



**Lead Officer of Report:** Edward Highfield

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**Report of:** *Edward Highfield*

**Report to:** *Cllr Mazher Iqbal*

**Date of Decision:** *w/c 6<sup>th</sup> May 2019*

**Subject:** **Electric Works – Provision of Facilities Management Services**

Is this a Key Decision? If Yes, reason Key Decision:-	Yes <input checked="checked" type="checkbox"/>	No <input type="checkbox"/>
- Expenditure and/or savings over £500,000	<input checked="checked" type="checkbox"/>	
- Affects 2 or more Wards	<input type="checkbox"/>	
Which Cabinet Member Portfolio does this relate to? <i>Business and Investment and Finance</i>		
Which Scrutiny and Policy Development Committee does this relate to? <i>Economic and Environmental Wellbeing</i>		
Has an Equality Impact Assessment (EIA) been undertaken?	Yes <input type="checkbox"/>	No <input checked="checked" type="checkbox"/>
If YES, what EIA reference number has it been given? <i>(Insert reference number)</i>		
Does the report contain confidential or exempt information?	Yes <input type="checkbox"/>	No <input checked="checked" type="checkbox"/>
If YES, give details as to whether the exemption applies to the full report / part of the report and/or appendices and complete below:-		
<i>"The (report/appendix) is not for publication because it contains exempt information under Paragraph (insert relevant paragraph number) of Schedule 12A of the Local Government Act 1972 (as amended)."</i>		

**Purpose of Report:**

*In February 2019 the Council commissioned a Strategic Review of Electric Works with the aim of providing a high level review of the options available to the Council regarding Electric Works, allowing decisions to be made about its future strategic direction.*

*One of the recommendations, agreed by EMT on 12<sup>th</sup> March 2019 was that*

- Electric Works would be retained as a digital business centre in order to continue its economic development impact.*

*Electric Works is operated on our behalf by a third party facilities management company and the current contract arrangements are due to expire in August 2019.*

*An open and competitive tender process is required in order to appoint a new facilities management provider.*

*This report seeks approval of the procurement approach, authority to award and enter into the contract with the preferred supplier.*

**Recommendations:**

- *Approve the procurement of a FM services provider in line with this report..*

Delegate authority to the Director of City Growth in consultation with the Director of Commercial and Financial Services and the Director of Legal and Governance that following such procurement exercise to award such contract and take such other necessary steps not covered by existing delegations to achieve the outcomes outlined in this report

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**Background Papers:**

*(Insert details of any background papers used in the compilation of the report.)*

Lead Officer to complete:-		
1	I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required.	Finance: <i>Catherine Murray</i>
		Legal: <i>Henry Watmough-Cownie</i>
		Equalities: <i>Anne-Marie Johnson</i>
	<i>Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.</i>	
2	<b>EMT member who approved submission:</b>	<i>Laraine Manley</i>
3	<b>Cabinet Member consulted:</b>	<i>Cllr Mazher Iqbal</i>
4	I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1.	
	<b>Lead Officer Name:</b> <i>(Insert name)</i>	<b>Job Title:</b> <i>(Insert job title)</i>
	<b>Date:</b> <i>(Insert date)</i>	

## **1. PROPOSAL**

- 1.1 This report details the current Facilities Management (FM) arrangements provided at Electric Works to give sufficient detail for a decision to be made to competitively re-tender these services in the FM supplier market.
- 1.2 Currently, FM services at Electric Works are provided by Creative Space Management Ltd. The current arrangement has been extended under a waiver of Contract Standing Orders and is due to expire in August 2019.
- 1.3 Delegated Authority is also sought to award and enter into contract with the preferred supplier once the procurement process has been completed.

## **2.0 BACKGROUND**

- 2.1 Electric Works is a fully let 53,000 sq ft building at Sheffield Digital Campus owned by SCC and operated on our behalf by a third party as high quality managed workspace for companies in the creative and digital industries.
- 2.2 The Council's decision to take the headlease at Electric Works over a decade ago was instrumental to the development of the wider Digital Campus. A further two office buildings have since been constructed and occupied and a third is in receipt of full planning permission. In 2008 the Council purchased the Electric Works building. The current rent roll sits at c. £1.1m p.a. generated from around 30 businesses with over 400 employees. Electric Works has been instrumental in the attraction and growth of numerous high value businesses such as Warp Films, TechDept, SkyBet and Wandisco.
- 2.3 As the current FM agreement is due to expire in 2019, it was appropriate for the Council to review its options for Electric Works going forwards, as part of the Council's investment portfolio. A number of options were reviewed, each of which is detailed in section 6 of this report.
- 2.4 It is proposed that the outcome of the options appraisal justifies the recommendation that the Council enters into a new FM services agreement with shared financial risks. It is proposed that the term of the agreement will be 7 years scheduled to commence September 2019.

## **3. HOW DOES THIS DECISION CONTRIBUTE ?**

This proposal helps deliver against the Council's priorities for a strong and inclusive economy. Electric Works helps indigenous businesses and inward investors to grow and employ more people in Sheffield,

delivering good quality jobs and opportunities.

#### **4. HAS THERE BEEN ANY CONSULTATION?**

The Council is not required to consult on this proposal.

#### **5. PROCUREMENT STRATEGY**

5.1 Procurement and Supply Chain officers have developed the outline procurement strategy for the procurement of an FM services provider for Electric Works. A Procurement Project Team has been appointed comprising officers from:

- City Growth
- Finance and Commercial Services
- Transport & Facilities Management
- Property Services
- Procurement & Supply Chain

5.2 Following a Project Team discussion on the benefits and dis-benefits of different procurement procedures on 16 April 2019, it is proposed that the public procurement regulated open tender procedure is used. This decision was reached based on indicative market research evidencing that we will not get a substantial number of tenders from the FM supplier market and the open procedure allows shorter tender response timescales to enable the Council to meet the existing arrangement end of August deadline.

5.3 The indicative procurement timetable is:

Issue Invitation to Tender	Mon 20 May
Site Visit by Bidders	W/C Mon 3 June
Receive Tenders	Mon 24 June
Evaluate Tenders	Mon 24 June – Thu 11 July
Notification of result	Fri 12 July
Standstill Period	Fri 12 July – Mon 22 July
Contract Awarded	Tue 23 July
Mobilisation	TBD*
Anticipated Contract Start Date	1 September 2019

\* Mobilisation timescales to be discussed with the incumbent FM services provider

The timetable may be subject to change and a number of actions need to be completed to ensure the timelines are met, these include:

- Specification to be reviewed and agreed
- Method statement questions to be completed
- Development of the financial model
- Information received from current supplier to be included in tender

- Evaluation percentages and weightings to be agreed
  - Contract documents to be completed
  - Evaluation panel to commit time to evaluate responses
  - Detailed procurement strategy approved by Head of Procurement and Supply Chain
- 5.4 The Council's FM team together with Property Services are involved in developing the output specification and will also be involved in the evaluation of tenders.
- 5.5 Legal Services will be engaged to develop the services contract. The contract to be used will be the Council's standard services agreement (as a starting point) amended for this particular FM service.
- 5.6 Social value will also be considered in the tender documentation in line with the Council's Ethical Procurement Policy, this ensures the Council:
- Trade with those who comply with an Ethical Code of Conduct
  - Exclude suppliers committing acts of grave misconduct
  - Improve social outcomes for the citizens of Sheffield
  - Increase the power of procurement and its local economic impact
- 5.7 Finance and Commercial Services are in the process of developing a financial model and payment mechanism that will simplify payments between the parties and incentivise the FM services provider to maximise the occupancy of the Electric Works building.
- 5.8 The overall approach for the tender is to adopt a straightforward approach by procuring a contract that works for the Council in terms of achieving maximum benefit, addressing risk within the project and is simple to administer.
- 5.9 The next steps for the Project Team are to develop the procurement documentation in full and seek approval for the detailed procurement strategy from the Head of Procurement and Supply chain with the intention of publishing the Invitation to Tender in accordance with the indicative procurement timetable.

## **6. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION**

### **6.1 Equality of Opportunity Implications**

- 6.1.1 There are no significant differential equality impacts, positive or negative, from this proposal. The continued support of Electric Works helps indigenous businesses and inward investors to grow and employ more people in Sheffield, delivering good quality jobs and opportunities.

### **6.2 Financial and Commercial Implications**

6.2.1 There are no direct risks relating to this decision from a financial perspective. Finance and Commercial Services should continue to work together in developing the tender specification and selection criteria to ensure the most economically advantageous bidder is selected.

6.2.2 The current financial model for Electric Works is for the operator to collect all rent income due to the Council and pay this in monthly instalments. The Council pays the operator for monthly FM related expenditure in line with an agreed operator business plan, with a reconciliation process to manage any variances. The Council pays the operator for the direct costs they incur in running the building plus an annual management fee. It is this annual fee that has been used to calculate the estimated contract value. The current estimate is £350,000 over a 7 year period (based on an annual fee of £50,000) however it is anticipated that savings will be identified as part of the procurement process.

6.2.3 Key risks from a commercial viewpoint are:

- Maintaining 100% occupancy levels in the building
- Incentivising the selected supplier to achieve maximum occupancy and value for money for SCC
- Ensuring adequate funding in the reserve account is available for contingency & repairs
- Managing 3<sup>rd</sup> party costs for external maintenance of the Digital Campus (communal areas & car park)

### 6.3 Legal Implications

6.3.1 The procurement will be compliant with the Public Procurement Regulations 2015. All statutory FM obligations will be included in the output specification. The Council as the owner of Electric Works will collaborate with the FM service provider to ensure all operational risks are mitigated including ensuring compliance with health and safety legislation.

### 6.4 Other Implications

*(Refer to the Executive decision making guidance and provide details of all relevant implications, e.g. HR, property, public health).*

6.4.1 No implications other than those identified in this report.

## 7. **ALTERNATIVE OPTIONS CONSIDERED**

*(Outline any alternative options which were considered but rejected in the course of developing the proposal.)*

7.1 The following options are open to the Council and were considered by EMT as part of the strategic review:

#### 7.1.1 **Sell the building**

Given the natural break point at the end of the current FM agreement, SCC could seek to sell Electric Works either as a managed workspace for creative and digital businesses or as a vacant office development.

Property Services undertake regular valuations of the Council's investment portfolio. This valuation can be compared against the outstanding borrowing in order to inform whether or not it makes sense to sell or retain the building.

This analysis shows it would be impossible to maintain the wider economic development objectives of the building AND maximise value to SCC. Selling Electric Works as vacant office space would allow SCC to repay the majority of the outstanding borrowing but would mean the city lost the economic benefit of having a facility for digital businesses.

#### 7.1.2 **Retain the building as SCC accommodation**

The Council could decide to retain the building and utilise it as part of the Council's accommodation strategy. Work around the Council's Accommodation Strategy reveals absolutely no need for this, so this option has not been pursued further at this stage.

#### 7.1.3 **Retain the building as managed workspace operated directly by the Council**

If the FM service at Electric Works was aligned with the service provided in other council buildings it could jeopardise the Council's ability to charge premium rates for serviced and semi serviced office space. Premium rates are required in order for the Council to generate the income required to repay its borrowing. Retaining a community of digital / tech businesses that are prepared to pay premium rates to be in Electric Works in part depends on the quality of service they receive. To date, it has been felt this is best delivered by a sector relevant third party FM provider, not directly by SCC employees or contractors.

7.2 Continuing to run Electric Works as a digital business centre was demonstrably the most economically advantageous outcome for both the Council and the wider city economy. Continuing with an arm's length, specialist, FM services provider to run the building was felt key to maintaining Electric Work's position as the predominant location for growing tech and digital businesses. Approval for a re-procurement of an operator for Electric Works is therefore sought.

### 8. **REASONS FOR RECOMMENDATIONS**

*(Explain why this is the preferred option and outline the intended outcomes.)*

8.1 The preferred option is to retain the building as managed workspace operated by a third party on the Council's behalf delivering the following benefits:

- Additional economic impact / benefit



- Attraction of high value tech companies
- Potential cost savings & process simplification of current delivery arrangements
- Income generation to repay Council borrowing thereby creating an asset for the future
- Ownership of a high quality asset in a strategic location

8.2 Approval of the recommendations within this report will allow for the preferred option to be implemented within the timescales required to ensure continuity of service and allow for a period of 'hand over' if required.