

Public Document Pack



| | |
|-----------------|------------------------------------|
| MEETING: | Cabinet |
| DATE: | Wednesday, 18 March 2020 |
| TIME: | 10.00 am |
| VENUE: | Reception Room, Barnsley Town Hall |

SUPPLEMENTARY AGENDA

Regeneration and Culture Spokesperson

17. PRIP Berneslai Homes Construction Services Contract (Cab.18.3.2020/17)
(Pages 3 - 14)

To: Chair and Members of Cabinet:-

Councillors Houghton CBE (Chair), Andrews BEM, Bruff, Cheetham, Gardiner, Howard, Lamb and Platts

Cabinet Support Members:

Councillors Charlesworth, Franklin, Frost, Saunders, Sumner and Tattersall

Chair of Overview and Scrutiny Committee
Chair of Audit Committee

Sarah Norman, Chief Executive
Rachel Dickinson, Executive Director People
Matt Gladstone, Executive Director Place
Wendy Lowder, Executive Director Communities
Julia Burrows, Director Public Health
Andrew Frosdick, Executive Director Core Services
Michael Potter, Service Director Business Improvement and Communications
Neil Copley, Service Director Finance (Section 151 Officer)
Katie Rogers, Head of Communications and Marketing
Anna Marshall, Scrutiny Officer
Martin McCarthy, Service Director Governance, Members and Business Support

Corporate Communications and Marketing

Please contact Martin McCarthy on email governance@barnsley.gov.uk

Date Supplement Published – 12th March 2020

This page is intentionally left blank

BARNSELY METROPOLITAN BOROUGH COUNCIL

This matter is a Key Decision within the Council's definition and has been included in the relevant Forward Plan.

Report of the Executive Director for PLACE

Housing Property Repairs and Improvement Partnership (PRIP) 2020

1. Purpose of report

- 1.1 The purpose of this report is to update Cabinet on, and to seek approval to continue the partnership with Berneslai Homes Construction Services (BHCS) relating to the 2/3rds 'geographic' / financial delivery of the PRIP contract from 1st April 2020.

2. Recommendations

It is recommended that Cabinet:

- 2.1 Approve the outcome of negotiations with BHCS (see Section 5) for 2/3rd's of the PRIP contract, as per the agreed approach within the 'PRIP Tender Strategy 2020' (Cab.16.10.2019/10 refers).
- 2.2 Note the estimated saving of £1.7M per annum and agree that the 30 year Business Plan be revised to reflect the revised projected costs.
- 2.3 Authorise the preparation of necessary amendments to the 'Agreement / SLA' between the Council, Berneslai Homes and Berneslai Homes Construction Services to reflect the updated contractual requirements over the 10 year contract period; including the new schedule of rates, branch /overhead rates and commitments to Customer Service, Performance, Social Value and Sustainability.

3. Introduction

- 3.1 The current Property Repairs and Improvement Partnership (PRIP) 'contract', which delivers the repairs and maintenance functions to the Council's 18,500 housing stock, ends on 31st March 2020.
- 3.2 Following a robust competitive tender exercise over a two-year period, Cabinet approved the PRIP Tender Strategy 2020 for the re-procurement of the contract from 1st April 2020 on 16th October 2019 (Cab.16.10.2019/10 refers).

This included:

- Approval to award 1/3rd of the contract to Wates Living Space (the winning tenderer) and to commence all necessary mobilisation for a start on site from 1st April 2020;

- Approval to commence negotiation with BHCS to align their 2/3rd pricing (direct costs) to that of the market (Wates); and
 - Approval to commence negotiation with BH relating to respective Branch and Central Office overhead costs; with BMBC setting a preferred outcome.
- 3.3 It was agreed that the outcome of the negotiations would be presented to Cabinet in March 2020; in advance of contract 'go live' from 1st April 2020. The report would present the 2/3rds maximum contract sum and provide detailed financial implications relating to the affordability of the contract within the budget envelope and in the context of the business plan over the next 10 years.

4. Current Situation

- 4.1 Representatives from NPS and the Council's Finance, Procurement and Internal Audit Teams have met with BHCS to discuss and review the Branch and Central Office overhead costs, as submitted in the tender documentation.
- 4.2 The Council had previously agreed that it would negotiate with BHCS on its Branch and Central Office overhead costs; acknowledging that it was difficult to accurately align these to the market, given different organisational structures but recognising that efficiencies on current arrangements would be sought.
- 4.3 The Council had also agreed in principle, that BHCS would align their direct (GMP) job rates, directly to market rates to those of the winning tenderer, Wates.

5. Berneslai Homes Construction Services PRIP 2020 Outcome

- 5.1 The PRIP contract is broken down into three specific areas namely:
- Guaranteed Maximum Price works;
 - Central Office Overhead Costs; and
 - Branch Costs.

Guaranteed Maximum Prices (GMP)

- 5.2 The PRIP contract is managed on an actual cost basis meaning that contractors can only charge the actual costs they have incurred on the works they deliver.
- 5.3 However, in order to provide some security and cost certainty, Guaranteed Maximum Prices (GMP) rates are agreed for specific elements of works. For example, a GMP is agreed for the cost of installing a kitchen replacement. If the actual cost of a kitchen replacement is less than the agreed GMP, then this is the cost that is charged, whereas if the contractor's cost exceeds the GMP, then the contractor can only charge the agreed GMP rate.
- 5.4 Under the existing contractual arrangement, BHCS carry out works at the same capped GMP rates as the 1/3rd Private Sector element of the contract. The same approach was used in the negotiation with BHCS for the new contract whereby –

- BHCS are to carry out works at the GMP capped rates as tendered by private sector contractor - Wates Living Space Ltd.
- 5.5 Detailed discussions were held with BHCS, representatives from NPS, Financial Services, Procurement and Internal Audit using the GMPs received from the appointed private sector contractor, Wates.
 - 5.6 Throughout these discussions, there has been an agreement, in principle, that Berneslai Homes would align to the rates from the market.
 - 5.7 BHCS have reviewed Wates' tendered GMP rates and agreed to match the vast majority of the tender rates. However, BHCS have raised concerns over four specific rates.
 - 5.8 BHCS have proposed changes to two GMP rates based upon the historic average actual costs of the specific works completed. Based on a full review of the supporting evidence provided by BHCS, a full comparison in the tendered market rates from the other providers and historic costs of the previous PRIP contract, it is suggested that the proposed rates from BHCS are agreed.
 - 5.9 BHCS have also raised concerns over a further two elements of works. They have suggested that the specification included in the tender documentation by NPS for these works is not comparable to the service currently provided, which has resulted in an increased proposed GMP rate.
 - 5.10 BHCS suggested that in order to achieve the necessary outcomes and ensure the works are undertaken in a timely manner, they currently provide a services over and above the specification contained within the tender documentation.
 - 5.11 Upon reflection, it is considered that Wates will have priced in accordance with the performance specification and therefore there is a disparity in the costs associated with this service, which is reflected in the rate differential. BHCS have proposed a revision to the specification and therefore a subsequent revised GMP rate. These revisions will be reviewed and if necessary, agreed post contract award. Any new specification will need to be applied across both BHCS and Wates respectively.
 - 5.12 Similarly, BHCS have questioned whether one of the rates used by Wates meets the specification in the tender documentation. BHCS highlighted that the rates they have provided are based on a framework agreement and suggested that they cannot currently access the same or similar prices quoted by Wates. It was agreed that NPS, acting on behalf of the Council, would contact Wates to discuss further and report back post award of the contract.

Central Office Overhead Costs

- 5.13 The Central Office overhead costs contains direct company overheads that are required to deliver the PRIP contract. The services from Berneslai Homes that are included in this charge include:
 - BH Senior Management Team;
 - BH Financial Services;
 - An Operatives Performance Payment; and

- A pass through of charges from the Council for services provided to Berneslai Homes such as Supplier Payments, IT/SAP, Payroll and Insurance.
- 5.14 Under the current contract, Central Office Charges are fixed regardless of the value of works undertaken by BHCS.
- 5.15 In respect of the new contract, Berneslai Homes have determined the proportionate amount of company time that relates to the delivery of the PRIP contract, linked to the turnover of the contract with a maximum capped amount payable for these charges.
- 5.16 The submitted Central Office overhead costs were reviewed to ensure fairness and value for money. The proposal from BH is based on an increasing scale from the minimum turnover amount (£14M) with the Central Office costs increasing by a set amount for every additional £1M turnover received upto a maximum turnover of £20M.
- 5.17 Representatives of the Council raised concerns with Berneslai Homes around the inclusion of “fixed overheads” linked to the variable turnover of the contract. If the expected contracted turnover is reduced to the guaranteed level of £14M, then the cost chargeable by BH would be less than under the current fixed contract price. Berneslai Homes confirmed that whilst this would cause them a potential issue in terms of funding the current business structure, they accepted the risk and responsibility to contain any budget pressures should this scenario arise.
- 5.18 As highlighted in paragraph 5.15 above, the Council currently charges costs which are passed through in the Central Office costs in the PRIP contract. Berneslai Homes have been informed that the Council’s charges to the company are based on an appropriately determined charge for the services received and not linked /adjusted based on the PRIP turnover.

Branch Costs

- 5.19 The branch costs include all functions at a local level envisaged in operating a branch office inclusive of accommodation costs and office equipment. Nearly 90% of the branch costs comprise of staff and personnel associated costs.
- 5.20 Under the current contract, branch costs are charged on an actual cost basis (not fixed/capped).
- 5.21 Similar to Central Office charges, BHCS have proposed to charge Branch costs which increases in line with any increase in turnover.
- 5.22 It was again highlighted to BHCS that, although current levels of work are valued at around £20M per annum within the contract, there is only £14M of works per annum guaranteed to BHCS. BHCS confirmed that should the annual level of works allocated to BHCS under the contract reduce to the level of the guaranteed £14M, from the current annual average of £20M, then BHCS would restructure the business as necessary to suit.

5.23 BHCS advised that there are a number of areas where there is a difference between the public sector and the private market when comparing BHCS including the following:

- All BHCS employees are in the South Yorkshire Pension Fund which attracts a 15% contribution by BHCS. Only a small proportion of the TUPE employees from Kier are members of the SYPF;
- Terms and conditions for BHCS employees are better than the majority of TUPE employees from Kier – e.g. they attract more holidays and better sickness/maternity leave benefits;

6. Proposal and Justification

6.1 It is proposed that Cabinet approves the outcome of the negotiations with BHCS relating to the 2/3rd's delivery of the PRIP contract for a 10-year period from 1st April 2020. The contract allows for a review/renewal at year 5.

6.2 The full financial implications of the BHCS contractual costs are summarised in Section 7 of this report.

6.3 In addition, in line with the agreed partnership working, the Branch and Central Office Overhead Costs are considered reasonable.

6.3 It is proposed that Cabinet authorises the update of the agreement between BMBC and BHCS relating to the delivery of the PRIP contract from 1st April 2020 for a period of 10 years.

7. Financial Implications

7.1 Consultations have taken place with representatives of the Service Director – Finance (S151 Officer).

7.2 The recommended option seeks to continue with the Public / Private Partnership that has been delivered successfully and on budget over the current contract period of 2010 through 2020. The two thirds public contract is proposed to be awarded to Berneslai Homes Construction Services.

7.3 The contract award guarantees BHCS, as the public sector partner, a contracted minimum value of £14M per annum of works for the duration of the 10 year contract. The annual contract payments to Berneslai Homes, over the length of the last contract (2010 – 2020), totalled on average, around £20M per year, split between capital and revenue expenditure.

7.4 As highlighted throughout this report, there are three distinct elements to the contract, namely Guaranteed Maximum Prices, Branch Costs and Central Office Overhead Costs.

Guaranteed Maximum Prices (GMPs)

7.5 In relation to the Guaranteed Maximum Prices element of the contract, BHCS have agreed to match the majority of the prices submitted and agreed by the Council for the 1/3rd private contract with Wates. As highlighted in Section 5

above, BHCS have raised concerns over four of the prices submitted by Wates.

- 7.6 BHCS highlighted that some of the prices submitted by Wates were too low.
- 7.7 Following a detailed negotiation with BHCS and the subsequent receipt of supporting evidence on the actual costs incurred by BHCS for these works, it is proposed that the prices submitted by BHCS be accepted. Whilst this, on paper, creates an increased cost in isolation, it needs to be considered in line with the wider contract and the agreed GMPs changed to match the prices submitted by BHCS.
- 7.8 BHCS also highlighted that the tender specification used for certain works was inconsistent with the current service provision. It is proposed that a review of the tender specification used to calculate GMPs for these elements be undertaken to address the concerns raised by BHCS. Any subsequent revisions to the specifications will be undertaken post contract award.
- 7.9 It should also be noted that the contract is based on actual cost and that the agreed GMPs are worst case i.e. maximum price.
- 7.10 BHCS alignment to the majority of the Wates' GMPs gives comfort that the contract will deliver value for money. The competitive nature of the tender process evidences that the rates submitted by the market are competitive.

Branch and Central Office Overhead Costs

- 7.11 Financial Services and NPS have also undertaken a detailed review of the Branch and Central Office Overhead Costs submitted by Berneslai Homes, as explained in Section 5 of this report. Following this review and subsequent clarification received from BHCS on a number of points raised, it is proposed that the Branch and Central Office Overhead Costs be agreed as submitted.

Overall Financial Position

- 7.12 The table below shows the full estimated impact of agreeing the PRIP contract on the terms proposed (1/3 Wates and 2/3rd BHCS), which shows an indicative average annual saving of £1.7M over the length of the 10 year contract.

| | Average Annual PRIP Budget 10 Year Period (per 30 year business plan) £M | Est. Average Annual Cost Based on New Contract Rates (revised 30 year business plan) £M | Variance £M | Avg. Saving per Annum £M |
|--------------------------------|---|--|----------------|--------------------------------|
| PRIP Contract (Average) | 356.370 | 338.931 | -17.439 | -1.744 |

- 7.13 However, it should be noted that the above estimated saving is based upon an indicative component replacement programme which is derived from data held on each of the Council's 18,500 dwellings and is used purely for comparative purposes. This data is subject to fluctuation on a regular basis as a result of both survey intelligence and the individual condition of each component as well as the practical method of replacing these components.

- 7.14 The indicative savings from the PRIP contract as outlined above will be factored into the budget setting process and the annual refresh of the HRA 30 year business plan. Cabinet will be updated in due course in terms of any proposed future investment priorities that are emerging, in the context of both the approved Housing and Zero Carbon 40/45 agendas respectively.
- 7.15 As highlighted, BHCS's proposals to change the two GMP caps or the contract specifications will be the subject of a subsequent review involving all parties. The financial impact will be measured and reported to Cabinet for approval to change the contract should this be required.
- 7.16 Included within the contract is a requirement to participate in the councils Premier Supplier Payment discount scheme. Both Wates and Berneslai Homes have commenced negotiations with NPS to ensure they are included in this programme.
- 7.17 The full financial implications are provided in Appendix A.

8. Employee implications

- 8.1 There are employee implications relating to the 1/3rd of the contract to be delivered by the private sector given that the incumbent provider (Kier) was not successful. The TUPE implications (between Kier and Wates) are already being addressed with support from BMBC Legal, where appropriate.
- 8.2 There are no identified employee implications relating to the 2/3 contract delivery by BHCS.

9. Communications implications

- 9.1 A robust communications strategy has been developed as part of the Mobilisation Plan for the PRIP contract renewal; with BHCS staff informed of the retained 2/3rds 'contract' arrangements in October 2019. The new contractual arrangements have been communicated to tenants in a timely manner and all relevant literature/ websites will be/have been updated to reflect the service provision change, accordingly. Service to tenants and continued customer satisfaction is a key consideration of the contract renewal programme; hence the inclusion of the four-month contractual lead in (Nov-March) prior to contract commencement.

10. Social Value

- 10.1 The Council has to take responsibility for defining and driving its own economic path and, given the challenges, Barnsley's strategic objectives are:
- More Jobs
 - More Businesses
 - Improved Businesses
 - Improved Workforce

- 10.2 The majority of strategic construction contracts provide job opportunities as well as support to those in construction related businesses in Barnsley that have growth potential.
- 10.3 As part of the contract negotiations we have ensured that the Social Housing Property Repairs and Improvement Contract directly contribute towards achieving the objectives outlined above.
- 10.4 BHCS are to contribute annually towards Barnsley Bond from its own social economic funds. There are also conditions written into the contract around the recruitment and remuneration of employees.
- 10.5 Every Quarter (or at another time interval agreed by the Council), the Service Provider will be required to provide a **“Social Value – We Can Do Better”** update report, incorporating latest achievements against each of the agreed Social Benefit Contract Requirements (Benchmark Schedule).

11. Consultations

- 11.1 Consultation with key stakeholders has been undertaken at each stage of the procurement process, including statutory consultation with the Council's leaseholders and the trade unions as well as Berneslai Homes.
- 11.2 The PRIP Project Board included representatives from BMBC Legal, Finance, Audit, Housing, NPS and the Tenant's FED. All Board Members were consulted on the procurement strategy stages, attended 6-weekly Board meetings, reviewed all evidence/option proposals, been involved in the evaluation process and have been supportive of the recommended procurement route. The Board Members have also been active as part of the Mobilisation Group.

12. Climate Change & Sustainable Energy Act 2006

- 12.1 The energy efficiency of the Council's housing stock will be a key consideration in reducing the carbon emissions generated in by the Council through its activities. Whilst the PRIP contract does not specifically deliver energy saving measures, a key consideration in the quality element of the tender process related to the willingness and ability of the tenderers (and internal provider, BHCS) to work creatively with the Council throughout the contract to improve energy efficiency, address fuel poverty and achieve our Zero 40/45 aspirations.

. Risk Management Issues

- 13.1 A risk register was established from the outset of this project and has been updated following each Board meeting. This will be maintained during the mobilisation period to reflect that particular process plus as part of the longer-term contract management arrangements.
- 13.2 There is an acknowledgement that some of the rates tendered by Wates may have been set deliberately low as part of their commercial approach. The

impact of this will need to be monitored through the contract management process.

- 13.3 In relation to the management of the contract, this will be done in partnership with Berneslai Homes to ensure delivery on budget and to the standards of the previous contract.

14. Promoting Equality & Diversity and Social Inclusion

- 14.1 An Equalities Impact Assessment has been undertaken by the Mobilisation Board.

15. Background Papers

- Property Repairs and Improvement Partnership ("PRIP") Report (Cab.28.6.2017/11).
- Housing Property Repairs and Improvement Partnership (PRIP) Report (Cab.13.6.2018)
- Housing Property Repairs and Improvement Partnership ("PRIP") Report (Cab.16.10.2019)

15. Appendices

Appendix A – Financial Implications

| | |
|---------------------------------|------------------|
| Office Contact: Richard Burnham | Date: 12.03.2020 |
|---------------------------------|------------------|

This page is intentionally left blank

Report of the Executive Director for PLACE


FINANCIAL IMPLICATIONS

Housing Property Repairs and Improvement Partnership (PRIP)

Tender Strategy 2020

| | | | | | |
|--|-----------------------|-----------------------|-----------------------|----------------------------|-------------------|
| i) <u>Capital Expenditure</u> | <u>2020/21</u> £ | <u>2021/22</u> £ | <u>2022/23</u> £ | <u>Future Years</u> £ | <u>Total</u> £ |
| | 0 | 0 | 0 | 0 | 0 |
| To be financed from: | | | | | |
| | 0 | 0 | 0 | 0 | 0 |
| ii) <u>Revenue Effects</u> | <u>2020/21</u> (£) | <u>2021/22</u> (£) | <u>2022/23</u> (£) | <u>Future Years</u> (£) | <u>Total</u> £ |
| PRIP 2020 Estimated Average Programme | 33,893,123 | 33,893,123 | 33,893,123 | 237,251,858 | 338,931,226 |
| | 33,893,123 | 33,893,123 | 33,893,123 | 237,251,858 | 338,931,226 |
| To be financed from: | | | | | |
| Housing Revenue Account Budget Provision | 35,636,990 | 35,636,990 | 35,636,990 | 249,458,933 | 356,369,904 |
| | 35,636,990 | 35,636,990 | 35,636,990 | 249,458,933 | 356,369,904 |
| Estimated Savings Based Upon Indicative Component Data | -1,743,868 | -1,743,868 | -1,743,868 | -12,207,075 | -17,438,678 |

| |
|---|
| <u>Impact on Medium Term Financial Strategy</u> |
| Not applicable in this report |
| |
| |

Agreed by:.....On behalf of the Service Director-Finance, Section 151 Officer

This page is intentionally left blank