



SHEFFIELD CITY COUNCIL Cabinet Report

Report of: Executive Director, Place: Simon Green

Date: 10th April 2013

Subject: Construction and Building Services Re-Tender for Social Housing Repairs and Maintenance

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Summary:

The current contract for repairs and maintenance and other construction work for all council owned buildings expires in March 2014. The current provider is Kier Sheffield LLP (the 'LLP').

The purpose of this Cabinet report is to recommend that the Housing Revenue Account (HRA) Repairs and Maintenance service is procured in the open market to seek a contractor to deliver this service post April 2014 for a duration of 3 years with an option to extend by up to a further 2 years depending on a value for money assessment. The key requirements for this recommendation are:

- Provide an opportunity to develop further an integrated Housing and Repairs Service
- Provide improved efficiencies
- Allow the risks associated with equal pay and restructuring to be managed out and mitigated in order to allow for a future in-sourcing of the service
- Maintains and improves the service

The contract will include an annual review mechanism to provide an opportunity for service and performance review and the ability to make changes.

It is proposed that the tender process will allow bidders an opportunity to provide both a mandatory bid for a three year duration with a two year extension option and a variant bid of 5 years with extension an option of two years in order to assess the difference in prices and assessment of Value for Money.

The Council will invite bidders to set out in their method statements how they propose to deliver the key requirements of this contract. Bidders would need to take cognisance of employment law and TUPE obligations in relation to how the service is to be provided by their workforce.

The value of this contract is approximately £33m per annum on current spend. The scope of the contract includes:

Service Area	Approx Spend Based on 2014/15 Projections (£m)
Responsive Repairs*	13.90
Vacant Repairs (including security, vacant inspections, cleaning & clearing)	8.10
District Heating * (including servicing and repairs to boiler houses, dwellings, laundries, dry risers, potable water, non-domestic properties & legionella)	1.70
Gas Servicing (including servicing, repairs, high value repairs, reinstates & solid fuel servicing)	4.60
Lift & Stair-Lift Servicing (including servicing & repairs to lifts & non-Stannah stairs lifts. In addition refurbishment of lifts could also be included (but exclude adaptations and specialist lifts).	1.20
Electrical (Including servicing & repairs to fire alarms, landlords lighting, landlords supply fixed wire testing, door entry repairs, domestic testing & electrical domestic repairs)	2.50
Communal Painting	1.00
Domestic Heating Renewals (Emergency Non-Working Breakdowns Only)	0.90
Footpaths, Car Parks & Un-Adopted Highways	0.20
TOTAL	34.10

**Some flexibility to be retained to remove exclusivity for District Heating and Repairs to Garages if wider business needs require.*

HRA External Block Lighting will also be considered for inclusion within the scope identified above.

It is proposed that the following service areas do not form part of the future housing repairs and maintenance service and are instead delivered either via a separate external tender route (adaptations, asbestos removal) or via a different delivery model outside of the scope of the re-tender (City Stewardship Scheme). The volume of doors/windows/kitchen units going through Sharrow Industries will be negligible following the expiry of the Decent Homes contract and therefore will not be a requirement of this new contract. However, further work will continue to take place with Kier to see if any alternative options can be considered.

The contract would include for some limited opportunities for business cases to introduce future flexibility (these could include “green deal or ECO” and small capital schemes). These works shall be priced on an open book basis, with fixed tendered percentage addition of over-heads and profit. It shall be the Service Provider’s responsibility to demonstrate Best Value to the Client. The acceptance of a business case should be at the discretion of SCC.

All capital construction and elemental works are excluded and will be sourced through a separate open tender or regional frameworks.

There will be no volume guarantees in the contract.

Reasons for Recommendations:

The current contract for the housing repairs and maintenance expires in April 2014 and this service needs to be re-let on the open market to secure a new contract (in accordance with the Council’s Contracts Standing Orders and European Union Procurement Rules). The tender process will be competitive and follow the principles of transparency and non-discrimination, delivering value for money.

The Council needs to maximise value for money and deliver an excellent repairs and maintenance service in the context of a changed and challenging housing financial regime and the current difficult economic climate.

This service will contribute to making neighbourhoods a great place to live by ensuring that repairs and maintenance are carried out with due attention to customer care, health and safety and “right first time”.

Recommendations:

It is recommended that:

1. The procurement of a contractor - by way of OJEU competitive tender via restricted procedure, to deliver the services that form part of the housing repairs and maintenance contract (as detailed in paragraph 1.2) from April 1st 2014 to March 31st 2017 with an option to extend by up to 2 years subject to a value for money assessment - be approved.
2. It is proposed that the tender will allow bidders an opportunity to provide for both a mandatory bid and a variant bid of 5 years plus option to extend by two years in order to assess the difference in prices /fees for such a service. The decision as to whether to accept a variant bid of 5 years plus 2 to be subject to a value for money assessment. Delegated powers to be granted to the Director of Commercial Services, Executive Director of Place and Executive Director of Resources in consultation with the Cabinet Member for Homes and

Regeneration to agree which option to proceed with in terms of providing overall best value for money.

3. The proposed key attributes to be contained in the proposed contract as set out in Section 6 of this report be approved. The Council will invite bidders to set out in their method statements how they propose to deliver the vision and service and infrastructure improvements set out in Section 6.
4. The statutory leaseholder consultation required by Section 20 of the Landlord and Tenant Act 1985 (as amended by the Commonhold and Leasehold Reform Act 2002) is adhered to and approved.
5. That bidders need to comply with TUPE and with the SCC Code of Good Practice on Workforce Matters in Local Authority Service Contracts. The transferee organisation (primary service provider) will be responsible for the observance of the Code by the new employer.
6. The contract should provide the opportunity for Third Parties (for example City Region/Regional Local Authorities/Registered Social Landlords) to have a "Call Off" arrangement based on a 2% Procurement Contribution Fee.
7. That the Council undertakes an independent and concurrent quality assurance review of the process majoring on how best to minimise risk and to ensure we deliver the desired outcome.
8. Delegated powers are granted to the Director of Commercial Services or his nominated representative in conjunction with the Director of Resources and Director of Housing, to ensure delivery of the stated objectives, including if required varying the requirements of this contract in relation to the outcome of the independent quality assurance review, (subject to being within approved budget limits), accept tenders and award a Contract for this Project.

Background Papers:

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
YES Cleared by: Anna Peysner
Legal Implications
YES Cleared by: Lawrence Gould
Equality of Opportunity Implications
YES Cleared by: Phil Reid
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO Cleared by Robert Almond
Economic impact
YES
Community safety implications
NO
Human resources implications
YES – cleared by Cheryl Blackett
Property implications
NO
Area(s) affected
All Community Assembly areas
Relevant Cabinet Portfolio Leader
Cabinet Member for Homes and Neighbourhoods
Relevant Scrutiny Committee if decision called in
Safer and Stronger Communities Scrutiny Board
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
YES

CONSTRUCTION AND BUILDING SERVICES RE-TENDER FOR SOCIAL HOUSING REPAIRS AND MAINTENANCE

1.0 SUMMARY

1.1 The current contract for repairs and maintenance and other construction work, for all council owned buildings, expires in March 2014. The current provider is Kier Sheffield LLP (the 'LLP').

The purpose of this Cabinet report is to recommend that the HRA Repairs and Maintenance service is procured in the open market, seeking a contractor to deliver this service post 2014 for a duration of 3 years with an option to extend by up to 2 years subject to a value for money assessment.

The key requirements are:

- Provide an opportunity to develop further an integrated Housing and Repairs Service
- Provide efficiencies
- Allow the risks associated with equal pay and restructuring to be managed and mitigated
- Maintain and improves the service

The contract will include an annual review mechanism to provide an opportunity for service review and changes.

It is proposed that the tender process will allow bidders an opportunity to provide for both a mandatory bid as above and a variant bid of 5 years plus 2 in order to assess the difference in prices /fees because of the Council's desire for a future service requirement to 'manage out' all the liabilities and risks associated with equal pay and restructuring, putting in place service and infrastructure improvements.

The Council will invite bidders to set out in their method statements how they propose to deliver the vision and service and infrastructure improvements set out in Section 6. Bidders would need to take cognisance of employment law and TUPE obligations in relation to how the service is to be provided by their workforce.

1.2 The scope of the contract includes:

Service Area	Approx Spend Based on 2014/15 Projections (£m)
Responsive Repairs*	13.90
Vacant Repairs (including security, vacant inspections, cleaning & clearing)	8.10
District Heating * (including servicing and repairs to boiler houses, dwellings, laundries, dry risers, potable water, non-domestic properties & legionella)	1.70
Gas Servicing (including servicing, repairs, high value repairs, reinstates & solid fuel servicing)	4.60
Lift & Stair-Lift Servicing (including servicing & repairs to lifts & non-Stannah stairs lifts. In addition refurbishment of lifts could also be included (but exclude adaptations and specialist lifts).	1.20
Electrical (Including servicing & repairs to fire alarms, landlords lighting, landlords supply fixed wire testing, door entry repairs, domestic testing & electrical domestic repairs)	2.50
Communal Painting	1.00
Domestic Heating Renewals (Emergency Non-Working Breakdowns Only)	0.90
Footpaths, Car Parks & Un-Adopted Highways	0.20
TOTAL	34.10

**Some flexibility to be retained to remove exclusivity for District Heating and Repairs to Garages if wider business needs require.*

HRA External Block Lighting will also be considered for inclusion within the scope identified above.

It is proposed that the following service areas do not form part of the future housing repairs and maintenance service and are instead delivered either via an external tender route (adaptations, asbestos removal) or via a different delivery model outside of the scope of this re-tender (City Stewardship Scheme). The volume of doors/windows/kitchen units going through Sharrow Industries will be negligible following the expiry of the Decent Homes contract and therefore will not be a requirement of this new contract. However, further work will take place with Kier to identify if any alternative options can be considered.

There will be some limited opportunities for business cases to introduce future flexibility (these could include “green deal or ECO” and small capital schemes). These works shall be priced on an open book basis, with fixed tendered percentage addition of over-heads and profit. It shall be the Service Provider’s responsibility to demonstrate Best Value to the Client. The acceptance of a business case should be at the discretion of SCC.

There will be no volume guarantees in the contract.

All capital construction and elemental works are excluded and will be sourced through a separate open tender or regional frameworks.

There will be no volume guarantees in the contract.

- 1.3 A comprehensive options review was carried out to determine the most appropriate delivery model for this service post April 2014. The review focussed on considering an internal (to the Council) integrated delivery model for social housing repairs. It set out the costs, benefits, opportunities, risks and mitigations, together with a comparison of how this option would compare to an externally tendered service provider. The review included financial modelling for both the in-sourced option and the external tender option against agreed assumptions and design principles. The initial outcome of the modelling demonstrated no significant differentiation between the two routes in terms of costs, risks, mitigations and benefits/opportunities.
- 1.4 The outcome of the options review revealed that there is little appreciable difference in total cost over a ten year period between the Internal and External Integrated Delivery scenarios. However, this position changed significantly when the Major Financial Risks and Operational/Management Changes required were taken into account.

The key differentiator is the risk of equal pay claims against the Council which is a General Fund risk and could have a potential cost implication of at least £2.8m for SCC and a further £2.8m for Schools.

It also needs to be acknowledged that the in-sourced option would require significant Operational and Management change in order to drive through establishing a new organisation, putting in place service improvements and efficiency savings and managing a significant reduction in employee numbers (approximately 200 over the first five years).

This issue was considered at length in a further options review. All options were considered and legal advice taken. Options included consideration of a Wholly Owned Company (WOS) and this option was dismissed as the feedback from Legal Counsel was that the Council could still be considered as an associated employer (determined by the level of control imposed by the Council on the direct employer) and therefore the risk of Equal Pay (EP) claims still existed. Further work took place on a number of models (all of which would involve a procurement exercise) for a period of 5 years whereby the risk of Equal Pay could be mitigated:

1. External Tender for a maximum of 5 years
2. Halfway House - Management within Council & Operatives employed by another
3. Joint Venture Company

An assessment of each of these options took place against criteria and weightings.

Based on this analysis, the recommendation is to pursue an external tender route for the future delivery of this service, but structure the contract in a way that allows for a future option to in-source the service by managing out the risk of equal pay. The following key findings of the review will all be incorporated into our requirements for the new contract:

- improving the existing service (Section 6 provides details of opportunities for service improvements)
- providing greater flexibility to respond to changing circumstances
- enhancing customer engagement
- providing local variance
- supporting the future asset investment strategy by maximising efficiency opportunities
- providing employment and training opportunities, such as apprenticeships and workplace experience for 14-16 year olds
- maximising Sheffield based local supply chain
- embedding environmental considerations
- ensuring that client and constructor interfaces are lean and effective
- to unlock the potential for increased capacity and empowerment from front line staff by focusing remuneration and performance on better outcomes for customers, for example by introducing a competence-based remuneration scheme as an alternative to a Standard Minute Value (SMV) bonus incentive scheme

The Council will invite bidders to set out in their method statements how they propose to deliver the vision and service and infrastructure improvements set out above and detailed in Section 6. Bidders would need to take cognisance of employment law and TUPE obligations in relation to any impact on 'ways of working' for their workforce.

Bidders would be asked to submit their proposals to modernise the existing remuneration system in order to incentivise staff and operatives to offer better outcomes for tenants (e.g. reward multiskilling, increased tenant satisfaction, one job completions etc.). Bidders would also be required to set out implementation timescales of how and when they would undertake such a pay and grading review. This would be part of any future performance review.

Method Statements submitted by Bidders will be assessed against the evaluation criteria and awarded marks. Bidders will be awarded more marks if they are able to demonstrate that they are able and prepared to undertake a full review of remuneration which includes a fundamental review of pay and grading to deliver better service outcomes. If a Bidder has not demonstrated that they are able or willing to 'modernise' the workforce they will receive less marks and if they score below a certain threshold on the Council's 0 - 5 scoring system (2.5) they can be disqualified from the tender process. The Method Statements of the successful Bidder will become fully incorporated into the Contract and will therefore become a contract obligation.

The above steps will ensure that there is a contractual commitment to 'modernise the workforce and introduce new remuneration methods'. The Council then needs to ensure this is delivered via robust contract and performance management mechanisms:

- Ensure the issue remains a top priority for the Council and is an agenda item on all key meetings with the contractor, such as the Strategic Partnership Board and Management Board;
- Making delivery of this a KPI for the contract;
- Ensure that the annual review mechanism takes full cognisance of progress on this issue;
- Contract extension opportunities are linked to progress on this issue.

However, in order to provide further assurance the Council will undertake an independent review of the proposed approach including a risk analysis regarding the feasibility of whether the desired outcome of ultimately creating an integrated and in-house social housing repairs and maintenance team could be achieved bearing in mind the existing advice regarding internal / external differing staff terms and conditions. Legal advice has indicated that there is no guarantee that the desired outcome can be achieved but that through a well written brief / specification and subsequent financial and robust contract management instruments built into the contract as detailed above can lower the risk attached to it.

It is therefore recommended that the Council undertakes an independent quality assurance review to assess if the proposed external procurement will provide assurance that the service would provide a seamless transfer at the end of the contract to a future insourcing of the service free of any risks or liabilities. The findings of which will be fed into the subsequent brief / specification to ensure we minimise the risk to ensure we deliver the desired outcome of a future in-house social housing repairs and maintenance service.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

- 2.1 The Council owns approximately 41,500 homes and has over 48,000 tenants. In addition, approximately 2,100 leaseholders also receive services under the present contract. Repairs and Maintenance is a key service to tenants and leaseholders who expect to receive a quality service that is responsive within agreed category times, as far as possible 'right first time', operatives that are respectful and polite when in tenants' homes and a service that ensures health and safety is paramount at all times.
- 2.2 Providing quality services in challenging economic circumstances remains a priority for the Council. Providing value for money is also a key priority, so that the maximum number of repairs can be carried out within the resources

available.

3.0 OUTCOME AND SUSTAINABILITY

3.1 The proposals in this report are aimed at maximising the quality of service to tenants for repairs and maintenance whilst at the same time:

- providing the lowest price on volume;
- reducing costs to tenants/leaseholders;
- maximising the investment in our homes;
- having an efficient ratio of responsive and planned services.

3.2 The proposals in this report will also contribute to key corporate priorities such as increasing employment and skills, environmental considerations and the utilisation of local supply chains.

4.0 BACKGROUND

4.1 In 2003 Sheffield City Council (SCC) established an innovative limited liability partnership with the Kier Group called Kier Sheffield LLP (LLP). This is a form of Joint Venture and was established in order to demonstrate long term commitment from the City Council as well as provide a trading platform for Kier to expand the business. The Council has a 19.99% share in the LLP and one Board Member. The LLP has no time restriction on it and can be in place as long as both parties see value in it.

The Construction and Building Services contract was awarded to the LLP in 2003 and expires in March 2014. The original contract expiry date was March 2013, but the contract was extended to March 2014 in order to align timescales with the 'Council Housing - Planning the Future' Project. Cabinet approved this extension on the 15th June 2011.

The current contract covers repairs and maintenance for all Council owned buildings. This includes social housing repairs and maintenance, corporate and civic buildings repairs and maintenance and all capital works across the Council's portfolio.

4.2

2011/12 - HEADLINE DATA (HOUSING ONLY)		
SCALE OF SERVICE	Housing Stock	41,314
	Gas Services Carried Out	38,257
	Responsive Repairs Completed	172,437
	Appointments Made	52,989
	Vacant Properties Repaired	3,805
	Calls to Repairs Service Centre	248,694
OPERATION SIZE	Number of Direct Operatives	352
	Number of Direct Support Staff	109
	Number of Indirect/ Overhead Staff	146
	Number of Vehicles	285

5.0 ALTERNATIVE OPTIONS CONSIDERED

5.1 Six broad options were identified. These were:

Option 1 – Single Strategic Partnership – similar set up as now i.e. covers responsive repairs and some capital works and all Council buildings (Housing and Non-Housing)

Option 2 – A responsive repairs contract for all Council buildings (Housing and Non-Housing) – but all capital works to be procured separately.

Option 3 – Separate Housing and Non-Housing Contracts for responsive repairs, servicing and testing. All capital schemes separately procured.

Option 4 – Geographically based contracts.

Option 5 – Strategic Alliance between contractor and housing management organisation.

Option 6 – Deliver the housing repairs service in-house

5.2 These six options were reviewed in more detail setting out the advantages and disadvantages of each option. They were then scored against 10 key project drivers and objectives.

The 10 key project drivers are:

- To get the lowest prices on volume, reducing costs to tenants/leaseholders and maximising the investment in homes, whilst maintaining a high quality service and delivering an efficient ratio of responsive to planned services
- To ensure client and constructor interfaces are lean, effective and efficient in line with Council's Intelligent Client Model and that cost effective and robust contract management arrangements are in place
- Is able to be strategic and flexible (e.g. be able to have a long term strategic relationship but have short term commitments to be able to scale up down to changing volumes of work and respond to future unknown policies)
- Is able to improve the repairs service in terms of performance and customer engagement
- Is able to minimise all potential risks and liabilities on the Council
- To be able to contribute to key corporate priorities such as employment and skills, environmental considerations and the utilisation of the local supply chain
- To be able to respond to local variance (e.g. the 7 different Community Assemblies set up in the City)
- Is able to best support the future asset investment strategies
- Is able to align and interface with the future direction of KAPS and Corporate Client arrangements
- Impact of set up costs and timescales to achieve preferred outcome, e.g. procurement or in-house service.

5.3 The Preferred Option:

Following the scoring (and input from the officer working groups and the Member Task and Finish Group) the preferred option to be examined in more detail was **Option 3** i.e. separate arrangements for housing repairs and maintenance and **not** including any capital or elemental schemes (which should be procured on a scheme by scheme basis) and having a separate procurement strategy for the non-housing contract for our civic and public buildings. With regard to the housing repairs and maintenance, Members wanted further work carried out to determine if the service should be in-sourced or not.

Key arguments for following Option 3 are:

- Post 2014 there are no large programmes of work (such as Decent Homes) which have historically benefitted from a single strategic partner
- The existing contract is too large and at times loses focus on core services and demonstration of VfM
- The assumption in the HRA Self Financing Strategy that work is best delivered and procured on elemental work stream basis. This would achieve improved VfM as the procurement is focused on specialist contractors (such as a roofing contractor or heating contractor) and therefore we would not have to pay prime contractors' fees/overheads for managing specialist sub-contractors.
- A separate contract for non-housing allows for an opportunity to have in place a contract that is more focussed on statutory servicing and compliance, provides an opportunity to reduce interface arrangements with KAPS and SCC and provide future flexibility to be co-terminus with existing

KAPS contract.

- 5.4 A further options review was carried out to determine the best way of delivering this service post 2014. The review focussed on considering an internal integrated delivery model for social housing repairs, setting out the costs, benefits, opportunities, risks and mitigations and how this option compares to an external tender route. The review included financial modelling for both the in-source option and the external tendered option against common assumptions. The design principles and the outcome of the modelling attempted to show if there are any significant differentiation between the two routes in terms of costs, risks, mitigations and benefits/opportunities.
- 5.5 The outcome of the options review revealed that there is little appreciable difference in total cost over a ten year period between the Internal and Externally delivered Integrated Delivery scenarios. However, this position changed significantly when the Major Financial Risks and Operational/Management Changes required were taken into account.

The key differentiator is the risk of equal pay claims against the Council which is a general fund risk and could have a potential cost implication of at least £2.8m for SCC and a further £2.8m for Schools.

It also needs to be acknowledged that the in-source option would require significant Operational/Management change order to drive through establishing a new organisation, putting in place service improvements and efficiency savings and managing a significant reduction in employee numbers (approx 200 over the first five years).

Based on this analysis the recommendation is to pursue an external tender route for the future delivery of this service, but structure the contract in a way that allows for a future option to bring the service back in house by managing out the risk of equal pay. However, the key findings of the review of improving the existing service (see section six below), will all apply to this new contract.

6.0 OPPORTUNITIES FOR SERVICE IMPROVEMENT

- 6.1 The Options Review resulted in a clear vision and scope for service and infrastructure improvements that the Council would want the successful contractor to deliver. The Council will invite bidders to set out in their method statements how they propose to deliver the vision and service and infrastructure improvements set out below. These are:

Vision:

A service provider that works in partnership with Sheffield City Council to do jobs right first time, working to local priorities, providing an efficient tenant-centered service, seamlessly 'joined up' with other services for better outcomes and cost savings – quality service for tenants, savings for the Council, and job satisfaction for the workforce.

Service and infrastructure Improvements:

- Potential for increased capacity and empowerment from front line staff by focusing remuneration and performance on better outcomes for customers.
- A competence-based remuneration scheme as an alternative to a Standard Minute Value (SMV) bonus incentive scheme
- An appropriate regime of authorisation, inspection and checking
- Culture of 'customer first', 'can do', 'continuous improvement' and 'value for money'
- Multi-trade – complete jobs in one call where possible
- Handyman service – help for vulnerable residents
- Single point of contact for repairs ordering and status checking – meeting CFP objectives
- Eyes and ears for the Council on estates and in homes to meet the safeguarding agenda
- Co-location and integration with the Housing Service (build on the current partnership working model) for flexibility, speed and adaptability
- Use of customer insight information for planning
- Central role in governance arrangements for tenants to inform targets, agree priorities and provide scrutiny
- Improved job allocation and data transfer
- Visibility and availability of present and future work to front line staff (via PDA or similar)
- Infra-structure and supply chain development and support to achieve increased levels of 'first time fix'
- Allocation of operative resources based on actual repairs demand and geographical spread
- Flexible working arrangements to manage the variable levels of demand
- Potential 'added value' through improved supply chain arrangements
- Use of responsive repairs data - together with the knowledge and experience of front line staff - to inform asset management
- Review the allocation of financial resources to take advantage of any potential increased capacity of directly employed front line and support staff
- Revise the financial monitoring arrangements to include the actual end-to-end costs associated with the HRA Repairs and Maintenance service
- Condense and/or streamline the ICT business information systems to reduce duplicated effort and back office processes
- Ensure current measures of performance to respond to and reflect 'what matters to customers'
- Develop and supplement the demographic profile and skills base of managers, support staff and the current workforce to deliver the Repairs and Maintenance service

7.0 KEY ATTRIBUTES OF PROPOSED CONTRACT

7.1 **Exclusivity and Annual Review Mechanism:** Under the new contract it can be expected that the successful provider will enjoy exclusivity over Repairs & Maintenance type works, although there will be no volume/turnover guarantee

It is proposed that exclusivity will be “jointly” reviewed/ withdrawn subject to:

- Poor performance or contractual breach.
- VFM assessment, incorporating benchmarking data, TUPE/redundancy cost implications, and additional procurement/ contract management costs
- Annual Service Review

There will be some limited opportunities for business cases to introduce future flexibility (these could include “green deal or ECO”, environmental and estate works/services, and small capital schemes). These works shall be priced on an open book basis, with fixed tendered percentage addition of over-heads and profit. It shall be the Service Provider’s responsibility to demonstrate Best Value to the Client. The acceptance of a business case should be at the discretion of SCC.

Contract Length: 3 year contract with an option to extend by up to 2 years. The contract will include an annual review mechanism to provide opportunity for service review and changes. However, a variant bid of 5 years plus 2 year extension will also be considered to assess overall Value for Money.

Future of service Centre: It is proposed that the Service Centre is operated as part of the Customer First Programme Call Centre within the hours 8.00am – 6.00pm (Mon- Fri, excluding bank holidays). The Service Provider will be responsible for operating a separate telephony system outside these hours. Relevant Liberata staff to TUPE Transfer to SCC. There will be some opportunity for the Service Provider’s Work Planners to be co-located with Call-Centre Operatives at Howden House.

Targeted employment and skills opportunities: The contract will include employment and training outputs. An Employment and Skills Plan will be developed, setting out clear benchmarks for apprentices, work experience, graduate placements etc. The City Stewardship scheme (which focuses on 16-19 year olds who are in the NEET classification) will be reviewed to determine the best model post 2014. The options include whether or not there is an opportunity for a city wide scheme for 16-19 year olds rather than just a housing-focussed scheme. Should it be delivered via a contractual route or whether it is best to focus entirely on apprenticeship schemes which can demonstrate a more tangible outcome in terms of qualifications and opportunities for permanent employment. The Life-long Learning and Skills Team will be fully involved in this process.

The general employment and skills benchmark is likely to be 1 apprentice per c. £1m spend approx, although there will be the opportunity to review this requirement subject to the risk of any significant future redundancy issues. Benchmarks in terms of work placements and skills/training are yet to be determined.

Localism: The Service Provider will be required to provide services that balance the local dynamics within the Housing Area framework with the need for an appropriate degree of consistency whilst supporting the local agenda. This will be provided through a range of approaches including:-

- Service planning with local tenants and residents forums re local priority setting using customer insight information.
- Local scrutiny and accountability of service performance and delivery through governance structures.
- Some service delivery based on local demand whilst maintaining the core repairs function e.g. vacant standard, cyclical maintenance (painting and communal works)
- Handy person service tailored to local needs meeting SCC safeguarding agenda.
- Contractor to appoint local SME's as part of the supply chain
- Strong links with other service providers in the community e.g. housing area teams.
- Working in partnership supporting health services, charities, voluntary sector and social enterprise.

Performance Price Mechanism: It is proposed that a robust penalty driven mechanism is implemented, whereby a series of financial penalties will be applied where performance fails to meet the agreed target (based on the current performance benchmarks). Penalties will be applied monthly with no allowance for seasonal variations, albeit that waivers will be applied in extenuating circumstances and those outside the Service Providers Control.

Premium Arrangements – Goodwill, Annual Payments, Super Profit, Turnover guarantee etc: It is proposed that all premium arrangements & “claw-back” provisions are excluded from this contract given the contract timescale and in order to ensure that the Council achieves the best value from the market.

Pricing Mechanism: It is proposed that the New Price Framework for Housing is largely retained, but simplified and developed further where required (i.e. increase use of flat/ composite rates). Within this framework, generally any volume increase/decrease is at the client's risk.

Heating, Mechanical & Electrical annual servicing work shall continue to largely be priced on an Facilities Management basis, but where possible increasing the level of inclusively within these arrangements and avoid having additional prices for related work.

Any, incidental costs (restructuring, undertaking of pay & grading review etc.) will be at the Service Providers risk and factored into the rates over the contract duration

Budget Envelope and Inflationary Uplift Mechanism: It is proposed that the BCIS maintenance cost index is used but capped within 0-2.75% increase each year. However, this is subject to a trigger when the index indicates an annual

increase of more than, say, 5%. Any uplift would then be based on a business case type approach. Any additional increase above this figure would need to be justified on the basis of a business case, where the service provider was required to evidence actual cost increase between the previous proceeding years.

The annual review will serve as a mechanism to review cost, prices, process and specifications in order to deliver ongoing efficiencies. Part of this review will also include benchmarking and applications of the “value for money” model (whereby exclusivity maybe withdrawn).

The HRA self-financing business plan makes the following assumptions and the Service Provider will be expected to operate within this budgetary envelope:

- Initial efficiency saving of 2% (2014/15)
- 2.75% inflationary uplift each year (Ongoing)

Pensions: The pension pot provisions and any other pension issues will need to be closed off once the current contract comes to an end. Because of the complexities involved, this issue is most appropriately dealt with as a corporate issue and aligned with service strategies going forward. Ideally the new contract will be simpler and ensure compliance with the Statement of Principles of Good Employment Practice.

ICT: Investment is required with regard to planning, programming and scheduling of works to meet the service improvement suggestions. Further work is required to explore if both contractor and client systems are required. However the Client will still need to hold all asset database information, and this must be updated following completion of any works.

PDA's (or similar) should be available to operatives and supervisors to assist in job planning, real time invoicing and reducing job processing costs.

Specification Review: Work is ongoing to align specifications and update assets management systems, which should assist the Service Provider in managing vans, stock etc. The specification to provide for statutory compliance will be updated to reflect current best practice.

Integrated supply chain/store options: It is proposed that we consider entering into a supply chain partnering agreement with Wolseley to introduce a single supplier for stores/materials distribution via procure plus. This arrangement would introduce a direct relationship with the ‘merchant’ and provide an efficiency saving as this would not attract a prime contractor fee to manage the stores system. This service may result in improved service levels by introducing a planned timeslot delivery service coupled with van stock management and mobile working which will ensure higher fix call rates and reduction of ad-hoc collections thus reducing operative’s downtime. Emergency requirements by way of extended delivery cover and emergency out of hours cover will be provided. In order to reduce purchase to pay process there is the potential to make e-commerce and IT interfaces more effective with the view of

becoming paperless. This will lead to improved tenant satisfaction.

Manor Lane: Property&Facilities Management are to undertake further feasibility work for the various options for Manor Lane, including consultation with Planning. However, initial investigation suggests there may currently be only very limited alternatives for Manor Lane. With this in mind it is likely that the site will be offered to the new service provider at a fair rental value, although options to split the site may be explored.

It is likely that the co-location model of Sheffield Homes staff working alongside Kier at Manor Lane will continue to be operated with whoever wins this new contract.

Future use of Manor Lane will need to factor in the ongoing use of the Construction Training Centre which is managed by the Children, Young People and Families Portfolio. The Training Centre is a fixed building which has ERDF funding, and there is a condition with the ERDF that the facility is available for 20 years. The last grant claim was March 2008. If we dispose of this asset before March 2028, we would need to inform DCLG and we could be subject to grant clawback if the facility is no longer available.

TUPE/Residual Costs: Whatever the final delivery route is, it will need to take into account employee implications, in particular regarding pensions and TUPE/residual cost implications.

The external tender route would require bidders to include an allowance within their rates whereby SCC would fund these rates over a deferred period via the life of the contract.

Contract Management Arrangements: To operate within the Intelligent Client Model framework (i.e. Client required to undertake robust Technical Quality Assurance Role). The Quality Assurance Framework needs to reflect the SCC Intelligent Client Model with regard to client and constructor responsibilities. A key aspect of the new contract is to define the requirements of what we would want from an active asset management partner; values, culture, roles and responsibilities.

Evaluation Criteria: Price 70%/Quality 30%. The quality criteria will include aspects such as how a new contractor will mobilise for a new service delivery and how they will deliver the Council's vision for modernising the workforce by focussing remuneration and performance on better outcomes for customers.

8.0 TENANT AND LEASEHOLDER CONSULTATION.

- 8.1 Sheffield Homes have regularly and systematically consulted tenants through Action Planning Groups, Local Housing Forums and through the CityWide Investment & Repairs Partnership Group on their key issues and priorities for the repairs service and investment in their homes and communal areas. The most recent specific consultation was through the Investment Repairs Partnership Group on 21st June 2012. Many of the service improvement ideas detailed in

section 6 above have emanated from this process.

- 8.2 Tenants and leaseholders would be involved in the evaluation of the tendering process as they were previously when Kier were selected and when other contractors were selected to do Decent Homes and other investment work.
- 8.3 All statutory leaseholder consultation is required by Section 20 of the Landlord and Tenant Act 1985 as amended by the Commonhold and Leasehold Reform Act 2002; the procedure is set out in the Service Charges (Consultation Requirements) (England) Regulations 2003.

There are two strands to section 20 consultation:

- Entering into a qualifying long-term agreement under which the service charge to any leaseholder may exceed £100 in any year;
- Carrying out qualifying works which may result in any leaseholder being charged more than £250.

Thus if qualifying works are to be carried out under a qualifying long-term agreement, two consultations are required (one for the agreement, one for the works).

If the appropriate consultation requirements are not complied with then the maximum that any affected leaseholder may be charged is the limit for that consultation, so a failure to carry out agreement consultation means a maximum service charge of £100 even if the subsequent works consultation is done properly. If the failure does not apply to all leaseholders then the full amount can be demanded from those leaseholders we got right, but not those we got wrong.

9.0 FINANCIAL ASSUMPTIONS

- 9.1 The contract would ensure that the contractor would need to operate within the assumptions set out in the HRA 30 year Business Plan i.e. budget increase of 2.75% per annum and provide a 2% efficiency improvement in the first year (£665k).
- 9.2 It is proposed that the BCIS maintenance cost index is used but capped within 0-2.75% increase each year. However, this is subject to a trigger when the index indicates an annual increase of more than, say, 5%. Any uplift would then be based on a business case type approach, and any additional increase above this figure would need to be justified on the basis of a business case, where the service provider was required to evidence actual cost increase between the previous proceeding years.

The annual review will serve as a mechanism to review cost, prices, process and specifications in order to generate ongoing efficiencies. Part of this review will also include benchmarking and applications of the “value for money” model (whereby exclusivity maybe withdrawn).

The HRA self business plan makes the following assumption and the Service Provider will be expected to operate within this budgetary envelope:

- Initial efficiency saving of 2% (2014/15)
- 2.75% inflationary uplift each year (Ongoing)

9.3 607 employees have been identified as currently working on R&M activity (although some individuals may not work 100% on R&M and therefore the workforce resource transferred could be greater than what is required).

Initial estimates suggest that 212 employees could face redundancy over five years at a potential cost of £6.24m.

Bidders would need to take into account the TUPE transfer list and assess in their bid what resource would be required to deliver the service, whilst also ensuring they are able to manage the HR angle of delivering compliance with employment legislation.

9.4 In addition to the direct redundancy risk detailed above for the repairs and maintenance service, there is also a wider LLP issue in relation to risk which would apply whatever route we choose. After the expiry of the current C&BS contract, SCC would become liable indirectly for 19.99% of any losses incurred by the LLP. Therefore, if there are any LLP staff who are not transferred to other providers via TUPE (and as a consequence are facing redundancy if alternative work cannot be found) SCC may need to share that redundancy liability of 19.99%. Current estimates suggest that up to 347 LLP staff may not have an option to TUPE across to SCC because there is no / reduced work available or through changing requirements post April 2014. This could affect staff working on Decent Homes, City Stewardship Supervisors, Projects Team, Third Party Work etc.

- The maximum risk is 100% - 347 @ £30k = £10.4m; and
- The minimum risk is 20% (20% stakeholder in LLP) – 347@20%= 69 @£30k = £2m

A 60% assumption of redundancy as been reflected in model options - 208 @ £30k equals £6.24m.

Work is currently taking place to mitigate this number as far as possible - and the 347 employees is a maximum risk. This number could reduce, depending on how we manage - for example - the end of the Decent Homes contract, or any new work that Kier may win in competitive tender to offset the potential redundancy scenario, or any employees leaving Kier prior to the end of March 2014.

The HRA Business Plan has included a contingency risk in the event that this risk should materialise.

9.5 In terms of Pensions the current provider (Kier) has a contractual commitment at

the end of the C&BS contract to balance any pension liability. Therefore, this should not present a risk at the point of transfer.

- 9.6 Under TUPE Regulations, employees cannot insist that the existing SYPA arrangements are made available to them (The Code of Practice on Workforce matters in public sector contracts has now been withdrawn).

However, the Council's 'Transfer of Employees to other Employers – A Code of Good Practice' the Council will expect a new employer to take up Admitted Body status in the Local Government Pension Scheme. Where this is not possible the matter will be the subject of consultation with the Trade Unions within the established consultation processes. The new employer must demonstrate that the alternative pension scheme to be provided will be broadly comparable in all material respects. Where the new employer is not part of the LGPS the minimum acceptable provision will be a scheme certified as broadly comparable by the Government Actuary's Department.

In respect of pension arrangements for new employees, the new employer will be required to provide the following:

- Membership of a good quality employer pension scheme; either a contracted out, final salary based defined benefit scheme, or a defined contribution scheme which is broadly comparable to the LGPS in all material respects. The scheme must be certificated as broadly comparable to the LGPS by the Government Actuary's Department.

Where a subsequent transfer is envisaged by the transferee organisation to a new employer, the Council will impress upon the transferee organisation the need to comply with TUPE and with the Code of Practice on Workforce Matters in Local Authority Service Contracts. The transferee organisation (primary service provider) will be responsible for the observance of the Code by the new employer.

10.0 HUMAN RESOURCE IMPLICATIONS

- 10.1 TUPE, potential redundancy liability issues and pensions are covered in paragraphs 9.3, 9.4, 9.5 and 9.6 above.

11.0 LEGAL IMPLICATIONS

- 11.1 It is acknowledged that the Transfer of Undertakings (Protection of Employment) Regulations 2006 may apply and, if that is the case, staff employed under the existing contract would transfer over to the successful tenderer. Corporate policies and procedures in this respect will be followed as the project progresses.
- 11.2 Officers are mindful of the importance of putting into place appropriate

arrangements to secure the desired outcomes, ensure compliance with all legal requirements and protect the Council's position.

- 11.3 The Council's Contracts Standing Orders, including the European Union Procurement Rules, will be adhered to throughout the procurement. The tender process will be competitive and follow the principles of transparency and non-discrimination, and facilitate the achievement of value for money.
- 11.4 The successful tenderer will be required to enter into a formal written contract with the Council which will provide for effective service delivery at levels which accord with the Council's requirements.

12.0 ENVIRONMENTAL & SUSTAINABILITY IMPLICATIONS

- 12.1 This contract will be designed taking cognisance of Sheffield City Council's Sustainable Development Strategy and the following will be incorporated:
- a) The contract will be formulated to ensure that the successful Contractor complies with the current statutory requirements regarding Noise and Pollution Control, Site Waste Management, Environmental Protection and Landfill. All works will be undertaken to the latest workmanship standards using materials meeting the contract specification and therefore will take cognisance of all current legislation governing material production and their impact on the environment. All timber for the project must be obtained from a FSC certifiable source. The WRAP (Waste & Resources Action Programme) initiative will be incorporated into the contractual requirements in order to ensure waste is minimised and to ensure materials are used in a sustainable and efficient way.
 - b) The procurement of this contract will be via the Official Journal of the European Union (OJEU) which will mean it is open to companies from all Member States to express interest in the opportunity. The nature of the works will require the successful bidder to establish a local site base and because it is a TUPE transfer (in the event that the current provider does not win the contract), this will give opportunities for the employment of local people.
 - c) SCC's Employment and Skills requirements will be included into this contract. These will define the requirements of the successful contractor in relation to employment and skills.

13.0 EQUALITY OF OPPORTUNITY IMPLICATIONS

- 13.1 An Equality Impact Assessment has been completed and is attached. It concludes that, for most groups, this project will have little or no impact. No negative equality impacts have been identified.

14.0 REASONS FOR RECOMMENDATIONS

- 14.1 The current contract for housing repairs and maintenance expires in April 2014

and this service need to be re-let on the open market to secure a new contract in accordance with the Council's Contracts Standing Orders and the European Union Procurement Rules (which will be adhered to throughout the procurement). The tender process will be competitive and follow the principles of transparency and non-discrimination, and facilitate the achievement of value for money.

- 14.2 To maximise value for money and deliver an excellent repairs and maintenance service in the context of a challenging housing financial regime and current economic climate.
- 14.3 To provide a future opportunity to in-source this service a develop a fully integrated Housing and Repairs Service
- 14.4 This service will contribute to making neighbourhoods a great place to live by ensuring that repairs and maintenance are carried out with due attention to customer care, health and safety and 'right first time'.

15.0 RECOMMENDATIONS

It is recommended that:

- 15.1 The procurement of a contractor, by way of a competitive tender advertised in OJEU via the restricted procedure, to deliver the services that form part of the housing repairs and maintenance contract as detailed in paragraph 1.2 from April 1st 2014 be approved.
- 15.2 It is proposed that the tender will allow bidders an opportunity to provide for both a mandatory bid and a variant bid of 5 years plus option to extend by two years in order to assess the difference in prices /fees for such a service. The decision as to whether to accept a variant bid of 5 plus 2 years to be subject to a value for money assessment. Delegated powers to be granted to the Director of Commercial Services, Executive Director of Place and Executive Director of Resources in consultation with the Cabinet Member for Homes and Regeneration to agree which option to proceed with in terms of providing overall best value for money.
- 15.3 The proposed key attributes to be contained in the proposed contract as set out in Section 6 of this report be approved. The Council will invite bidders to set out in their method statements how they propose to deliver the vision and service and infrastructure improvements set out below.
- 15.4 The statutory leaseholder consultation by Section 20 of the Landlord and Tenant Act 1985 as amended by the Commonhold and Leasehold Reform Act 2002 is adhered to and approved.
- 15.5 That bidders need to comply with TUPE and with the SCC Code of Good

Practice on Workforce Matters in Local Authority Service Contracts. The transferee organisation (primary service provider) will be responsible for the observance of the Code by the new employer.

The contract should provide the opportunity for Third Parties (for example School/Trusts/Registered Social Landlords) to have a "Call Off" arrangement based on a 2% Procurement Contribution Fee.

- 15.7 That the Council undertakes an independent and concurrent quality assurance review of the process majoring on how best to minimise risk and to ensure we deliver the desired outcome.
- 15.8 To grant delegated powers to the Director of Commercial Services or his nominated representative in conjunction with the Director of Resources and Director of Housing, to ensure delivery of the stated objectives, including if required varying the requirements of this contract in relation to the outcome of the independent quality assurance review, (subject to being within approved budget limits), accept tenders and award a Contract for this Project.

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