.1 Procuring Green

- 14.2 The service provider will continue its contractual obligation to comply at all times with the Environmental Protection Act 1990 and other relevant legislation but also with the environmental policies of the Council.

14.3 Procuring For A Better Society

- 14.4 The Council’s commitment to the London Living Wage (LLW) will continue in the proposed extension using the same payment structure that is in place with the current arrangements. As is standard practice, annual LLW pay increment announcements in November are implemented for the 1st April the following financial year in line with LLW guidelines.
- 14.5 The incumbent service provider continues to work alongside LBH Employment & Skills team to focus recruitment to local residents in the first instance and has secured employment for local residents for vacant positions that have arisen during the last 12 months.

14.6 Procuring Fair Delivery

- 14.7 The contract will continue to be managed by the Facilities Management team.
- 14.8 The contract sets out management expectations and mechanism for the relationship between the Council and the service provider. The contract specification sets out the frequencies of operational tasks, strategic meetings and the route for problem resolution.

14.9 Equality Impact Assessment and Equality Issues

14.10 The service provider shall continue to comply with the Equality Act 2010 and the Council's standards as per its contractual obligations defined at time of tender. The extension of the current contract and its payment of LLW will continue in its regard to economic, social and environmental well-being in line with the Public Services (Social Value) Act 2012.

14.11 The current workforce for the contracted services is diverse, comprising 74% black or global majority staff. 24% are local residents and 10% are female.

14.12 Social Value Benefits

14.13 The proposed procurement supports the Council's published sustainability objectives with regard to the environment, equality and the local economy.

14.14 As noted above, the incumbent service provider continues to work alongside LBH Employment & Skills team to focus recruitment to local residents in the first instance. 24% of staff are local residents.

15. Contract Management Arrangements

15.1 The contract will continue to be managed by the Facilities Management Team. This will be done via recognised contract management tools:

- Monthly contract meetings
- KPI reporting
- Monthly supplier performance reports
- Invoice checking
- Customer satisfaction surveys
- Quarterly strategic reviews

15.2 The contract will set out management expectations and mechanism for the relationship between the Council and the appointed service provider. The contract specification will set out the frequencies of operational tasks, strategic meetings and the route for problem resolution.

15.3 New Key Performance Indicators

15.4 The current contract is subject to comprehensive KPIs and performance monitoring. The service will continue to be contract managed by Facilities Management via the same KPI mechanism.

16. Comments Of Interim Group Director Of Finance

16.1 This report outlines a proposal to extend the current Corporate Security contract with CIS Security Ltd for 24 months. The extension will be at a

proposed cost of £11.765 million, with break clauses at 12 and 18 months. The contract is split into 3 lots;

- Lot A - Civic Buildings/Key Holding & Alarm Response (£5.654m)
- Lot B - Vacant Premises & Estate security (c.£3.172m)
- Lot C - Residential concierge service (£2.938m)

16.2 The council has an annual security budget of c.£3m and therefore can meet the security costs for civic buildings/key holding and alarm response (Lot A). Vacant Premises and Estate Security costs (Lot B) are difficult to predict as they are reactive in nature. Services will need to manage the security spend within their existing budgets by assessing the need for other areas of expenditure.

16.3 The residential concierge service (Lot C) will be recovered through service charges to tenants and leaseholders

17. VAT Implications On Land & Property Transactions

None

18. Comments of the Acting Director, Legal, Democratic and Electoral Service

18.1 This report seeks authority to extend the current call-off contracts for Lots A, B and C under the Security Framework (“the Framework”) which are due to expire on 3rd August 2023. The original call-off contracts were entered into for a term of four years commencing on 4th August 2018 and expired on 3rd August 2022 and were thereafter extended for a period of one year. The twenty four month extension proposed will therefore be the second period of extension being sought. The report sets out the reasons why it has not been possible to undertake a new procurement process to appoint a provider to continue service provision and the reasons for the proposal to award a further contract extension in respect of the call-off contracts under the Framework to the current service provider. In the meantime the Council intends to undertake a review of proposals regarding insourcing Lot A elements of the current service in accordance with the Council’s Sustainable Procurement Strategy and the Terms of Reference of Cabinet Procurement and Insourcing Committee. The proposed extension is intended to accommodate the period until such new service commences.

18.2 Any proposed variation or extension to a contract with a value that falls above the relevant threshold for the Public Contracts Regulations 2015 (“the Regulations”) should be carried out pursuant to and in compliance with one of the grounds set out at Regulation 72. As this further extension was not provided for in the original contract the variation will only be permitted if it is not substantial, or if unforeseen changes have resulted in the need to vary the contract or a change in contractor cannot be made for economical or technical reasons, and that any variation does not exceed 50% of the

original contract value. It must also be ensured that the nature of the contract remains unchanged. Not all of these grounds appear to apply in respect of the variation/extension proposed.

- 18.3 It should be noted therefore that there is some risk to the Council that a challenge to the award of the contract extensions could come from competitors the Council has not approached to undertake the services. If such a challenge were successful it is likely that the Council would be liable to pay the lost profits of a party who has successfully challenged as well as the costs of bringing such a challenge and potentially a fine for a breach of the Regulations.
- 18.4 This has to be balanced against the fact that the Council has a duty of care to provide safe and secure environments for its staff and visitors and cannot be in a position where it does not have appropriate security arrangements in place to discharge that duty.
- 18.5 The risk of challenge therefore has to be balanced against the wider risk of failing to discharge its duty of care and this should be considered in the decision to approve the award in this report.

19. Comments Of The Procurement Category Lead

- 19.1 The total value of the requested extension was not provided in the original agreement and the total cost of the contract exceeds the relevant public procurement threshold, therefore non-compliant to our Contract Standing Orders. This is presented for approval by CPIC in accordance with Contract Standing Order 4.8.

“If none of paragraphs 4.4-4.7 apply, the Group Director may authorise a variation, subject to consultation with the Group Director, Finance and Corporate Resources and a written report setting out the justification for the variation. If the total cost of the contract, inclusive of the proposed variation is under £2M, approval must be sought from the Hackney Procurement Board or Cabinet Procurement Committee if the total cost of the contract is above £2M”

- 19.2 In 2022 a 12 month extension was granted but it was not sufficient time to cover all aspects of the service investigation.
- 19.3 Further extension of the current framework call-off contracts has become necessary due to delays in completing the options appraisal for future delivery of the Council’s Security Service requirements and the imminent expiry of the framework in August 2023. This will enable the Council to give full consideration and complete an exhaustive investigation into insourcing parts of the service where this may be a viable option.

Appendices

None

Background Documents

None

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