

FORM 2

SHEFFIELD CITY COUNCIL



Cabinet Report

Report of: Eugene Walker

Report to: Cabinet

Date: 20th July 2016

Subject: Corporate Statutory Servicing & Repairs Service - Delivery Options Post-March 2017

Author of Report: Rob Markham

Key Decision: YES

Reason Key Decision: Expenditure/savings over £500,000

Summary:

Local authorities over the past twenty years have moved from a uniform direct delivery model for all services, to one where services are undertaken on behalf of the authority by a range of external partners. These can include voluntary sector groups, charitable trusts, private sector organisations, other local authorities, as well as joint ventures and wholly owned companies (such as arms-length management organisations).

Sheffield is no different in this regard. A range of services are delivered directly by the Council, including Parking, Customer Services, Housing, Adoptions etc. and a range of services are delivered by external organisations. A sample of these is given in the table below:

External Provider Type	Service	Provider
Charitable Trust	Museums and Galleries	Sheffield Museums and Galleries Trust
	Theatres	Sheffield Theatres
	Sports, Events and Leisure Facilities	Sheffield International Venues
Voluntary Sector	Adult Social Care	Various
	Adult Skills	Various
Other Local Authority	Emergency Planning	Rotherham MBC
Private Sector	Highways Maintenance etc.	Amey

Sheffield City Council always consider a range of options for delivery to determine which arrangement is most appropriate – each situation is considered on its own merits that provides quality services for customers and represents value for money for the Council. We therefore tend to adopt a pragmatic approach which may include in-house provision, or out-sourcing of services. We believe that there are a range of advantages and disadvantages to each of these types of arrangement, and it makes sense to consider the specific situation in hand.

The current contract with Kier Services Ltd ('Kier FM') for the delivery of the Statutory Servicing & Repairs Service to Sheffield City Council's Corporate Estate was contracted to Kier Ltd in April 2014. The contract was for 2 years with a possibility of extending for another 3 years by yearly increments, an extension for year 1 has been taken up to extend the contract to March 2017. The future delivery requirements for the services have been considered and a decision now needs to be made on how service will be delivered following the ending of the contracts.

The options for future delivery of the service are identified as:

- Bring the service in-house to be directly delivered by the Council ("insourcing")
- Extend the current contract with Kier for one year until March 2018 and then in-source
- Extend the current contract with Kier for two years until March 2019 and then in-source
- Extend the current contract with Kier for one year until March 2018 and then re-tender
- Extend the current contract with Kier for two years until March 2019 and then re-tender
- Retender the CSSR contract to seek a new external contractor to deliver the service

A further option to do nothing at the end of the contact has been dismissed as the Council would be in breach of a number of statutory property duties and health and safety management requirements if the above service was no longer provided.

There were a number of drivers that led us towards outsourcing at the point the current contract was let – these included providing long term certainty over costs and service levels, and that working with a partner such as Kier would allow us to access economies of scale that would be more difficult for the Council to realise on its own.

However, with the changes in the external environment, particularly in terms of funding, it is recommended to follow an insourced option for Corporate Statutory Servicing and Repairs. This will bring a number of advantages including making it easier to integrate and modernise the service, cost-effectiveness, and providing more control in a less stable financial environment. Insourcing would also give the Council much greater flexibility and accountability in managing the Service and therefore best enable the Council to deliver its vision.

Insourcing the Service at this time would make it coincide with the in-sourcing of the Housing Repairs and Maintenance Service from Kier. Although the two functions differ significantly in respect of work and repair types, this would present the Council with an opportunity for increased synergy and joint delivery efficiencies between the two repair teams. However, there are also risks of insourcing the two services to the same timescale, in particular the increase in demand for internal resources, as well as IT systems integration and data migration.

There would be initial one-off implementation costs involved in insourcing the Service and designing a future operating model. However, in the long-term insourcing is the most cost-effective option. Therefore, this report recommends insourcing as the best option for future delivery of the CSSR Service as this offers the greatest benefits to customers and to the Council.

Insourcing the service will likely involve transferring the current Kier workforce delivering the CSSR Service, and the work they currently undertake, into the Council. There are a number of elements of the Service which may be more effectively delivered by an external contractor, and more work will be done to assess these.

As with any change, there are risks associated with insourcing the Service. In particular, there are risks relating to; a decrease in productivity; greater health-and-safety responsibilities; fluctuating costs of materials; equality of pay; continued ICT provision and having the necessary resources and infrastructure to implement the transfer. Strong management of the transfer and robust implementation plans will ensure that these risks are effectively mitigated.

A Project Team led by the Director of Transport and Facilities Management has been established and involved in developing the proposals in this report. Feedback has been sought from Elected Members, and information has also been sought from other organisations delivering a similar in-house service to help inform the work.

Following Cabinet approval work will commence to prepare for the insourcing of the Service working closely with Kier and their employees and, customers. This work will include formal Trade Union consultation, procurement of the necessary goods and services, an effective communications strategy for all key stakeholders and the development of a detailed implementation plan.

Alongside this, work will also be done to design what that service should look like. This design work will lead to the development of a 'Target Operating Model' for the service, and customers and service users will be closely involved in this work.

If Cabinet approve the proposals in this report, work will then begin to insource the Service. This work will include formal Trade Union consultation, procurement of the necessary goods and services, an effective communications strategy for all key stakeholders and the development of a detailed implementation plan.

Reasons for Recommendations:

- Insourcing the Statutory Servicing and Repair Service will give the Council more control, flexibility and accountability in managing the Service, enabling the service to be fully integrated into the Council and to work in close partnership with other relevant key Council services. This will help to ensure that the Service is delivered in a way which fully supports the Council's corporate objectives and enables the Council to more easily make further changes in future.
- Bringing the CSSR Service in-house for direct delivery by the Council will also help to bring about an alignment of culture in the Service to that of the Council, as well as its approach to customers.
- Based on all information known to date, and after the initial upfront costs of transferring the service, the insourced option is expected to generate sustainable year-on-year revenue savings.

In addition, once fully integrated into the Council there will be further opportunities to reduce duplication and increase efficiency within the Service and by exploring the degree of joint-working possible with the HR&M Service potentially enabling it to improve outcomes within available budgets.

- Insourcing also brings with it the potential to expand the service's external-trading function, which already generates £700,000 - £800,000 revenue from work for schools. This could include undertaking statutory servicing and repairs work on behalf of other organisations, as well as increasing the amount of work done for schools.
- Directly delivering the service in-house, with some elements of it being outsourced to locally-based contractors wherever possible, would help support the concept of the 'Sheffield Brand'. Materials would be purchased from local suppliers wherever possible (subject of course to the usual procurement rules and Council policies), and the workforce would be predominantly local. The supply chain would also, where possible, be tailored to the bespoke needs of SCC Corporate Buildings to reduce material lead in times and improve service delivery.
- Independent research by APSE (the Association for Public Service Excellence) has also identified a number of potential benefits of insourcing services, based on actual case-studies and local authority experiences:
 - Improved performance
 - Stronger links to corporate strategic objectives
 - Greater flexibility, and more responsive to local and national policy changes
 - Efficiency savings
 - Improved customer satisfaction
 - Enhanced local supply chains
 - Better integration and joining-up with other relevant key services
 - New development and employment opportunities for the workforce transferred in
- There are of course risks associated with the option to insource the service (as indeed there are with the other alternative delivery options discussed in this report), and some of these risks are significant. However, measures are and will continue to be in place to mitigate these risks, and if any of these risks significantly escalate, or any significant new risks (including financial ones) emerge, a further report would be brought back to Cabinet before progressing the transfer any further.

Recommendations:

That Cabinet:

- Approves the proposal in this paper to insource the Corporate Buildings Statutory Servicing & Repairs Service from 1st April 2017.
- Gives its approval for the in-sourcing to be done based on the principles and assumptions described in section 9 of this report, and taking into account the risks and mitigations as set out in section 10, including the potential sub-contracting-out of a proportion of the service.
- Gives its approval for the budget required to cover the one-off implementation and set-up costs, as described in section 8.9 of this report.

- Notes that the Executive Director of Resources shall ensure that all necessary steps to progress and implement the insourcing of the service are taken in accordance with his current delegations under the Leader's Scheme of Delegations. These steps may include:
 - At the appropriate time, commencing formal consultation with staff and Trade Unions regarding the transfer of staff from Kier into the Council (in consultation with the Director of Human Resources as necessary).
 - Developing the structure and agreeing the timescales needed to deliver an in-house corporate repairs service (in consultation with the Director of Human Resources as necessary).
 - Undertaking a more detailed assessment of which elements of the service are more appropriate to be contracted out, rather than directly delivered by the Council, and what the impact of this will be and how that will need to be managed (in consultation with the Director of Commercial Services and the Director of Human Resources as necessary).
 - Approving the procurement strategy and contract award, agreeing contract terms, entering into the contracts with appropriate contract management arrangements in line with the Council's Intelligent Client model, for all necessary goods and services. This will apply to both the development / implementation work required prior to the insourcing, and for in-house delivery of the service itself (including any elements of the service which it is agreed will be contracted out by the Council) once it is brought back into the Council (in consultation with the Director of Commercial Services and the Director of Legal and Governance as necessary).
 - Any other work required for the effective preparation for and implementation of the insourcing of the CSSR Service.
- To the extent that the Executive Director of Resources does not already have authority under the Leader's Scheme of Delegations, delegates authority to the Executive Director of Resources to approve the procurement strategy and contract award, and agree contract terms and enter into the contracts, for necessary goods and services (in consultation with the Director of Commercial Services and the Director of Legal and Governance as necessary).
- Notes that the Executive Director of Resources will work with the Executive Director of Communities, who is responsible for insourcing the Housing Repairs and Maintenance Service, to explore potential efficiencies.
- Requests that a further report is presented to Cabinet if the underlying strategy for the future of the Service cannot be achieved, or if any unforeseen significant risks emerge which may prompt Cabinet to re-consider its decision.

Background Papers:

- Cabinet Report 10th April 2013: "Corporate Statutory Servicing and Repairs Contract
 - Association for Public Sector Excellence (APSE) Report January 2009: "Insourcing: A guide to bringing local authority services back in-house"
 - Cabinet Report 18th March 2015: Future Options for the Housing Repairs and Maintenance Service
-

Category of Report: OPEN (with closed Appendices Two and Four which contain commercially sensitive financial and HR information)

Appendices Two and Four are not for publication by virtue of Regulation 20(2) Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 because, in the opinion of the proper officer, it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: Jayne Clarke
Legal Implications
YES Cleared by: Sarah Bennett
Equality of Opportunity Implications
YES Cleared by: Michelle Hawley
Tackling Health Inequalities Implications
NO
Human Rights Implications
NO
Environmental and Sustainability implications
NO
Economic Impact
NO
Community Safety Implications
NO
Human Resources Implications
YES Cleared by: Scott Minshull
Property Implications
NO
Area(s) Affected
Citywide
Relevant Cabinet Portfolio Lead
Clr Ben Curran
Relevant Scrutiny Committee
Overview & Scrutiny Management Committee
Is the item a matter which is reserved for approval by the City Council?
NO
Press Release
YES

1. Summary

- 1.1** Local authorities over the past twenty years have moved from a uniform direct delivery model for all services, to one where services are undertaken on behalf of the authority by a range of external partners. These can include voluntary sector groups, charitable trusts, private sector organisations, other local authorities, as well as joint ventures and wholly owned companies (such as arms-length management organisations).
- 1.2** Sheffield is no different in this regard. A range of services are delivered directly by the Council, including Parking, Customer Services, Housing, Adoptions etc. and a range of services are delivered by external organisations. A sample of these is given in the table below:

External Provider Type	Service	Provider
Charitable Trust	Museums and Galleries	Sheffield Museums and Galleries Trust
	Theatres	Sheffield Theatres
	Sports, Events and Leisure Facilities	Sheffield International Venues
Voluntary Sector	Adult Social Care	Various
	Adult Skills	Various
Other Local Authority	Emergency Planning	Rotherham MBC
Private Sector	Highways Maintenance etc.	Amey

- 1.3** Sheffield City Council always consider a range of options for delivery to determine which arrangement is most appropriate – each situation is considered on its own merits that provides quality services for customers and represents value for money for the Council. We therefore tend to adopt a pragmatic approach which may include in-house provision, or out-sourcing of services. We believe that there are a range of advantages and disadvantages to each of these types of arrangement, and it makes sense to consider the specific situation in hand.
- 1.4** The current contract with Kier Services Ltd ('Kier FM') for the delivery of the Statutory Servicing & Repairs Service to Sheffield City Council's Corporate Estate was contracted to Kier Ltd in April 2014. The contract was for 2 years with a possibility of extending for another 3 years by yearly increments, an extension for year 1 has been taken up to extend the contract to March 2017. The future delivery requirements for the services have been considered and a decision now needs to be made on how service will be delivered following the ending of the contracts.
- 1.5** The options for future delivery of the service are identified as:
- Bring the service in-house to be directly delivered by the Council ("insourcing")
 - Extend the current contract with Kier for one year until March 2018 and then in-source
 - Extend the current contract with Kier for two years until March 2019 and then in-source
 - Extend the current contract with Kier for one year until March 2018 and then re-tender
 - Extend the current contract with Kier for two years until March 2019 and then re-tender

- Retender the CSSR contract to seek a new external contractor to deliver the service

- 1.6** A further option to do nothing at the end of the contact has been dismissed as the Council would be in breach of a number of statutory property duties and health and safety management requirements if the above service was no longer provided.
- 1.7** There were a number of drivers that led us towards outsourcing at the point the current contract was let – these included providing long term certainty over costs and service levels, and that working with a partner such as Kier would allow us to access funding and economies of scale that would be more difficult for the Council to realise on its own.
- 1.8** However, with the changes in the external environment, particularly in terms of funding, it is recommended to follow an insourced option for corporate statutory servicing and repairs. This will bring a number of advantages including making it easier to integrate and modernise the service, cost-effectiveness, and providing more control in a less stable financial environment. Insourcing would also give the Council much greater flexibility and accountability in managing the Service and therefore best enable the Council to deliver its vision.
- 1.9** Insourcing the Service at this time would make it coincide with the in-sourcing of the Housing Repairs and Maintenance Service from Kier. Although the two functions differ significantly in respect of work and repair types, this would present the Council with an opportunity for increased synergy and joint delivery efficiencies between the two repair. However, there are also risks of in-sourcing the two services to the same timescale, in particular the increase on demand for internal resources and IT systems integration and data migration.
- 1.10** There would be initial one-off implementation costs involved in insourcing the Service and designing a future operating model. However, in the long-term insourcing is the most cost-effective option. Therefore, this report recommends insourcing as the best option for future delivery of the CSSR Service as this offers the greatest benefits to customers and to the Council.
- 1.11** Insourcing the service will likely involve transferring the current Kier workforce delivering the CSSR Service, and the work they currently undertake, into the Council. There are a number of elements of the Service which may be more effectively delivered by an external contractor, and more work will be done to assess these.
- 1.12** As with any change, there are risks associated with insourcing the Service. In particular, there are risks relating to; a decrease in productivity; greater health-and-safety responsibilities; fluctuating costs of materials; equality of pay; and having the necessary resources and infrastructure to implement the transfer. Strong management of the transfer and robust implementation plans will ensure that these risks are effectively mitigated.
- 1.13** A Project Team led by the Director of Transport and Facilities Management has been established and involved in developing the proposals in this report. Feedback has been sought from Elected Members, and information has also been sought from other organisations delivering a similar in-house service to help inform the work.
- 1.14** Following Cabinet approval work will commence to prepare for the insourcing of the Service working closely with Kier and their employees and, customers. This work will include formal Trade Union consultation, procurement of the necessary goods and services, an effective communications strategy for all key stakeholders and the development of a detailed implementation plan. A dedicated implementation team will be established to lead on this work.

- 1.15** Alongside this, work will also be done to design what that service should look like. This design work will lead to the development of a 'Target Operating Model' for the service, and customers and service users will be closely involved in this work.
- 1.16** If Cabinet approve the proposals in this report, work will then begin to prepare for the insourcing of the Service. This work will include formal Trade Union consultation, procurement of the necessary goods and services, an effective communications strategy for all key stakeholders and the development of a detailed implementation plan.

2 What does this mean for Sheffield People?

- 2.1** The Corporate Statutory Servicing and Repairs Service does not directly deliver services to the public, but supports the maintenance of SCC's corporate estate. This estate consists of over 600 buildings /properties of varying sizes and use along with a wide range of other structures from dams and water courses to scheduled Ancient Monuments. Effective management and delivery of the repairs and maintenance service to these properties and structures is a key enabler of service delivery and supports the Council's main strategic aims and objectives as highlighted in section 3.
- 2.2** The Corporate Statutory Servicing and Repairs Service also delivers servicing and repairs services to one hundred and three schools as part of a traded service package. This enables schools to maximise the use of their buildings and hence supports educational outcomes for children and young people in Sheffield.
- 2.3** There is a commitment in the Corporate Plan to "... make the best possible use of our resources to meet the needs of Sheffield and its people..." The proposal in this report to insource the CSSR Service would give the Council greater control over this service area, thereby helping to ensure that the resources delivering this service are used in the most effective way and achieving the best possible outcomes for customers.

3 Outcome and sustainability

Supporting the Council's Strategic Outcomes

- 3.1** A well-managed and efficient **Corporate Buildings Statutory Servicing & Repairs Service** provides a cross cutting support and regeneration function that provides the physical infrastructure for the Council's required outcomes, particularly;
- 3.1.1 An In-Touch Organisation:** There is a commitment in the Council's Corporate Plan to "value our employees who are vital to delivering high quality services for Sheffield." The effective delivery of the CSSR Service will ensure that Council employees continue to work in safe environments and so support high quality service delivery.
- 3.1.2 Thriving neighbourhoods and communities:** Offering safe well-maintained community facilities and infrastructure significantly contributes to making our neighbourhoods more attractive, and to giving local communities an environment to be proud of.
- 3.1.3 A Strong Economy:** The option to bring the CSSR service in-house, with certain elements contracted out to local businesses where possible, should have a positive impact in terms of economic growth and encouraging jobs – delivering the service through the 'Sheffield Brand'.
- 3.2** Bringing the CSSR Service in-house for direct delivery by the Council will also help to bring about an alignment of culture in the Service to that of the Council, and in its approach to customers. As an integrated function within the Council, the Service will be much better

placed to adopt the Council's key principles of 'right first time' and holistic service delivery - and to be more adaptable to varying circumstances and to any changes in corporate priorities.

Sustaining the value of Council properties

- 3.3** Over the course of the CSSR contract the Council has invested approximately £18m in the corporate estate, although there is still a significant maintenance backlog. It is important that the Council protects this investment through ongoing effective maintenance and repair of its estate.

Achieving efficiencies for the wider Council

- 3.4** Although the performance of the CSSR contract has been good, as with any contractual arrangement for the delivery of services, it involves a degree of inflexibility in how that service is delivered. Bringing the Service in-house for direct delivery will enable the Council to use these resources collectively - exploring opportunities for joint benefits and better integration, thereby achieving savings for other Council services.

4 Background

Current Corporate Buildings Statutory Servicing & Repairs Service contract with Kier Services Ltd

- 4.1** In 2014 The Council decided to tender the repairs and maintenance work associated with the Corporate Estate on the open market in line with European Procurement rules and the Councils own standing orders. The contract was for a fixed term of 2 years with an option of a 3 year extension in increments of 1 year.
- 4.2** The contract was won by Kier who set up Kier FM to procure the work which they do via a combination of their own work force and small number sub-contractors (circa 20). The CSSR contract was first and foremost established as a statutory servicing contract and was set up in this way to address the Corporate Estates "non-compliance" issues with a target date for the estate to be fully compliant by March 2016.
- 4.3** The current contract covers a wide range of repairs and maintenance functions, including:
- Responsive repairs
 - Planned Repairs
 - Repairs after servicing (all servicing elements)
 - Gas servicing
 - Lift / Hoist servicing
 - Hard Wire Testing
 - Fire Alarm & Emergency Lighting servicing
 - Air Conditioning/AHU servicing
 - Earthing / Lightning Protection testing
 - Fire Fighting Equipment Servicing
 - Portable Appliance Testing
 - Latchwire / Safe man systems testing
 - School kitchen repair and maintenance

- Asbestos Management Plans and Surveys.
- Fire Risk Assessments (FRA)
- L8/Legionella Risk Assessment

4.4 A full list of the elements covered by the current contract is given in Appendix One.

4.5 Whilst Kier's general operation of the contract has been very good, there have been some issues with Asbestos management. These have been overcome by joint working of Kier and SCC.

4.6 The CSSR contract operates under a separate delivery model to other services delivered by Kier to SCC. This is due to the standards expected on the buildings and infrastructure the contract covers; many of which are listed / unique and so require specialist repairs and servicing. In practice this results in around 20% of the contract being subcontracted due to the amount of specialist delivery required.

4.7 Whilst the standards and output from Kier have been high, it is clear that Kier have made lower profits than expected, with some service areas running at a loss. Currently the apparent loss of income may be "subsidised" by profit on any Minor Works projects that SCC negotiate with Kier (which are not core contract work and therefore not covered by the exclusivity clause within the contract). See Section 10.4 below.

4.8 The contract also contains a traded element with schools worth £700,000-£800,000 p.a. that has different requirements, particularly on staffing flexibility to meet peak demand during holiday periods. Any future provision will have to provide this flexibility to schools, if this service is to continue.

Capital and Minor works through the CSSR service

4.9 The CSSR service has been used as a procurement route for minor works, much of which is small capital projects, which do not form part of the core service contract. In 2015/16 there were £3,159,846 worth of works outside of the core contract done through the CSSR service, almost the annual cost of the core contract works. £1,169,013 of the cost of these works was capitalised, with £2,075,130 revenue funded.

4.10 To ensure best value on such minor works a number of measured term framework agreements for mechanical, electrical and roofing works are already being set as an alternative procurement route. As a result of this the volume of these works done through the CSSR service on such projects is expected to significantly reduce whichever option is chosen for future delivery.

4.11 Around £850,000 of these minor works are expected to still be carried out by the CSSR service. This activity covers a range of different work types, with around half directly delivered by Kier and half by subcontractors.

4.12 Staff that work for Kier or their subcontractors on these non-'core contract' works may be eligible for TUPE to any future provider of the work. This would be determined through the analysis carried out as part of any TUPE process.

School Meals Subscription Service and the Sheffield School Catering Contract

4.13 Schools have a duty to provide school meals to their pupils on all days that schools are in session. CYPF maintains a client approach in order to support Head teachers to discharge their statutory duty for school meals while school leadership is focussed on teaching and

learning. CYPF supports schools by offering a fully managed service that includes the management and maintenance of kitchen premises and commercial catering equipment.

- 4.14** The School Food Team independently managed the service and maintenance, responsive repairs and planned works elements under contract from the early 1990's until April 2014 when the Corporate Statutory Servicing and Repair contract was introduced.
- 4.15** An analysis of the service as part of the CSSR contract since April 2014 has shown that 84% of all school kitchen works is carried out by commercial catering companies as subcontractors, with only 16% provided directly by Kier.
- 4.16** A measured term contract for school kitchen maintenance and repair has been proposed to move to a direct contractual relationship between suppliers and the School Food Service client team. This more direct relationship is expected to provide a more responsive service without the need to go through a third party, supporting a business critical environment.
- 4.17** An immediate saving of £29,821 is expected from directly going to the market for servicing, responsive repairs and works which stem from servicing for school kitchens. This does not include the 15% uplift on Minor Works in school kitchens which would potentially generate further savings. No cost increase is expected for administration, as the process and management of the contracts is shifted to the existing School Food Service client team who already have a high degree of operational involvement.

The wider context

- 4.18** In considering the best option for delivering the CSSR service going forward, it is important to take into account the wider context and environment in which the service will operate. This is significantly different to the environment when the CSSR Service was first outsourced through the Kier LLP arrangement, particularly the funding environment.
- 4.19** The Council has faced significant budget cuts in recent years, under Government austerity measures – and this is likely to continue for the foreseeable future. In light of this it is more important than ever that all Council services are efficient and represent value-for-money, achieving better outcomes for customers with limited resources.
- 4.20** The CSSR service is and will continue to be funded by the Council's Revenue Budget, which is directly impacted on by the cuts in central funding. Consequently, it is crucial that the CSSR service is seen to be efficient, well-managed and achieving excellent value for Council tax-payers. It will also need to be more flexible in its operations to adapt to other organisational and funding changes, while remaining aligned with the Council's objectives and customer focused.
- 4.21** The potential in-sourcing of the CSSR Service would occur at the same time as the in-sourcing of the Housing Repairs and Maintenance Service. Both of these initiatives are aimed at increasing efficiency, reducing duplication and improving joined-up working between council teams and services, as well as with external service partners. Links between the two changes will need to be carefully managed to coordinate the activities of both projects.

5 Vision for the Service

- 5.1** The vision for the corporate estate is to have an estate that both the Council and people of Sheffield can be proud of and puts the customer/end user first. This can be achieved through:
 - ✓ Providing an excellent quality Corporate Estate repairs service.
 - ✓ Maintaining a fully compliant estate that meets its purpose.

- ✓ Integrating the client and contractor functions of the service to benefit the customer by continuously striving to provide a “right first time” repairs service.
- ✓ Adopting a “one stop shop” approach giving easy access to all the Corporate Estates customers and end users.
- ✓ Ensuring efficient management ensuring value-for-money services that allow further investment to address the identified back log maintenance.

5.2 An insourced CSSR service, under the direct control of the Council and with all the opportunities for joint working and better integration which that would support the achievement of these ambitions.

The Council

5.3 The Council as a whole has a vision for how it wants all of its services to be shaped and developed, and these are set down in the Council’s Organisational Design Principles. These need to be factored into any decision on the future delivery and development of the CSSR Service. The principles particularly relevant to the CSSR Service are:

- ✓ **Demonstrate improvement of outcomes:** Delivering more and achieving better outcomes for customers within the existing budget will be a key focus for the Service going forward. Insourcing the Statutory Servicing and Repairs service for direct delivery by the Council will enable much stronger links to be forged between the service and other key Council services, support a more holistic approach to service delivery and so ultimately achieve better outcomes for our customers.
- ✓ **Affordable, cost effective services:** The Service will need to drive efficiency, minimising costs and ensuring a good return on its spending. By bringing the service into the Council, opportunities for streamlining and reducing duplication can be maximised.
- ✓ **The right people, skills and behaviours:** Bringing the repairs and maintenance workforce into the Council will help create a cultural alignment to the Council, moving it towards a more modern and flexible way of working.
- ✓ **Flexible and responsive services:** Bringing the service into the Council will enable the service to be more flexible and responsive to future changes, listening to customers and engaging them in development of the service.

Council and Kier Employees

5.4 Council Officers from relevant teams have been involved in the initial service design work. Key Council Officers will also be involved in the work to develop an operating model for the service.

5.5 A new Communications Plan will be agreed with Kier management and Trade Unions so that employees are as involved as possible to inform the new service design.

5.6 Staff in both the Council and Kier who are likely to be impacted on by the outcomes of this report, along with their Trade Unions, will be provided with regular updates through a number of arrangements including team briefings, staff newsletters and intranet updates. There is also a requirement to consult with affected staff to ensure that TUPE legislation is complied with.

- 5.7 The Council will liaise with Kier to take all necessary actions to effect the termination of the contract and the transfer of staff and assets.

6 How the proposals in this report have been developed

- 6.1 A wide range of key people have been involved in the work which underpins this report. A Project Team has been established - led by the Director of Transport and Facilities Management and consisting of lead officers from across the Council representing all key service areas involved in this project. These include:
- Transport and Facilities Management
 - Business Change and Information Solutions (BCIS)
 - Commercial Services
 - Finance
 - Legal Services
 - Human Resources (HR)
- 6.2 Representatives from the above Teams have taken responsibility for providing relevant cost information for their service area, and to inform financial modelling work described in section 6.5 below.
- 6.3 A comprehensive options appraisal was carried out to determine the most appropriate way of delivering the CSSR service after March 2017. This review considered the options described in section 1.5 above and involved detailed work to evaluate each option, including:
- Financial modelling for each option, based on agreed assumptions and future service requirements
 - Identifying the risks associated with each option, for example in relation to Human resources / staffing and commercial issues.
 - Assessing the potential benefits associated with each option.
- 6.4 Robust governance arrangements have been setup to manage this work. A Project Board has been setup to oversee the work of the Project Team, chaired by the Executive Director of Resources (the Project Sponsor).
- Financial Modelling**
- 6.5 For each option, financial information was collated by the relevant professionals, taking into account how the service will need to operate from day one (i.e. 1st April 2017). The costs included in this financial modelling are:
- 6.6 For the **insourcing** option:
- Staffing and Learning and Development costs for the workforce which it is assumed would be transferred into the Council from Kier and the additional costs the Council would incur as a result of bringing staff in house e.g. Pensions costs.
 - A small management team to run the insourced service
 - Appropriate accommodation and vehicles
 - The cost of the small plant and materials

- The Information Technology costs of integrating the service, and of the ongoing running of the systems required
- The insurance costs and costs for uninsured claims.
- The impact on the Council's corporate services (e.g. HR, Finance, etc.)
- Customer Services / Contact-Centre costs
- The cost of transferring the service from Kier and of the work needed in preparation for the service being insourced (e.g. the cost of a project team and any necessary procurement work)
- 'Dual' operating costs, to cover any 'handover' period between Kier and the Council
- Estimated costs for the elements of the service which the Council would contract out, rather than deliver directly itself.

6.7 Some of the above costs may be incurred via a shared delivery model i.e. accommodation, IT, joint-working and other operational synergies with the Housing Repairs and Maintenance insourced Service. At this stage these efficiency opportunities have not been fully identified, so cost assumptions are based on CSSR having separate direct delivery costs, but if further efficiencies are found post transfer this may not be the case.

6.8 For the **full external procurement** option:

- Expected costs of an externally procured (outsourced) service, using information held within the Council;
- The cost of undertaking the procurement for such a contract;
- Customer Services / Call-Centre costs
- Any further costs associated with working with a new supplier e.g. mobilisation cost
- Contract management costs

6.9 For the options that include **extending the Kier contract**, current cost of the service was agreed in 2014 for a two year period until March 2016 with an option to extend the contract in annual increments for a further three years until March 2019. This option was exercised from April 2016 and Kier have provided an estimate of costs for a further annual extension from 1st April 2017. The costs of insourcing or retendering after the extension period have been based on updated versions of the insourcing and retender options. The costs for this option also include:

- Customer Services / Call-Centre costs
- SCC staff costs - for contract monitoring, performance management, etc.
- Subcontractor costs for the elements which Kier don't directly deliver

Target Operating Model

- 6.10** The Project Team, along with other Council officers from key service areas, are also currently working on developing an operating model for the new service. This model will describe the vision, what the Service needs to do and how it needs to do it. To achieve this, work first needs to be done to capture the way the service currently works and identify the drivers and opportunities for change.
- 6.11** The requirements of the service going forward will be the same regardless of who delivers the service, whether that is the Council, an external contractor or Kier initially. Customers, end users and staff have been and will continue to be involved in the development of the operating model, and some basic principles have already been agreed by those involved to date:
- ✓ The way the service works will need to focus on what matters most to our customers and end users
 - ✓ Processes need to be as simple as possible, with minimal duplication of work
 - ✓ Front-line staff need to be involved in decisions about what will work best for our customers
 - ✓ Decisions need to be based on reliable evidence
 - ✓ Staff need to be trusted and equipped to achieve the best outcomes for our customers
 - ✓ Clients and staff must be at the heart of any service development or key changes to the service
 - ✓ There must be positive and constructive relationships with suppliers
 - ✓ There needs to be effective performance management of the service
- 6.12** Delivering the CSSR Service requires a number of support functions to be in place. Some of these functions are currently performed by Kier as part of the current contract, and therefore will need to be performed by the Council if the Service is insourced. These services include ICT support, HR and Payroll, Customer Services, Finance and Procurement. As mentioned at 6.6 above it is currently envisaged that a number of these functions may be delivered to both the Corporate Repairs Service and the Housing Repairs and Maintenance insourced Service in order to optimise operational efficiencies.
- 6.13** The outcomes of the initial work on developing an operating model support the option to insource the service. This work is based on three key assumptions:
- The support functions required to deliver the CSSR Service are also insourced (or if they already exist within the Council, are adapted as required);
 - The support functions may be shared with the Housing Repairs and Maintenance insourced Service if this provides operational efficiencies for the Council as a whole;
 - Not all aspects of the Statutory Servicing and Repairs Service will be directly delivered by the Council – some elements will be contracted out to specialist contractors.
- 6.14** Work to develop an operating model is still ongoing, and involves design work to develop an outline model to test the operational feasibility of delivering the CSSR Service in-house. The model is expected to involve minimal change to operational processes to preserve service delivery. This delivery will be reviewed once the insourced service has successfully been embedded into the Council.

7 Evaluating the options for future service delivery

7.1 As explained in Section 1.5 above, there are six main options for future delivery of the Statutory Servicing and Repair Service, which are:

- “**Insourcing**”: the service delivered in-house by the Council (possibly with an element of the service contracted out to be delivered by specialist contractors)
- “**Extension of the current Kier Contract, followed by insourcing for 2018**”: Extend the current contract with Kier for a further year until March 2018 and then either insource the service.
- “**Extension of the current Kier Contract, followed by insourcing for 2019**”: Extend the current contract with Kier for a further two years until March 2019 and then either insource the service.
- “**Extension of the current Kier Contract, followed by full external procurement for 2018**”: Extend the current contract with Kier for a further year until March 2018 and then either retender the service for delivery by a third party.
- “**Extension of the current Kier Contract, followed by full external procurement for 2019**”: Extend the current contract with Kier for a further two years until March 2019 and then either retender the service for delivery by a third party.
- “**Full external procurement**”: Seek a new external contractor to deliver the whole of the Corporate Statutory Servicing and Repairs Service on the Council’s behalf.

Option 1: Insource the Statutory Servicing and Repairs Service

7.2 Under this option, the Corporate Statutory Servicing and Repairs Service would transfer into the Council, as would the Kier workforce currently undertaking this work, and the Council would **directly deliver** the vast majority of servicing and repairs work to Council properties.

7.3 The main potential **benefits** of this option are:

7.3.1 More control, flexibility and accountability for the Council in managing the Service, enabling the service to be fully integrated into the Council and to work in close partnership with other relevant key Council Services, specifically the Housing Repairs and Maintenance Service. This control would also allow the Council to more easily make further changes to how the service is delivered in future.

7.3.2 This option is expected to generate sustainable year-on-year revenue savings, and longer-term there will be further opportunities to reduce duplication, join-up procurement with other Council services and increase efficiency within the Service.

7.3.3 Insourcing also brings with it the potential to expand the service’s external-trading function. For example, the Council could carry out statutory servicing and repairs work on behalf of other Councils and public sector organisations, as well as increasing the number of schools that already purchase this support.

7.3.4 Directly delivering the service in-house, with minor elements of it being delivered by locally-based contractors wherever possible, would help support the concept of the ‘Sheffield Brand’. The Council could directly encourage the use of local supply chains, where this was compliant with Public Contract Regulations and value for money.

7.4 The main potential **disadvantages** of this option are:

7.4.1 Moving the current Kier workforce into the Council may impact on staff motivation and so lead to reduced productivity and reduced customer satisfaction.

- 7.4.2 If at the point of transfer staff resource levels do not match service demand there could be significant budget implications for the Council in terms of managing the associated staff costs. If demand is higher than available resource then recruitment could be needed and service delivery could be detrimentally affected. This is covered in more detail in Section 10.4 below.
- 7.4.3 The timescale of approximately 9 months following a formal Council decision to insource looks challenging in respect of undertaking the necessary implementation and mobilisation tasks;
- 7.4.4 If the time and resources allocated to managing the transfer are not sufficient there would be delays and/or increased costs. This risk is made more acute by the simultaneous running of the Housing Repairs & Maintenance project with an overlap of staffing resource.
- 7.4.5 Supply chain risks for subcontractors and supplies would reside with the Council.
- 7.4.6 A greater exposure for the Council to potential health and safety issues once insourced.
- 7.4.7 More vulnerability to the impact of market forces e.g. the Council's exposure to changes in the price of materials. This would increase uncertainty regarding the cost of materials, fuel, etc. and potentially change the costs of elements of the Service which are contracted out.
- 7.4.8 A range of potential additional pension cost liabilities including;
- (i) The opening of entry to Local Government Pension Scheme for Kier staff, resulting in higher employer contributions than Kier currently pay.
 - (ii) Potential exit deficit of the Kier pension scheme. The position on the Kier pension scheme will become evident later in the year and could be one of the factors that change the status of the preferred option if a large deficit has developed since the last valuation. However there is no definite indication that this will be the outcome at this stage and conversely there is of course the possibility of a surplus being achieved.
- 7.4.9 ICT related risks of implementing the necessary interfaces and integration with Council systems especially when a new Council Finance system is being implemented.
- 7.5** The risks associated with insourcing– and how they would be mitigated – are explained in more detail in Section 10 below.

Options 2 & 3: Extension of the current contract with Kier for one or two years, followed by insourcing

- 7.6** Under the terms of the current contract with Kier, there is an option to extend the contract by up to two years in annual increments to April 2019, if both the Council and Kier are agreeable to this. An extension for one or two years would enable the CSSR service to be delivered in much the same way as it is now, and would give the Council more time to plan the longer-term future of the service through insourcing from Kier to SCC
- 7.7** The main potential **benefits** of this option are:
- 7.7.1 The extension costs of this option are known already (subject to any re-negotiated price increase by Kier for the additional period of the contract).
- 7.7.2 The service being received is high performing against all KPI's and the relationship with the supplier is healthy.
- 7.7.3 Additional cost for procurement or implementation would be deferred.
- 7.7.4 There would be complete service continuity, and the experience which Kier have of working with the Council customers would be retained. This would mitigate the risks involved in major operational change.

- 7.7.5 The Council would carry less risk in terms of health and safety issues until the point of insourcing the service.
- 7.7.6 The increased time it would afford the Council to plan and prepare for any future insourcing of the Service.
- 7.7.7 Would allow any lessons learned from the insourcing of the Housing Repairs & Maintenance service to be applied to this transfer
- 7.7.8 Once insourced, the Council would have more control, while the service would be more flexible and accountable. This control would also allow the Council to more easily make further changes to how the service is delivered in future.
- 7.7.9 These options are expected to generate sustainable year-on-year revenue savings, and longer-term there will be further opportunities to reduce duplication, join-up procurement with other Council services and increase efficiency within the Service.
- 7.7.10 Insourcing also brings with it the potential to expand the service's external-trading function.
- 7.7.11 Once insourced, minor elements of the service would be delivered by locally-based contractors wherever possible, helping to support Sheffield employment and businesses.

7.8 The main potential **disadvantages** of this option are:

- 7.8.1 These options include insourcing the Service, so includes extension costs as well as all costs involved in the insourcing options. The insourcing would also be planned and carried out over a longer timescale and so would incur greater costs than insourcing for delivery from April 2017.
- 7.8.2 Under these options it would be more difficult to generate any revenue savings.
- 7.8.3 Kier have requested an increase in costs for the re-negotiated contract price for an extension beyond March 2017. Any extension would need to be agreed by both parties, so this cost increase could potentially reduce through negotiation on an extension.
- 7.8.4 Less control over the Service until insourcing, with reduced opportunities for integration with other Council services in this period.
- 7.8.5 Improvements in transparency would be delayed until 2018/19.
- 7.8.6 Moving the current Kier workforce into the Council may impact on staff motivation and so lead to reduced productivity and reduced customer satisfaction.
- 7.8.7 If at the point of transfer staff resource levels do not match service demand there could be significant budget implications for the Council in terms of managing the associated staff costs.
- 7.8.8 A greater exposure for the Council to potential health and safety issues.
- 7.8.9 More vulnerability to the impact of market forces after insourcing e.g. the Council's exposure to changes in the price of materials. This would increase uncertainty regarding the cost of materials, fuel, etc. and potentially change the costs of elements of the Service which are contracted out.
- 7.8.10 There is a chance that the Council and Kier may be unable to reach a negotiated agreement on the continued delivery of the service.
- 7.8.11 A range of potential additional pension cost liabilities including;
 - i) The opening of entry to Local Government Pension Scheme for Kier staff, resulting in higher employer contributions than they currently pay.

- (ii) Potential exit deficit of the Kier pension scheme. The position on the Kier pension scheme will become evident later in the year and could be in deficit or surplus.

Options 4 & 5: Extension of the current contract with Kier, followed by full external procurement

- 7.9** As described in 7.8, there is an option in the CSSR contract for two further annual extensions, which would give the Council more time to run a full re-tender exercise for external delivery of the service by a third party.
- 7.10** The main potential **benefits** of this option are:
- 7.10.1 The costs of extension are known already (subject to any re-negotiated price increase by Kier for the additional period of the contract).
- 7.10.2 The service being received is high performing against all KPI's and the relationship with the supplier is healthy
- 7.10.3 There would be little additional cost in terms of procurement until retendering.
- 7.10.4 There would be complete service continuity up to the point of transfer to a new supplier, and the experience which Kier have of working with the Council and with our customers would be retained. This would mitigate the risks involved in major operational change.
- 7.10.5 The Council would carry less risk in terms of health and safety issues (as compared to insourcing the service). The majority of the health-and-safety risks associated with the delivery of a large scale repairs and maintenance service would be the responsibility of the contractor, not the Council.
- 7.10.6 The increased time it would afford the Council to prepare for any future retendering of the Service.
- 7.10.7 It would enable the Council to test the market not just for price but also for innovation, potentially resulting in a more creative and / or technologically advanced service.
- 7.10.8 A competitive procurement exercise could potentially achieve savings - this would depend on the market conditions at the time.
- 7.10.9 There is a chance that the Council and Kier may be unable to reach a negotiated agreement on the continued delivery of the service.
- 7.10.10 Costs would be fixed for the period of the contract, making medium-term budget planning easier.
- 7.11** The main potential **disadvantages** of this option are:
- 7.11.1 These options include the costs of both extension and external procurement and so implementation costs are higher than retendering for April 2017. The retendering would also be planned and carried out over a longer timescale and so would incur greater costs than procurement for delivery from April 2017.
- 7.11.2 The deferral of retendering the contract for transfer in 2018/19 or 2019/20 could potentially lead to a further market price changes by that date.
- 7.11.3 Under these options it would be more difficult to generate any revenue savings.
- 7.11.4 Kier have requested an increase in costs for the re-negotiated contract price for an extension beyond March 2017. Any extension would need to be agreed by both parties, so this cost increase could potentially reduce through negotiation on an extension.

- 7.11.5 This option carries a risk regarding productivity linked to the change in employer arrangements
- 7.11.6 Being tied into the contract gives limited opportunity to improve the service, and less flexibility
- 7.11.7 Less control over the Service, and much more distant links to corporate objectives.
- 7.11.8 Opportunities for integration with other Council services and for a more joined-up approach would be reduced.
- 7.11.9 Reduced transparency for the service

Option 6: Full external procurement

- 7.12** Under this option, the whole of those elements of the Statutory Servicing and Repair Service would be put out to competitive tender to procure a new external contractor with the other elements of the Service delivered by contracts with sub-contractors. This would involve a full procurement exercise undertaken in compliance with public contract regulations and the Council's Standing Orders.
- 7.13** The main potential **benefits** of this option are:
 - 7.13.1 It would enable the Council to test the market not just for price but also for innovation, potentially resulting in a more creative and / or technologically advanced service.
 - 7.13.2 A competitive procurement exercise could potentially achieve savings - this would depend on the market conditions at the time.
 - 7.13.3 The majority of the health-and-safety risks associated with the delivery of a large scale repairs and maintenance service would be the responsibility of the contractor, not the Council.
 - 7.13.4 Costs would be fixed for the period of the contract, making medium-term budget planning easier.
 - 7.13.5 No Equal Pay risk to the Council
- 7.14** The main potential **disadvantages** of this option are:
 - 7.14.1 A service that is culturally disconnected from the client Council services and its outcomes.
 - 7.14.2 Reduced flexibility, as changes would be more difficult to implement than with the insourced option and costs more difficult to control.
 - 7.14.3 Procurement of a new contractor could potentially lead to a service which is less productive and more costly than the current one.
 - 7.14.4 Less control over the Service, and more distant links to corporate objectives.
 - 7.14.5 Fewer / reduced opportunities for integration with other Council services (specifically the potential to work closer with the Housing Repairs and Maintenance Service), and for a more joined-up approach.
 - 7.14.6 Reduced opportunity for transparency and a less direct route for customers to engage with the Service.
 - 7.14.7 There would be a significant cost associated with procuring and setting up a new contractor, and with putting robust contract monitoring / performance management frameworks in place. Based on previous experience this could take up to 6 months.

7.14.8 The time taken for the new contractor to become familiar with the Council and the Corporate Estate could mean a reduction in performance in the interim period while effective working relationships are built.

7.14.9 The price of this option could be higher than expected due to changes in the construction market.

8 Financial implications

8.1 There are six options open to the Council for delivery of the CSSR Service post-March 2017, and all contain financial risks and rewards:

- Insourcing
- Extension of the current Kier Contract for a further year until April 2018 and then insourcing the service
- Extension of the current Kier Contract for a further year until April 2019 and then insourcing the service
- Extension of the current Kier Contract for a further year until April 2018 and then full external procurement
- Extension of the current Kier Contract for a further year until April 2019 and then full external procurement
- Full external procurement

8.2 The following table shows the three year forecast cost from 17/18 to 19/20 of providing the CSSR Service under each option and the variance to the assumed SCC budget for that period (which has been based on the actual SCC spend on CSSR in 15/16). The cost impact of managing the change in the delivery model is also shown as an additional cost item. This is looked at in more detail at Section 8.7 below.

Table One: Three year CSSR Delivery Option Costs 2017/18-2019/20

Item	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
	Insourcing	Extend to 1.4.18, then insource	Extend to 1.4.19, then insource	*Extend to 1.4.18, then retender	*Extend to 1.4.19, then retender	Full external procurement
	£'000	£'000	£'000	£'000	£'000	£'000
Total CSSR option cost	10,649	11,193	11,778	12,611	12,461	12,725
2017/18 SCC Revenue Budget¹	11,059	11,059	11,059	11,059	11,059	11,059
Variance to Budget (Surplus / Shortfall (-))	410	-134	-719	-1,454	-1,277	-1,757
Implementation/ Change cost	-787	-920	-920	-265	-265	-250
Revised Surplus / Shortfall (-)	-377	-1,054	-1,639	-1,817	-1,667	-1,916

*Reflecting agreed extension pricing from Kier

¹Based on estimated 2016/17 actual SCC CSSR spend as proxy for budget.

8.3 The above table shows that based on purely financial considerations the immediate insourcing option appears to be the most attractive, delivering a per annum revenue saving of £410k, which is £544k higher than the next best Option of extending the contract by one year and then insourcing. However, the costs detailed above should also be viewed within the context of the inherent risk associated with a change to the current business model:

- Extending the Kier contract may lead to a contract cost increase, but it does offer continuity and mitigates against risk around operational change and still allows for a decision to be taken on eventual insourcing or retendering from April 2018 when the Housing Repairs and Maintenance Service (HR&MS) will be established in SCC and any similar operational issues resolved ;
- Full external procurement offers the potential to engage the market and drive out savings and efficiencies, but could also mean entering a new relationship that may be more costly than the current one;
- Insourcing the CSSR Service may offer the reward of delivering additional revenue savings into the future, but it does represent a transfer of risk from the private sector back into the Council and our capacity to manage and mitigate that risk should be considered. These risk factors are magnified if we insource CSSR at the same time as the Housing Repairs & Maintenance Service.
- A large part of the rationale for insourcing the Service is based around the expectation of operational efficiencies being achieved through delivery of a repairs, maintenance and

statutory testing function that shares its support infrastructure with the Housing Repairs and Maintenance service. If this proves to be unrealistic and unachievable there is a risk the anticipated savings are not realised.

8.4 **Table Two** below shows the additional quantifiable on-going service delivery risks and efficiencies identified by the Council that are not priced into the base forecasts above as it is assumed the necessary mitigating actions will be taken to minimise the risk of realisation. These risks are explained more fully at **Appendix Two**.

Table Two: Quantifiable Risks and Efficiency Savings of the CSSR Delivery Options

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
	Insourcing	Extend to 1.4.18, then insource	Extend to 1.4.19, then insource	*Extend to 1.4.18, then retender	*Extend to 1.4.19, then retender	Full external procurement
	£'000	£'000	£'000	£'000	£'000	£'000
Quantifiable Risks	70	140	210	60	90	0
Efficiency Savings Estimate	-50	-50	-50	0	0	0
Total Risk impact	20	90	160	60	90	0

8.5 **Table Two** highlights that insourcing the CSSR Service presents both material risk and opportunity. Of the six options extension by 2 years and then insource has the highest level of additional cost risk at £210k, partially off-set by the possibility of efficiencies of £50k. The immediate insource option has the same level of efficiency savings forecast, but a lower level of risk at £70k. These revised forecasts contain costs and benefit not in the base forecasts because they are contingent on the Council either failing to avoid risks, or successfully exploiting opportunities to deliver additional efficiencies, neither of which are certain.

8.6 The final principal financial considerations are the costs associated with delivering any of the options that move the Council away from the Kier contract. These costs are one-off change management costs, and should be viewed within the context of both the on-going service delivery they facilitate, and the shorter term requirement to resource those costs.

8.7 **Table Three** below shows that the 'Extend then Insource' options incur the greatest costs as they involve the most change activity associated with both extending the contract and then delivering the necessary actions to achieve insourcing. The latter inevitably being significant for such a major change. The re-tender option change cost relates to undertaking the necessary level of procurement and commercial activity required.

Table Three: Change management / implementation costs of CSSR Delivery Options

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
	Insourcing	Extend to 1.4.18, then insource	Extend to 1.4.19, then insource	*Extend to 1.4.18, then retender	*Extend to 1.4.19, then retender	Full external procurement
	£'000	£'000	£'000	£'000	£'000	£'000
One-off/ change management cost	787	920	920	265	265	250

- 8.8** Some elements of the implementation costs could be eligible to be treated as capital, for example where the council is purchasing assets from Kier or other suppliers. It is proposed that Capital funding is used where possible and appropriate, with the rest of the funding provided through revenue funds on an ‘invest to save’ basis. The costs will be recovered against the future service budget but will be spread on a longer term basis as appropriate and thus lessen the impact on the first year service costs.
- 8.9** However, it is equally important to recognise the on-going benefit that this investment could deliver. As **Table One** shows the one-off investment of £787k under the insourcing option delivers savings of £410k from 2017/18 to 2019/20. This lower cost base can also reasonably be expected to reducing influence on future costs beyond this period.
- 8.10** **Appendix 2** details the relative cost base of each option. Comparing cost bases is somewhat difficult given the lack of transparency around the current contract, and potential re-tendered contracts. However, general themes are evident such as relative costs around staffing, and the requirement for contractor profit in the out-sourced options.

9 Proposal to Insource the Repairs and Maintenance Service

- 9.1** Taking into account all the information given in this report so far – the vision for the future Service, the benefits and potential risks of each option, the financial implications, etc. - the proposal in this report is to insource the service for direct delivery by the Council (with a small element of the service possibly contracted out by the Council to external providers). This is considered to be a pragmatic approach given the particular circumstances in which the CSSR Service operates. Inevitably there are benefits and disadvantages to all six options considered. However, on balance, the insourcing option provided a higher level of benefit to the Council than the other options.
- 9.2** This proposal is made on the basis that the insourcing option overall offers the most potential benefits for customers and for the Council. Whilst there are significant risks associated with this option, with effective management and a robust implementation plan these risks would be mitigated (see Section 10 below for more information on this).
- 9.3** This option will deliver the Service within the current budget limit. There are implementation costs associated with this option, but these would be paid back by the efficiency savings which this option would generate
- 9.4** It is also recommended that the School Food Service client team manage the procurement of a commercial catering premises contract, working with Commercial Services. This is expected

to ensure that the service needs are met by seeking an industry specific solution for the schools that are part of the group School Catering Contract.

Key principles and assumptions for the insourcing of the Service

- 9.5** Under these proposals, the Statutory Servicing and Repair Service would transfer into the Council, and the Council would **directly deliver** the majority of statutory testing and repairs work to the Council's civic estate. This work would include:
- Gas servicing and remedial repairs
 - FAEL Servicing and remedial repairs
 - Electrical testing remedial repairs
 - Responsive and Planned repairs – in respect of:
 - Heating repairs
 - Gas repairs
 - Joinery Repairs
 - Plumbing repairs
 - Electrical repairs
 - Glazing repairs
 - Roofing repairs
 - Plastering repairs
- 9.6** Under this option, the service currently delivered by Kier, and the Kier workforce currently undertaking this work, would **be transferred into the Council** from 1st April 2017. Kier's workforce are experienced in delivering the CSSR service to the Council's Estate and so transferring the existing workforce into the Council will ensure retention of this experience, knowledge and expertise and provide continuity.
- 9.7** The client team within SCC would move to work alongside the CSSR service staff. The line management of the team will be through the Transport & Facilities Management Directorate to ensure an appropriate level of experience and expertise at a senior level to successfully lead the insourced Service and ensure that performance is maintained.
- 9.8** There are a number of elements of the service which the Council needs to consider further in terms of whether they would be best delivered directly by the Council, or if being **contracted out by the Council** to an external contractor would be more beneficial. For example, if:
- It is more economically viable to do so over the longer-term
 - The service requires little or no interaction with customers
 - Where the demand for the service is 'ad hoc', rather than continuous and consistent
 - The risk carried by the Council in directly delivering a specific element is considered too great
- 9.9** The elements of the service to which one or more of the above is likely to apply and therefore which may be contracted out include those listed below (the full list of such elements is given

in Appendix One). It is important to note that these equate to 22% of the current contract value:

- Legionella Risk Assessments
- Lift/Hoist servicing and repairs
- FAEL Servicing and repair (“where the system is closed protocol”)
- Lightning protection tests and repairs
- Auto door/roller shutter servicing and repair
- Fire Fighting Equipment servicing and repair
- Hard wire testing/PAT

9.10 Facilities Management also directly subcontract some specialist provision. If the CSSR service is insourced and integrated with the client team, then this service will manage these subcontracts alongside any new contracts that are established. These subcontracts include:

- Monumental clock servicing
- Water feature servicing and repairs
- Close controlled Air Con servicing

9.11 If Cabinet approve the recommendation in this report to insource the Statutory Servicing and Repair Service, more detailed work will be done to further assess these elements of the service to determine if contracting out is the most appropriate way of delivering them.

9.12 The Council could directly encourage the use of local supply chains, where this was compliant with Public Contract Regulations and value for money

9.13 For any contracting out of certain elements of the service, opportunities would be explored for joint-procurement with other Council services, specifically the Housing Repairs and Maintenance Service. This could potentially achieve efficiencies for general-funded services.

9.14 For any elements that are contracted out, further work will need to be done to assess the best way to do this, including any staffing implications.

Transformation of the Service after the transfer

9.15 The transfer of the Service from Kier into the Council would initially involve as little change and disruption to services and staff as possible. It would initially become a discreet service within the Transport and Facilities Management Directorate (Resources), and a period of stabilisation would follow, to enable the Service to become fully integrated into the Council. However over the medium term opportunities would be actively explored in terms of further joint-working and operational synergies with the Housing Repairs and Maintenance in-sourced Service.

9.16 Once transfer of the service is complete, a full service review would then be undertaken and transformation work begun to re-shape the future service.

10 Potential risks and disadvantages of insourcing the service

10.1 As with any large-scale change, there are risks associated with the insourcing of the CSSR Service. The key risks are described below, along with the appropriate mitigating actions to be taken to effectively address and manage those risks.

Risks associated with the work needed in preparation for insourcing the service

- 10.2** Moving the current Kier workforce into the Council may impact on staff motivation and so lead to reduced productivity - both prior to and after the transfer into the Council. The potential financial impact of a reduction in productivity is illustrated in Appendix Two. To help mitigate this risk, the current performance management arrangement linked to a series of KPI's would be continued and closely monitored. The impact of any reduction would mean that a 1% decrease in productivity could lead to an increase in costs of just over £20k.
- 10.3** Timescales are tight and challenging for this project. The current Kier contract extension ends on March 2017 and work would be needed between now and then to prepare both the Service and the Council for the transfer. There is a risk that the time and resources allocated to this work are not sufficient (on both the Council's side and Kier's). This is a particular risk for the Council as in some instances the same staff resource are engaged on this project and the Housing Repairs and Maintenance in-sourcing project which is running to a concurrent timescale. This could potentially lead to delays and increased costs, increasing the risk to project delivery. This will be monitored and managed as part of the implementation work.
- 10.4** If any staffing resource TUPE transferring into SCC does not align with service demand levels then the service could have problems with excess demand or supply. Excessive staffing levels would present a financial risk for the Council, while insufficient labour would present a productivity risk. This may result in the Service either carrying an unfunded labour cost that it cannot recover or a failure to generate sufficient income due to a lack of capacity to undertake the required level of work. These risks will be mitigated through the course of the TUPE process with scrutiny of TUPE employer liability information and ongoing monitoring of service performance and demand levels.
- 10.5** If the development and delivery of ICT for corporate repairs requires more resource than originally planned or creates significant issues, it could negatively impact on the overall delivery of ICT for Housing Repairs. This would disrupt and limit the ability of the Housing Repairs service to deliver effectively, as the ICT underpins and enables their business processes. To avoid this situation, work on the Housing Repairs elements of ICT will be given greater priority, due to the greater number of people affected. Additional work to enable the Corporate Repairs Service would only take place if the Council and suppliers are confident that it would not introduce significant risks to the overall delivery.

Risks associated with delivery of an insourced repairs and maintenance service

- 10.6** Due to the nature of the work involved in the CSSR service, there is a greater exposure to potential health and safety issues (e.g. exposure to asbestos leading to long-term health conditions) and serious accidents. There would therefore be a potentially higher reputational and financial risk should the Council not successfully manage the risks resulting from compensation claims, corporate manslaughter charges and higher Employer and Public Liability Insurance payments.
- 10.7** To mitigate this, thorough and robust health and safety practices will need to be in place, ensuring compliance with all relevant legislation and guidelines. Senior Health and Safety officials from within the Council would be closely involved in implementing the new service to ensure that this happens.
- 10.8** Insourcing the CSSR service also increases the level of uncertainty regarding the cost of delivering the service (in comparison with externally procuring the same service). Unlike with an external contract, for which the costs would largely be fixed for the period of the contract, insourcing the service means that changes in the cost of materials, pay awards, fuel price

increases etc. would have a direct impact on service costs. As is the case for all other Council services, this would need to be managed through effective budget management, robust procurement processes and high levels of flexibility.

- 10.9** The timescales for setting up subcontracting arrangements are also very tight. Delays in the setup of this provision would disrupt service delivery for certain types of work. To mitigate against this risk procurement for subcontractors will be carried out concurrently. The sourcing of supplies and subcontractors for the service would also utilise flexibility in existing contracts and those being established for Housing repairs and maintenance to reduce the amount of procurement activity necessary.
- 10.10** To be a responsive service, flexible to the demands of changing volumes of work and the mix of work between trades, the Service will need a Workforce Strategy which is flexible and can adapt to these fluctuations in demand whilst maintaining the standards set for the Service.
- 10.11** It is estimated that contracting out the elements of the Service identified in section 9.9 above could increase the supplier costs for these elements. This cost is in relation to potential increases in the price of materials if we do not have access to the same purchasing economies of scale as Kier. This would be offset by not having to pay Kier management fees on such materials and would be further mitigated by robust procurement and effective contract management.
- 10.12** There is a risk that the performance of the Service when assessed against contractual requirements is shown to be failing - which would in turn mean that the Council inherits a failing Service. Any such shift in performance would also affect customer satisfaction and expose SCC to risk in terms of the building stock not meeting the required standards. To mitigate this, the current contract framework allows for performance management, early warning of failure, escalation as necessary and requirements for performance improvement plans to be implemented. Additionally, the Council is experienced in delivering service improvement and working with Kier and others to mitigate the risk of service failure.
- 10.13** An insourced CSSR service would be expected to share infrastructure with the Housing Repairs and Maintenance Service, including using the same IT systems that the HR&M service use (as they currently do in Kier). If there is any delay in the delivery of this system this could negatively impact on service delivery for Corporate Repairs and involve further costs to remedy. To reduce the likelihood of any delay requirements for the Corporate Repairs service would be fed into the design and development of the system at the earliest stage possible. This also represents an opportunity to reduce the insourced CSSR service's IT overhead costs due to the synergy with Housing Repairs. However this risk is compounded as the new IT system is to be implemented at the same as the new Finance system with which it must integrate.
- 10.14** There is an opportunity to reduce the overhead costs of the CSSR service as corporate support services needed to support an insourced CSSR Service - such as Human Resources, Customer Services, Payroll, Finance, Procurement and ICT Support - already exist within the Council. It is not anticipated that the size of the CSSR service would require changes to cope with the additional demand or specialist requirements of an in-house Service. However more work will need to be undertaken to establish whether any changes are required as part of the next phase.

- 11.1** It is critical that the preparatory and implementation period begins immediately after any Cabinet agreement. The work to be carried out during this period will be crucial in ensuring a smooth transfer to the Council and consistency of service. It is expected that this work will take 9 months, from July 2016 to March 2017. The right level of resources must be in place and allocated to the project to ensure the tight timescales are met.
- 11.2** If Cabinet approve the recommendation in this report to insource the CSSR Service, an internal Project Team and Project Board with an appropriate governance structure will be established to implement this decision. The project will be led by the Executive Director of Resources and will include representatives from all relevant services across the Council.
- 11.3** The key objective of this Project Team and Project Board will be to ensure that all the necessary preparatory work is completed in readiness for the transfer of the Service into the Council. This work will include:
- Formal consultation with both Kier and Council staff and their Trade Union representatives regarding the TUPE transfer of the Kier workforce into the Council – as well as additional communications and briefings.
 - An assessment of how existing Council staff – will be impacted on by the move, and plans for how this will be managed (including a clear and robust communications strategy).
 - Allocation of sufficient and suitable resources for project delivery.
 - Procurement and contract management of all necessary goods, services, materials (e.g. transport, equipment, accommodation, IT systems and software, etc.) and sub-contractors
 - Effective communication, engagement and consultation with, Members, staff and other key stakeholders.
 - Completion of a detailed Target Operating Model for the Service.
 - Development and agreement of an organisational structure for the Service, including where and how it will link with Housing Repairs and Maintenance and other Council services.
 - Development of a detailed implementation plan for the transfer.
 - The management of the risks identified in this report and identification and management of emerging risks.
- 11.4** Robust governance arrangements will be put in place to ensure that the timeframe, cost and outputs of the transfer are tightly controlled. Risks, issues and dependencies will be effectively managed through good project management, and the links with wider organisational change will be incorporated into the implementation plan. Business Change best practice will be followed throughout.

12 Legal Implications

- 12.1** Having access to safe, secure and properly maintained buildings supports Council officers who provide statutory and other essential services to the citizens of Sheffield. Consequently, the need for a CSSR service is incidental to the Council's statutory functions. Under Section 111 of the Local Government Act 1972 local authorities have the power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

- 12.2** Any procurement required in order to deliver both the development / implementation work required prior to the insourcing, and for in-house delivery of the service itself, including any elements of the service which it is agreed will be contracted out by the Council, must be procured following the Council's standing orders and all relevant EU procurement directives. The procurement process will therefore have to be open, transparent, fair and non-discriminatory. The contract awarded to the successful tenderer/s must ensure compliance with all applicable legislative requirements and provide for effective service delivery, value for money and ensure the delivery of the project outcomes.
- 12.3** The same considerations will apply should Cabinet decide upon the full external procurement route.

13 Human Resources (HR) Implications

- 13.1** At this stage, it is not possible to provide a complete assessment on all HR implications that could result from the proposals in this paper. However, the immediate apparent implications include TUPE and possibly Equal Pay.
- 13.2** TUPE could possibly apply if staff that currently work on the CSSR contract for the Council were transferred to the Council's employment. The majority of the staff to be transferred would be operatives, with a smaller number of support staff and operational managers. These staff may include ex-Council employees who transferred to Kier in 2014.
- 13.3** Although TUPE could apply, the proper assessment of whether TUPE will apply and if so to who requires employee information that the Council does not have access to at this stage. If TUPE does apply, the Council will need to have sufficient time in the implementation period to undertake proper consultations on the transfer with affected staff and their representatives.
- 13.4** Operatives within Kier working on Corporate Statutory Servicing and Repairs Contract are understood to no longer be remunerated on a scheme that pays bonus. This reduces the future risk of equal pay challenge.

14 Equal Opportunities Implications

- 14.1** A full Equalities Impact Assessment (EIA) has been undertaken to assess the potential impact of the recommendations in this report in terms of equal opportunities. The following is a summary of the findings.
- 14.2** There will be staffing implications as a result of the TUPE transfer of Kier Services Ltd. staff into the Council. However, there is not expected to be any disproportionate impact on staff with a particular protected characteristic.
- 14.3** The Council has a wide range of policies and procedures already in place to support employees reduce potential inequalities in the workplace. Access to these policies and procedures will be available to all transferred staff to support their integration into the Council.
- 14.4** There is a small risk that some transferring staff may not be fully included in the consultation process due to their characteristics - in particular those staff on pregnancy / maternity / paternity leave, or those absent from work due to illness or disability. Managers will be expected to ensure that these staff are involved wherever possible in consultation arrangements in a manner appropriate to their needs.

- 14.5** It will also be important to ensure that staff transferring into the Council are given an appropriate induction to the Council so that they are aware of the support offered to staff with protected characteristics.
- 14.6** There is not expected to be any negative impact on customers as a result of these proposals, and the intention is that the Service will deliver positive changes and improvements in the longer-term. The service will initially carry on delivering the same service to customers as it does at the moment, and any proposals to change this service will be developed in partnership with customers and will take account their diverse needs.
- 14.7** The EIA has assessed the overall impact of the project as 'low', and a copy of the full EIA document is attached in Appendix 3.

15 Reasons for recommendations

- 15.1** Insourcing the Statutory Servicing and Repair Service will give the Council more control, flexibility and accountability in managing the Service, enabling the service to be fully integrated into the Council and to work in close partnership with other relevant key Council services. This will help to ensure that the Service is delivered in a way which fully supports the Council's corporate objectives and enables the Council to more easily make further changes in future.
- 15.2** Bringing the CSSR Service in-house for direct delivery by the Council will also help to bring about an alignment of culture in the Service to that of the Council, as well as its approach to customers.
- 15.3** Based on all information known to date, and after the initial upfront costs of transferring the service, the insourced option is expected to generate sustainable year-on-year revenue savings. In addition, once fully integrated into the Council there will be further opportunities to reduce duplication and increase efficiency within the Service and by exploring the degree of joint-working possible with the HR&M Service potentially enabling it to improve outcomes within available budgets.
- 15.4** Insourcing also brings with it the potential to expand the service's external-trading function, which already generates £700,000 - £800,000 revenue from work for schools. This could include undertaking statutory servicing and repairs work on behalf of other organisations, as well as increasing the amount of work done for schools.
- 15.5** Directly delivering the service in-house, with some elements of it being outsourced to locally-based contractors wherever possible, would help support the concept of the 'Sheffield Brand'. Materials would be purchased from local suppliers wherever possible (subject of course to the usual procurement rules and Council policies), and the workforce would be predominantly local. The supply chain would also, where possible, be tailored to the bespoke needs of SCC Corporate Buildings to reduce material lead in times improve service delivery.
- 15.6** Independent research by APSE (the Association for Public Service Excellence) has also identified a number of potential benefits of insourcing services, based on actual case-studies and local authority experiences:
- Improved performance
 - Stronger links to corporate strategic objectives
 - Greater flexibility, and more responsive to local and national policy changes
 - Efficiency savings

- Improved customer satisfaction
- Enhanced local supply chains
- Better integration and joining-up with other relevant key services
- New development and employment opportunities for the workforce transferred in

15.7 There are of course risks associated with the option to insource the service (as indeed there are with the other two alternative delivery options discussed in this report), and some of these risks are significant. However, measures are and will continue to be in place to mitigate these risks, and if any of these risks significantly escalate, or any significant new risks (including financial ones) emerge, a further report would be brought back to Cabinet before progressing the transfer any further.

16 Reasons for Exemption

16.1 Appendices Two and Four are not for publication by virtue of Regulation 20(2) Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 because, in the opinion of the proper officer, it contains exempt information under Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended) and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

17 Recommendations

That Cabinet:

- 17.1** Approves the proposal in this paper to **insource the Corporate Statutory Servicing & Repairs Service (CSSR) from 1st April 2017.**
- 17.2** Gives its approval for the insourcing to be done based on the principles and assumptions described in section 8 of this report, and taking into account the risks and mitigations as set out in section 9, including the potential contracting-out of a proportion of the service.
- 17.3** Gives its approval for the budget required to cover the one-off implementation and set-up costs, as described in section 8.9 of this report.
- 17.4** Notes that the Executive Director of Resources shall ensure that all necessary steps to progress and implement the insourcing of the service are taken in accordance with his current delegations under the Leader's Scheme of Delegations. These steps may include:
- At the appropriate time, commencing formal consultation with staff and Trade Unions regarding the transfer of staff from Kier into the Council (in consultation with the Director of Human Resources as necessary).
 - Developing the structure and agreeing the timescales needed to deliver an in-house corporate repairs service (in consultation with the Director of Human Resources as necessary).
 - Undertaking a more detailed assessment of which elements of the service are more appropriate to be contracted out, rather than directly delivered by the Council, and what the impact of this will be and how that will need to be managed (in consultation with the Director of Commercial Services and the Director of Human Resources as necessary).
 - Approving the procurement strategy and contract award, and agreeing contract terms and entering into the contracts, for all necessary goods and services. This will apply to both the development / implementation work required prior to the insourcing, and for in-house

delivery of the service itself (including any elements of the service which it is agreed will be contracted out by the Council) once it is brought back into the Council (in consultation with the Director of Commercial Services and the Director of Legal and Governance as necessary).

- Any other work required for the effective preparation for and implementation of the insourcing of the Statutory Servicing and Repairs Service.

17.5 To the extent that the Executive Director of Resources does not already have authority under the Leader's Scheme of Delegations, delegates authority to the Executive Director of Resources to approve the procurement strategy and contract award, and agree contract terms and enter into the contracts, for necessary goods and services (in consultation with the Director of Commercial Services and the Director of Legal and Governance as necessary).

17.6 Notes that the Executive Director of Resources will work with the Executive Director of Communities, who is responsible for insourcing the Housing Repairs and Maintenance Service, to explore potential efficiencies.

17.7 Requests that a further report is presented to Cabinet if the underlying strategy for the future of the Service cannot be achieved, or if any unforeseen significant risks emerge which may prompt Cabinet to re-consider its decision.

This page is intentionally left blank