

Subject:	Procurement of the Council's Commercial Portfolio's Estate Management Consultancy Contract		
Date of Meeting:	13th July 2017		
Report of:	Executive Director, Economy, Environment & Culture		
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Ward(s) affected:	All		

FOR GENERAL RELEASE

1. PURPOSE OF REPORT AND POLICY CONTEXT

- 1.1 To seek authority to competitively tender the council's commercial portfolio Estate Management service for the urban and agricultural property portfolios, currently provided by Cluttons (urban) and Savills (agricultural) respectively in accordance with The Public Contracts Regulations 2015. The current contracts will expire on 31st March 2018 and the proposal is to procure new contracts each with a term of five years and an option to extend the term by up to an additional two years, subject to performance. The estimated value of both contracts over their initial five year term is £2.7m.

2. RECOMMENDATIONS:

That Policy, Resources & Growth Committee:

- 2.1 Authorises the procurement of the new Estate Management service contracts for:
- (i) the council's urban property portfolio; and
 - (ii) the council's agricultural property portfolio
- each with an initial term of 5 years and an option to extend the initial term by up to a further 2 years.
- 2.2 Delegates authority to the Executive Director, Economy Environment and Culture following consultation with the Assistant Director, Property & Design to:
- (i) Award the contracts referred to in 2.1 above following the recommendations of the working group evaluation panel and the results of the tendering process; and
 - (ii) Approve any extension(s) to the initial term of the contracts of up to 2 years, dependent upon performance.
- 2.3 Note that the tender specifications for the new contracts will be reviewed and updated to take into account relevant recommendations from the recent Policy

Review Panel as well as any additional relevant recommendations from the proposed Asset Management Board.

3. CONTEXT/ BACKGROUND INFORMATION

- 3.1 The council has a large non-operational property portfolio, often referred to as the commercial or investment portfolio, which is split between the urban portfolio, including some HRA commercial properties, currently managed by Cluttons, and the agricultural or Downland portfolio, currently managed by Savills. The portfolios comprise a mixture of properties as detailed in Appendix 1 and generate an annual gross income of approximately £8.6m supporting the council's budget strategy and Medium Term Financial Strategy.
- 3.2 The urban portfolio was historically acquired for road widening schemes, slum clearance and to create industrial estates to support local housing. It is significantly different to a standard institutional investment portfolio managed purely on investment criteria. It is mixed comprising mainly secondary and tertiary properties and a small proportion of prime retail properties. Although weighted towards retail, there are a number of industrial estates developed mainly in the 1960s on ground leases, a few offices and a wide range of other properties. Income generation is a key strategy to support the council's service provision. The portfolio is also managed to support local businesses and economic, social and environmental factors to support the council's asset management plan (AMP) and corporate priorities.
- 3.3 The agricultural portfolio extends to 10,500 acres consisting of 16 principle farmers which represent 95% of the tenancies by acreage. 75% of the portfolio by acreage is leased out under Agricultural Holding Act tenancies providing the council with very limited control over the land and its use. As with the urban portfolio the income from the agricultural portfolio supports the council's corporate priorities, AMP and service provision, and the achievement of social value (social and environmental factors) is a key priority as set out in the council's Downland Initiative policy, known as the City Downland Estate Policy, which details the council's strategies and objectives for the management of its agricultural portfolio.
- 3.4 The council also retains a large Seafront portfolio comprising a mixture of retail and leisure uses, which is managed in-house and is therefore excluded from the recommendations of this report. The property estates team does retain management of a small in-house urban portfolio comprising more sensitive properties.
- 3.5 Property and Design manage the two existing Estate Management contracts with Cluttons and Savills. Both companies provide a full range of core and additional services as detailed in Appendix 2. The provision of a dedicated commercial team of professional staff to manage the council's portfolios on a day to day basis with the additional support of specialist expertise within the organisations provides the council with a breadth and depth of knowledge, expertise and experience, which could not be replicated in house. The division of property management roles between the council as client and the consultant as agent allows council officers to focus on policy and strategy whilst ensuring a high level of performance from our managing agents.

- 3.6 It is proposed that the outsourcing of the Estate Management service continues and is retendered as two Lots (urban and agricultural) allowing agents to submit bids for one or both Lots. Prior to commencing the tender exercise the detailed specification for both Lots will be reviewed and updated to take account of recommendations emerging from the recent Policy Review Panel as well as recommendations from the proposed Asset Management Board, the creation of which is the subject to a further decision by Policy, Resources & Growth committee.
- 3.7 It is considered that value for money will be achieved by awarding 5 year contracts with the ability to extend for a further 2 years, subject to performance by the successful consultants. If as a result of the retender exercise the contract is awarded to new consultants there will likely be TUPE implications in relation to staff employed by the incumbents.
- 3.8 To manage the retender process a working group will be established to review and update the contract specifications, evaluation criteria and manage the procurement.
- 3.9 The existing contracts for both services end on 31 March 2018. The proposed indicative OJEU procurement timetable is set out below:

Activity	Start Date	End Date
Publish Advert/ITT	24/10/2017	23/11/2017
Tender return	23/11/2017	23/11/2017
Standstill Period	16/02/2018	02/03/2018
Award	02/03/2018	02/03/2018
Mobilisation	02/03/2018	02/04/2018
Contract Start	02/04/2018	02/04/2018

4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

4.1 Option 1 Insource the Estate Management

To bring the portfolios under direct control would mean the loss of the key benefits of employing external expertise as identified above in paragraph 3.5. The need for separation of the strategic and core estate management functions is important and cannot be overstated. The ability to use the breadth and depth of commercial experience available in a large national property practice and take advantage of a research/ development facility and available in depth market knowledge is critical. In addition TUPE is likely to apply and any potential TUPE implications in relation to such an insourcing are at this stage in the process unclear. There could be capacity and skill issues too as the council may have a larger professional team needing additional support staff in finance and legal. The ability to retain and attract such a large team of suitably qualified and experienced staff creates an additional pressure on the council, particularly as salaries and benefits are lower than those offered in private practice.

4.2 Option 2 Extend the existing contracts by one year

The two estate management contracts are not contemporaneous and the urban contract has been extended by a year under approved delegated powers to

ensure the 31 March 2018 expiry date for both contracts. The extension was for one year only as Cluttons were moving towards an administration event and were not in a position to be able to commit to a two year extension to the current contract. However in May their business came out of the other side of that administration event and they are now in a strong position to plan their future strategy and business going forward which will include Brighton. A further year extension may be possible now on both contracts however the 31 March 2018 expiry date enables the procurement of the two estate management contracts to occur together which will be advantageous for the council giving more value for money options and allowing potential bidders to bid for one or both lots

4.3 Option 3 Collaboration with Surrey and East Sussex County Councils under the Orbis Partnership.

We are collaborating with Orbis partners to ensure there is flexibility in the specification to enable Orbis partners to join the contract at a later stage as required. The timing may be pertinent regarding the rural lot as Surrey are currently reviewing their rural estate management requirements and further investigations are on-going regarding the potential of a rural estate management option for Surrey.

5. **COMMUNITY ENGAGEMENT & CONSULTATION**

5.1 Regular consultation will continue with Members through the proposed Asset Management Board.

5.2 This report will be presented to the Procurement Advisory Board in June 2017.

6. **CONCLUSION**

6.1 The recommendation is to retender the Estate Management service contracts as 2 Lots and put new contracts in place when the current contracts expire in March 2018.

6.2 Prior to retendering the contracts the specifications for the provision of services will be reviewed and amended to include relevant recommendations from the recent Policy Review Panel and any relevant recommendations from the proposed Asset Management Board.

7. **FINANCIAL & OTHER IMPLICATIONS:**

Financial Implications:

7.1 The council's commercial property portfolio generates an annual gross income of approximately £8.6m and is integral in supporting the council's budget strategy and Medium Term Financial Strategy. The income generation is assisting in achieving the savings target within the 3-Year Integrated Service and Financial Plans by providing value for money on the re-procurement of the urban and rural portfolios as well as rebalancing of the urban portfolio to derive sustainable income streams. The portfolio also supports local businesses and economic, social and environmental factors in supporting the council's Asset Management Plan and corporate priorities.

Finance Officer Consulted: Rob Allen

Date: 07/06/17

Legal Implications:

- 7.2 The authority of Policy & Resources Committee is required for matters with corporate budgetary implications, such as the award of the contracts for Estate Management for the council's urban and agricultural property portfolios. Accordingly the committee is entitled to agree the recommendations at section 2 above.
- 7.3 Further, the council's contract standing orders require that authority to enter into a contract valued at £500,000 or more be obtained from the relevant committee.
- 7.4 The procurement of the contracts must comply with all relevant European and UK public procurement legislation as well as the council's contract standing orders.

Lawyer Consulted: Isabella Sidoli

Date: 06/06/17

Equalities Implications:

- 7.5 An Equalities Impact Assessment has not been carried out.

Sustainability Implications:

- 7.6 To be incorporated into the tender specifications for each Lot.

Any Other Significant Implications:

- 7.7 To be incorporated into the tender specifications for each Lot.

SUPPORTING DOCUMENTATION

Appendices:

1. Portfolio Summary
2. Current Estate Management Services

Documents in Members' Rooms

None

Background Documents

None

Appendix 1

Portfolio Summary

PROPERTY MIX	Use sector	Sector commentary		BREAKDOWN BY USE	BEAKDOWN BY INCOME
1.	Retail	Prime, secondary, tertiary and neighbourhood shops		38%	60%
2.	Industrial			11%	21%
3.	Offices			3%	5%
4.	Miscellaneous	Leisure	3% }		
		Parking and garages	16% }		
		Residential	2% }		
		Access and other land, aerial sites, sub-stations etc plus one-offs i.e. Jewish Ritual Baths.	17% }		
		Mixed use property	2% }		
			Misc sub total =	40%	7%
5.	Agriculture			8%	7%
TOTAL				100%	100%

Appendix 2

Current Estate Management Services

	Core	Additional
Cluttons	Rent Collection Rent reviews Lease renewals Asset valuations Insurance valuations Service charge management Repairs and maintenance Agency – lettings Landlord consents	Dilapidations Party Wall Leasehold enfranchisement Agency - disposals
Savills	As above Succession	Planning

