

Brighton & Hove City Council

Cabinet

Agenda Item 36

Subject: Estate Management

Date of meeting: 18 July 2024

Report of: Cabinet Member for Finance and City Regeneration

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Ward(s) affected: All wards

Key Decision: Yes

Reason(s) Key: Expenditure which is, or the making of savings which are, significant having regard to the expenditure of the City Council's budget, namely above £1,000,000.

For general release

1. Purpose of the report and policy context

1.1 The current contracts for the estate management of the commercial and agricultural property portfolios expire at the end of March 2025. The council can either bring the service provision for one of both contracts in-house or retender the contracts to be provided by external service providers. This report sets out in further detail the implications of both options.

1.2 The recommendations support Outcome 4 of the Council Plan, A responsive council with well-run services, by supporting good governance and financial resilience by:

- Ensuring the financial sustainability of our services by maximising income where appropriate;
- Using our assets to support local businesses and city regeneration;
- Concentrating on the best management possible of available council resources by seeking value for money and best use of our assets.

2. Recommendations

2.1 Cabinet agrees to the retendering of the Estate Management Service for the Commercial and Agricultural portfolios for a five year period with an option for up to a two year extension.

2.2 Cabinet delegates authority to the Corporate Director City Services, in consultation with the Cabinet Member to:

- (a) Award the contract following the recommendations of the working group evaluation panel and the results of the tendering process; and

- (b) Approve an extension of up to two years to the contract if required dependent upon performance.

3. Context and background information

- 3.1 The council owns a large commercial property investment portfolio and also a large agricultural estate. The agricultural estate forms a large majority of the council's City Downland Estate (CDE).
- 3.2 The Commercial Portfolio was historically acquired for road widening schemes, slum clearance and to create industrial estates to support local housing. It is mixed but weighted towards retail, with industrial estates. In more recent years, before changes to the Public Works Loan Board (PWLB), the council acquired two multi-let office buildings to re-balance the portfolio – Phoenix House and Lyndean House. In addition, the council has vacated and let the third and fourth floors of Bartholomew House and so this building now also forms part of the Commercial Portfolio.
- 3.3 For the Commercial portfolio income generation is a key strategy to support the council's service provision but the portfolio is also managed to support local businesses and economy. In 2023-24 the Commercial Portfolio generated a gross income of **£8,328,064**. The Commercial Portfolio is made up of a wide range of property types and letting arrangements, which includes approximately 700 tenancies, which can be broadly categorised as follows:

Table 1 – Commercial Property Portfolio Tenancy Summary

Retail	Single let units let on full repairing & insuring leases (FRI) in prime, secondary & tertiary locations, including pubs and restaurants. The management contract includes commercial premises in our parks as well as management of the Housing Revenue Account (HRA) retail properties.
Multi let offices & workshop units	Some also have retail uses at ground floor. The management includes managing the service charge for the properties, which are: Hove Technology Centre, Industrial House, Phoenix House, Lyndean House, New England House, Bartholomew House, Arcade Buildings and St James Mansions.
Single let offices	Let on FRI leases
Industrial & Retail warehousing	Often sold on long leases
Lock up garages & parking spaces	Let on individual licences
Telecoms masts	Let on licences, governed by the Electronic Communications Code
Miscellaneous	Petrol station, garden licences, caravan site, sports facilities, residential leased to Housing Associations
Residential	Usually above retail and sold on long leases

- 3.4 The Agricultural Portfolio was acquired to protect the city's aquifer and extends to 10,500 acres let on approximately 70 tenancies, consisting of 16 principle farms 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.

- 3.5 As with the Commercial Portfolio the income from the Agricultural Portfolio supports the council’s service provision and in 2023-24 the Agricultural portfolio generated a gross income of **£886,392**. The City Downland Estate Plan (CDEP), adopted in 2023, sets out the key objectives for the management of the estate, which are ambitious and complex to deliver. The council has employed a Programme Manager to support delivery of the CDEP and has also set up an external stakeholder group, The Downland Advisory Panel (DAP), to advise the council. The key objectives of the CDEP are:
1. An amenity for all – to ensure residents benefit from the estate, by improving access and recreation opportunities, communicating and celebrating heritage, and facilitating school trips.
 2. Enabling biodiversity to flourish – pursuing activities to achieve greater biodiversity and support carbon reduction by developing a Local Nature recovery Strategy (LNRS), preparing land management plans for key habitats, benchmarking the carbon footprint of our farms and reducing waste.
 3. Sustainable food and farming – encouraging local food production, and the adoption of farming practices to improve sustainability and reduce carbon by preparing Farm Plans setting out targets for each business, supporting the transition to organic, regenerative and carbon zero farming systems, supporting grant application to aid delivery and promoting local food production.
 4. A connected landscape – ensuring management decisions take into account the estate’s landscape and strategic views by developing key links between the estate and the city, mitigating the effects of climate change, managing tree planting and woodlands, improving water quality, restoring grassland and protecting dark skies.
- 3.6 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 proposals in this report.
- 3.7 The contract for the estate management of the Commercial Portfolio has been outsourced since 1995 and the Agricultural Estate, as far as officers are aware, has been outsourced since acquisition (early to mid 20th century). The current contracts, which are with Avison Young (Commercial) and Savills (Agricultural) were for five years and extended by two, expiring at the end of March 2025. The estate management services provided are set out in Table 2 below (those in italics are specific to the Agricultural Estate):

Table 2 – Estate Management Services

Core Services	Additional/Specialist Services
Rent Collection & debt management	Building services
Rent reviews	Project management
Lease renewals	Planning
Asset valuations	Valuation
Insurance valuations	Specialist Landlord & Tenant (L&T)
Service charge management & auditing	Telecoms

Facilities management & H&S compliance Repairs and maintenance Planned building maintenance Agency – lettings Agency - disposals Landlord consents Surrenders Strategic advice – strategy, development & disposal Tenancy management Void management Insurance claims FOI's, Cllr enquiries, media enquiries etc Report writing & briefing notes <i>Succession</i> <i>Attending DAP meetings</i> <i>Supporting preparation of Farm Plans</i>	Dilapidations Party wall Leasehold enfranchisement
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- 3.8 By outsourcing the estate management functions, the council is supported by a dedicated 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, providing the council with a breadth and depth of knowledge, expertise and experience, which would be difficult and expensive to replicate in-house.
- 3.9 The division of property management roles between the council as client and the consultant as service provider allows council officers to focus on policy and strategy whilst ensuring a high level of performance from our service providers.
- 3.10 For outsourcing, the proposed procurement route would be a restricted tender process. This involves an initial open to the market phase wherein any suitable bidder can return a bid against our minimum requirements and a high level quality assessment. Of those that submit the highest scoring five bidders (although this can be lower if less than five suitable bids are received) will progress to the second stage. At the second stage a thorough and in depth quality response will be required alongside a financial submission. These will be evaluated by a panel of officers and the most economically advantageous tenderer will be selected.
- 3.11 The approach will be aimed at a 60% Price 40% Quality assessment. The quality of these services is essential to ensuring that our commercial assets return the highest value but as the restricted procedure allows for an initial quality test the shortlisted providers can be focused more towards costs at the second stage. The quality criteria will be inclusive of Social Value and sustainability questions with specific commitments.
- 3.12 The current service providers have been largely successful in delivery throughout the current contract at the five year term with a two year optional extension and this will be renewed for this contract. An initial five year term allows for the offset of investment in staff and the staff transfer implications and a two year extension allows BHCC to consider both insourcing where appropriate and a variety of procurement routes.

3.13 To manage the re-tender process a working group would be established to review and update the contract specifications, evaluation criteria and manage the procurement. If as a result of the re-tender exercise the contract is awarded to new service providers there will be TUPE implications in relation to staff employed by the incumbents.

4. Analysis and consideration of alternative options

4.1 An alternative to outsourcing the estate management functions is to insource them. By insourcing the estate management functions, the cost of recruiting, retaining and managing a large team of professional and technical staff including commercial property surveyors, agricultural surveyors, building surveyors, facilities managers, accountants, auditors as well as additional support staff including administrative and finance officers will be borne by the council. The cost of insourcing the estate management functions has been estimated to be £100,000 more than the total 2023/24 contract costs.

4.2 In addition to insourcing the estate management functions, specialist services including valuation, planning consultancy and specialist commercial expertise (Healthcare, Landlord & Tenant, Hospitality, Telecoms and Sustainability) would need to be procured as an additional consultancy service. The cost of these additional services has not been estimated.

4.3 The main benefit of bringing the service in-house would be to have direct control and accountability and a lack of any potential cultural differences between the council and service provider. There will be TUPE implications in relation to staff employed by the incumbents in bringing the service in house.

4.4 The strengths, weaknesses, opportunities and threats of both options, insourcing and outsourcing, are set out in Table 3 below:

Table 3 – SWOT Analysis: Outsourcing and Insourcing

Outsourcing	
Strengths:	Weaknesses:
<ul style="list-style-type: none"> • Split between operational & strategic roles. • Cost effective. • Performance & delivery of service is recorded & monitored. • Dedicated financial services providing service charge auditing. • Recruitment, retention, training & management of professional, technical and specialist staff rests with the service provider. 	<ul style="list-style-type: none"> • Procurement of contracts is time consuming.
Opportunities:	Threats:
<ul style="list-style-type: none"> • Cost and quality will be evaluated as part of the procurement process to identify the most suitable service provider which may achieve improvement on the current service provision. 	<ul style="list-style-type: none"> • Potential conflict between the objectives & culture of the council and those of the service provider. • Potential increase in contract costs.

<ul style="list-style-type: none"> The specification and fee schedule will be amended to update and better reflect the council's requirements. This will include the inclusion of services relating to CDEP and DAP in the general management fee and the exclusion of asset valuation services from the general management fee to allow this element to be procured separately if considered better value. 	
Insourcing	
Strengths:	Weaknesses:
<ul style="list-style-type: none"> Direct control & accountability 	<ul style="list-style-type: none"> Additional salary costs greater than contract costs. Additional management costs; managing additional staff day-to-day, recruitment, training, covering absence etc. Additional Specialist services commissioned on an ad hoc basis at greater cost. Additional software required for service charge auditing and management. Additional costs of bringing the service inhouse.
Opportunities:	Threats:
	<ul style="list-style-type: none"> Success of recruiting professional and specialist staff is not guaranteed. Agricultural surveying in particular would be difficult to recruit to as it is a specialist area. With the exception of the Head of Estates, all current in-house commercial property surveyors within the Estates Team benefit from Market Supplements as the council's salary grading is below market salaries.

4.5 The main benefits of outsourcing the contracts are that it provides a cost-effective means of securing a professional and technical team with a wide range of professional and specialist services available as part of the contract without the cost or risk of recruiting, retaining and managing all of the staff required. The potential weakness is possible cultural differences between the council and service provider. There is a need for the service provider to align their principles and management and communication style with that of the council. This is managed by officers via regular review and close communication.

5. Community engagement and consultation

- 5.1 This is not applicable and the incumbent suppliers have been consulted on their role in potential transfer of existing staff and timeline to mobilise a new contract.

6. Financial implications

- 6.1 There are currently no direct financial implications for the council. Budgets within the Estate Team includes the Estate Management Service functions currently provided by Avison Young and Savills. It is anticipated the existing budgets would cover the annual fees following the outcomes of the retendering exercise. These contracts would start at the beginning of 2025/26 and should price be higher than budget, additional service pressure funding would be requested as part of the 2025/26 budget setting process.
- 6.2 It should be noted that bringing the service in house would cost approximately £100,000 more than the 2023/24 expenditure for the Estate Management Service and this excludes the cost of additional external professional services that would still be required.

Name of finance officer consulted: John Lack Date consulted: 12/06/24

7. Legal implications

- 7.1 The Council is required to comply with all relevant procurement legislation in relation to the procurement and award of contracts above the relevant financial thresholds for services, supplies and works. The Council's Contract Standing Orders will also apply.

Name of lawyer consulted: Daniel Mattess Date consulted: 13/06/2024

8. Equalities implications

- 8.1 Not applicable

9. Sustainability implications

- 9.1 The suppliers will be vetted for their commitments to sustainable delivery of this service in the tender evaluation. This will make up a minimum of 10% of the quality evaluation.

10. Health and Wellbeing Implications:

- 10.1 Not applicable

11. Procurement implications

- 11.1 The proposed route to market is a Restricted tender which consists of an initial open to the market stage followed by a shortlisting exercise. A full tender is then let among the shortlisted suppliers.

- 11.2 The shortlisting evaluation will be based on experience and our minimum standards.
- 11.3 The full tender will involve a commercial and quality evaluation split with 60% weighted to costs and 40% to quality.
- 11.4 Social Value will form 10% of the quality evaluation and will encapsulate the Social Value toolkit which will give clear commitments to outcomes against;
- A city to be proud of by creating more opportunities through apprenticeships and local jobs.
 - A well run council with responsive services through sharing knowledge and offering their skills to train council staff and improve our service efficiency.

12. Conclusion

- 12.1 It is considered that outsourcing of the estate management services provides a well resourced and expert service which represents value for money when compared to insourcing the service and quality through performance monitoring and management. It is therefore recommended that the council continues to outsource the estates management services by way of two contracts, for five years, with a performance review and option to extend for a further two years, for both the Commercial and Agricultural Portfolios, and that the procurement process commences.

Supporting Documentation

None