

Birmingham City Council

Report to Cabinet

19th March 2024



Subject: Shelforce Machinery Replacement
Report of: Paul Langford, Strategic Director – City Housing
Relevant Cabinet Member: Councillor Jayne Francis, Cabinet Member – Housing and Homelessness
Relevant O & S Chair(s): Councillor Mohammed Idrees, Homes Overview and Scrutiny Committee
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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference: 012549/2024		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, provide exempt information paragraph number or reason if confidential:		

1 Executive Summary

- 1.1 Shelforce is a King’s Award winning internal service within Birmingham City Council which manufactures Windows and Fire Doors for use primarily within the City’s Social Housing Stock. The service spent £5m in 2022/23 and made a 14% operating surplus from the sales of these products to our repairs and maintenance contractors for installation into our stock, which feeds back into the General Fund.
- 1.2 An increase in the demand for products will be driven by the increased stock investment built into the HRA Business Plan in order to meet Decency Standards within the next 7 years. The additional surplus this will generate has been recognised having a positive impact on the Council’s current General Fund financial position.

- 1.3 Due to the age of machinery and delivery vehicles, the assets used by Shelforce are due for replacement, and this paper seeks approval to carry out this replacement, while at the same time upgrade the machinery in order to increase capacity to meet the increased demand.

2 Recommendations

That Cabinet:

- 2.1 Approves capital spend of £573,590 in 2023/24 in order to replace vehicles and machinery within the Shelforce factory.
- 2.2 Delegates authority to the Strategic Director for City Housing (or their delegate), in consultation with the Assistant Director Corporate Procurement (or their delegate), the Interim Finance Director (s151 Officer), (or their delegate) and the Interim City Solicitor & Monitoring Officer (or their delegate) to approve the procurement strategy and the award of contract(s) for the replacement vehicles and machinery outlined in this report.
- 2.3 Authorises the Interim City Solicitor and Monitoring Officer to prepare, execute, and complete all relevant legal documentation to give effect to the above.

3 Background

- 3.1 Shelforce's future continued financial success and growth is reliant on investing in machinery in order to maintain stability and cope with the demand for both window and door products.
- 3.2 Current machinery assets are a minimum of 18 years old with 3 of our key machines having spare part supply issues because of their age.
- 3.3 A 17-tonne lorry (24 years old) has been decommissioned due to its age and safety concerns and our Luton van (15 years old) is also causing problems in getting spare parts.
- 3.4 With our current forecasted growth and orders placed there is significant risk that if we do not invest in new machinery and plant, we will continue to have machine break downs which will result in failure to deliver product on time and as a result cause reputational damage. This will also have a negative impact in contribution to the General Fund.
- 3.5 Proposal details:

To successfully maintain and achieve the capacity for growth, it is critical we invest in new machinery and plant so that can build on the demonstrated evidential successes of the last 8 years. This will be done by investing £573,590.00 in new plant and machinery as specified below.

- Window machining Centre £345,000.
- Five headed Welding Machine £74,000.

- 3 Axis CNC Machining Centre £60,200.
- Easi Loader Box Vans x 2 off £94,390.

This will ensure stability, growth and consistency at Shelforce. The investments will be scheduled over 2023-2024 to allow for a smooth transition given the nature of the service and to minimise the loss of efficiency due to training on the new machinery.

3.6 Benefits / outcomes – from making the changes to the service

- Increase in profit / contribution to the General Fund at 9% of additional sales revenue in.
- Increase in Fire door production from 50 per week to 150 per week.
- Increase in Window manufacture to 600 units per week dependant on style.
- The manufacturing capacity to grow the order book / revenue in, circa £11million.
- Reliable on time delivery of service.
- New environmentally friendlier vehicles with less emissions and a reliable delivery service.

4 Consultation

- 4.1 The report and business case has been reviewed at Capital Board on 16th November 2023
- 4.2 The financial spend has been approved at S151 Spend Control Board

5 Compliance Issues:

- 5.1 The proposal contributes to the delivery of the Council's core vision and priorities in the Council's Corporate Plan 2022 – 2026 of:
- **An Inclusive Birmingham:** This provision will provide employment for adults with disabilities and those disadvantaged because of learning difficulties.
 - **A Green Birmingham:** The provision has a commitment to source and manufacture in Birmingham to limit travel and fuel consumption. All PVCu windows and doors removed will be recycled into new windows.

5.1.1 Birmingham Business Charter for Social Responsibility (BBC4SR)

Compliance with the BBC4SR is a mandatory requirement that will form part of the conditions of awarded contracts. Tenderers will be required to submit an action plan with their tender and the action plan of the successful tenderers will be implemented and monitored during the contract period.

5.2 Legal Implications

5.2.1 There is no statutory duty for the Council to have a provision for the manufacture of PVCu windows and doors.

5.3 Financial Implications

5.3.1 The proposal is affordable through borrowing which will be repaid with revenue repayments through the surplus generated by the increased sales. This is modelled below at 15 year repayment, but where the surplus made is in excess of the income targeted in the budget, additional capital repayments will be made in order to reduce the borrowing term.

5.3.2 Shelforce has a net annual budget of £0.5m surplus, and under budget recovery proposals this increases to £0.9m in 23/24 and £1.1m in 24/25. At a 15 year financing term, the revenue implications of this capital borrowing is £64,000, on an annuity basis, which can be funded from the increased surplus, while still meeting the budgeted targets.

5.3.3 Current machinery and vehicles owned are carried at zero value in the trading account, and with no debt against them, with this having been paid off over the useful life of the assets, which has now passed. As such, the ROCE ratio for Shelforce is based solely on the investment requested in this paper and stands at 201% for the next financial year.

5.3.4 The service is currently leasing a van and repairing plant where there is breakdown, the purchase of a new vehicle and upgraded machinery is a more cost effective way of ensuring continuity of production, while also increasing production to meet the demand from Council Stock improvement works

5.3.5 The financial risks of not undertaking this investment are the inability to meet revenue savings targeted in the budget recovery plan, or at worst not meet current levels of surplus, and also the knock on effects of the reduced supply to the Housing Improvement programme, aimed at bringing Council Stock to Decent Homes Standard.

Table 1: Costs	Investment	Maximum Annuity Period	Annuity Rate	Annual Repayment	Total Repayment
Machinery					
Window machining Centre	345,000	15 years			
Five headed Welding Machine	74,000	15 years			
3 Axis CNC Machining Centre	60,200	15 years			
	479,200		0.09896	47,422	711,324
Vehicles					
Easi Loader Box Vans x 2	94,390	7 years	0.17439	16,461	115,225
Total	573,590			63,882	826,549

Table 2: Shelforce Trading Forecast	Outturn			
	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m
Sales Income	(5.859)	(8.136)	(12.419)	(12.419)
Employees	1.065	1.340	1.340	1.340
Premises	0.034	0.268	0.268	0.268
Transport	0.035	0.027	0.028	0.028
Supplies & Services	4.002	5.892	9.630	9.630
Operating costs	5.136	7.527	11.266	11.266
Repayment			0.064	0.064
Operating Surplus	(0.723)	(0.609)	(1.153)	(1.153)
Long term Liabilities	0.000	0.000	0.574	0.510
Fixed assets	0.000	0.000	0.000	0.535
Investment ask	0.000	0.000	0.574	0.000
Total Fixed Assets	0.000	0.000	0.574	0.535
Return on Capital Employed			201%	215%

5.3.6 Future consideration will be given to the status of Shelforce, as currently it is an internal service funded through the General Fund, and with income returning to the same. A Trading setup may allow greater operational and financial effectiveness while also bringing Shelforce accounts in line with other BCC functions carrying out trading activities.

5.4 Procurement Implications (if required)

5.4.1 There will be procurement implications to procure the 3 pieces of equipment and 2 vehicles required, this will be conducted compliantly with the Public Contracts Regulations 2015 (PCR2015) and the Council's Procurement and Contract Governance Rules.

5.4.2 An options appraisal will also be undertaken to determine whether to lease or purchase the 2 vehicles.

5.4.3 The Route to Zero Team will be involved in the process of selecting the vehicles and machinery.

5.5 Human Resources Implications (if required)

5.5.1 Council staff will undertake the procurement activity and the subsequent contract management.

5.6 Public Sector Equality Duty

5.6.1 A relevance test to decide whether the planned procurement for the purchase of components for the manufacture of windows and doors as any relevance to the equality duty contained in Section 149 of the Equality Act 2010 of eliminating unfair/unlawful discrimination and to promoting equality

and human rights was conducted on 15th October 2021 reference EQUA758. The screening identified that there was no requirement to assess this further and completion of an Equality Impact Assessment.

5.7 Environment and Sustainability Assessment

See appendices 3 and 4

Appendices:

1. Shelforce modelled profit and loss account 23/24
2. Shelforce modelled profit and loss account 24/25
3. Environment and Sustainability Assessment
4. 2023 ISO14001 report