

Corporate Policy & Resources Committee



4 October 2021

Introduction

Title	Retendering of Property Management Contracts (Commercial & Retail properties)
Purpose of the report	To make a decision
Report Author	Melanie Ager
Ward(s) Affected	All Wards
Exempt	Appendix 1
Exemption Reason	Appendix 1 of the report contains exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972 paragraph 3 Information relating to to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing as it could put the Council at a competitive disadvantage in the procurement of these goods and services.
Corporate Priority	Financial Sustainability
Recommendations	Committee is asked to <ul style="list-style-type: none">• approve the proposed sourcing strategy for property management contract renewals, i.e. a mini-tender with the Property Management consultancies on Lot 5 of SBC's Professional Services Framework Agreement;• note the proposed timetable for the procurement of the Commercial and Retail property management contracts.
Reason for Recommendation	<p>SBC requires the services of a Property Management Consultant(s) to ensure the effective management of the Commercial & Retail property portfolios.</p> <p>The current Property Management contracts expire on 31 March 2022. Procurement of the new contracts - via the Framework Agreement and on the proposed timetable – will ensure contract continuity.</p> <p>Value for Money will also be tested via a mini-competition using the 6 Property Management consultants on the Framework Agreement.</p>

The current Commercial and Retail property management contracts, which are let to Cushman & Wakefield and Jones Lang LaSalle respectively, have been extended until the end of March 2022 with no further options to extend.

The imminent contract expiry has given us the opportunity to consider the scope and specification for the new contracts, and to give due regard to the additional challenges presented by Covid-19 to the property management market.

Briefly, the current contracts consist of the following:

COMMERCIAL	Property	Fee £ pa	Expiry
	12 Hammersmith Grove	£107,000	Mar-22
	Stockley Park	£26,500	Mar-22
	Communications House	£37,000	Mar-22
	The Charter Building	£90,000	Mar-22
	Thames Tower	£90,000	Mar-22
	Porter Building	£50,000	Mar-22
	WBC4	£8,000	Mar-22
	Summit Centre	£7,800	Mar-22
	Annual contract value	£416,300	

RETAIL	Property	Fee £ pa	Expiry
	Elmsleigh Centre, Staines		
	105-107 High St. Staines		
	77-93 High Street, Staines		
	1-6 Friends Walk, Staines		
	Annual contract value, combined	£90,000	Mar-22

The Professional Services framework agreement (approved by Cabinet in December 2020) included 6 Property Management Consultants (in Lot 5). The Assets team proposes the use of this Lot to re-procure consultants for our Commercial and Retail properties as two separate contracts, or to one provider, where further value can be demonstrated in doing so.

1. Key issues

- 1.1 Some of the separate property management contracts within the portfolios had previously been extended to allow for contract co-termination and enable a consolidated retendering process. It is therefore important we move to re-tender the contracts in a timely fashion to obviate need for further extension.
- 1.2 We are mindful of the challenges currently facing the property sector, particularly those issues thrown up by the Covid-19 pandemic that require property management consultants to demonstrate innovation, flexibility and agility in the service provided. We will be looking for providers to demonstrate this.
- 1.3 By progressing the retender process swiftly now, there remains adequate time for the framework consultants to properly consider our requirements and their

own tender submissions accordingly, optimising our chances of achieving a strong return from a wider number of tenderers. This also allows for sufficient time for SBC to evaluate the tenderers thoroughly.

2. Options analysis and proposal

2.1 The options are:

Option 1 - Do Nothing

This is not a viable option. Based on the contract values and the required contract lengths, the Council's own Contract Standing Orders and the Public Contracts Regulations 2015 require us to re-tender these contracts to ensure contract compliance, to test the market and to be able to demonstrate the achievement of value for money.

Option 2 - Undertake a full tender exercise across the wider market place, open to all service providers in the sector, for the new contracts.

Whilst this approach would fully test the market, it would miss the benefits achieved by the establishment of the Professional Services Framework Agreement – a demonstration of high quality standards of delivery and value for money.

The Framework Agreement is comprised of some strong market leaders, including the current contract providers, but also includes some smaller providers. It was intended that this Lot 5 would intentionally meet the requirements of re-tendering this contract in particular.

Option 3 – Bring the property management service in-house Although this option has the appearance of a potentially seamless answer to our property management needs, in reality it would be more costly than outsourcing and less effective. Here are a few of the main considerations to bear in mind:-

- The companies on the framework agreement are professional property firms providing surveyor-led expertise and specialist teams in fields of, for example: management surveying, commercial rent collection & credit control, accredited facilities management (plus associated ongoing training), commercial service charge budgeting and accounting/auditing (again plus associated ongoing training or cpd).
- To bring the specialisms in-house seamlessly, ensuring continuity, would necessitate a significant staff transfer exercise by way of TUPE. In itself this would give rise to not only a large staffing bill but also a largescale immediate burden on our legal and HR resources.
- If we were to direct-employ all of the staff who are currently working on our assets, they would be insufficient in number to provide the same robust service delivery that we are currently receiving: in that scenario if one of those key members of staff were to take leave or fall sick we would not be in a position to provide effective cover, because of the absence of a wider team with similar specialist knowledge. Within a

short period of time, the individuals concerned would be overwhelmed. To achieve a similar service level, would require additional staff over and above those currently providing the service via managing agents.

- Of the outsourced managing agents on the framework agreement, even the smaller ones have the scale and therefore the strength, breadth and robustness to provide continuity of service at a level and quality required and warranted by the value and type of assets owned by Spelthorne. This can be evidenced by the excellent rent collection results achieved by our current managing agents throughout the pandemic, particularly having regard to the commercial assets or offices; also in the retail assets better collection results than the national average have been consistently achieved.
- Additionally is the matter of added value. The firms on the framework agreement are all looking after a number of clients with similar needs (eg to collect rents) and interests (eg the state of the market, trends affecting commercial/retail property, etc) and therefore have access to a wide portfolio of data. Secondly, again because of their scale, they have access to a broad body of multi faceted surveyor knowledge and experience (not just in management surveying). Their immersion in these bodies of shared knowledge help inform how they approach the task of property management and how they advise us on a daily basis.

Option 4 - Proceed with a mini-competition with the Property Management consultants on Lot 5 of the Professional Services Framework Agreement, and in sufficient time to allow the new contract commencement of 1 April 2022, for a main contract term of three years to 31 March 2025, with two optional extension periods each of 12 months in the sole discretion of SBC, and with the consultants' agreement.

This option:

- allows the providers on the framework lot 5 sufficient time to fully consider their responses and provide the most competitive service at the appropriate quality and price;
- is fully compliant with SBC's CSO's and with the Public Contracts Regulations 2015;
- Is a relatively quick route to market (one of the key objectives of setting up the framework);
- Is believed to demonstrate value for money
- acknowledges the interest expressed by the consultants in bidding for inclusion on the framework agreement.

See Appendix 1 for a list of Framework Providers on the appropriate Lot.

Recommended option: Option 4 is our recommended approach.

3. Financial implications

- 3.1 The current contract costs tabled above, are deemed to represent good value for money for the work involved, and in the current market conditions, when managing agents have had to redouble their efforts in the past 18 months to meet the challenges related to Covid-19, many of which will be with us for some time to come.
- 3.2 Collection of rents, management of payment plans, a propensity towards turnover rents (particularly retail) and additional site level health/safety protocols have increased the responsibilities on our managing agents, with no additional fees having been sought.
- 3.3 Several tenants (most notably in retail but also some in the commercial assets) have moved from quarterly to monthly payments, effectively tripling the agents' work in collecting the rents in those cases; many in retail have moved on to turnover based rental agreements, which again requires additional management work to regularly monitor turnover data and reflect that in the rents being levied, as compared to levying fixed rents.
- 3.4 If management fees take full account of the additional workload we might expect them to go up rather than down.
- 3.6 The use of the framework agreement to conduct a mini competition maintains a sufficiently competitive tender process, but also reduces the market to increase the chances for bidders successfully winning a contract.
- 3.7 The framework fees are the starting point at which bidders' commercial proposals should be offered; this provides strong potential for the demonstration of improved value for money, albeit against a revised specification and in less certain market conditions.
- 3.8 The approximate value of the contracts are anticipated to be as below (based on current costs):

	3 years	5 years
Commercial Portfolio	£1.250m	£2.083m
Retail Portfolio	£270k	£450k

- 3.9 Bidders will be required to submit in their tenders a proposed percentage fee discount, in the event that they bid for, and are evaluated as the successful bidder for, both contracts.

4. Other considerations

- 4.1 Value for Money / Contract Price: this is a highly competitive property management market. Due to the current economic challenges, landlords are naturally looking at service providers to offer increasingly attractive pricing, which in turn has the tendency to drive down prices and fees.
- 4.2 There has been some early interest from the framework providers in the imminent contract renewal opportunities. As such, it is believed that this will deliver competitive market proposals and pricing from those invited to tender.

5. Equality and Diversity

- 5.1 Bidders will be required to demonstrate their capability in providing a service which gives full consideration to Equality and Diversity issues. This will be tested and evaluated via Method Statement Questions put to bidders via the mini-competition.

6. Sustainability/Climate Change Implications

- 6.1 Bidders will be required to demonstrate their capability in providing a service which gives full consideration to climate change and other environmental sustainability factors associated with the new contracts.
- 6.2 The Specification has been drafted to require high levels of sustainability in the delivery of the property management service.
- 6.3 Bidders will be asked to propose high levels of Social Value contribution in these contracts.
- 6.4 These requirements will all be tested and evaluated via Method Statement Questions put to bidders via the mini-competition.

7. Timetable for implementation

- 7.1 The table below indicates the timeframes required to achieve the letting of the new contracts to commence on 1 April 2022.

Background papers: There are none.

Appendices:

- Appendix 1 – Framework Agreement Lot 5 (Property Managers) providers & Fee Structures
- Appendix 2 – Retail Properties
- Appendix 3 – Commercial Properties
- Appendix 4 – Timetable