

	<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">CABINET</p> <p align="center">01 December 2014</p>
<p>TITLE OF REPORT: PROPOSED OUTSOURCING OF THE COMMERCIAL PROPERTY MANAGEMENT FUNCTION</p>	
<p>Report of the Cabinet Member for Finance, Cllr.Schmid</p>	
<p>Open Report</p>	
<p>Classification - For Decision</p> <p>Key Decision: YES</p>	
<p>Wards Affected: ALL</p>	
<p>Accountable Executive Directors: Nigel Pallace, Executive Director for Transport & Technical Services, and Melbourne Barrett, Executive Director for Housing & Regeneration</p>	
<p>Report Author: Marcus Perry, Interim Head of Valuation & Property Services</p>	<p>Contact Details: Tel: 020 8753 2835 E-mail: marcus.perry@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1. This report seeks the Cabinet's approval to the proposed outsourcing of the Council's Commercial Property Management Function to GVA Grimley Ltd.

2. RECOMMENDATIONS

- 2.1. The Cabinet notes the Business Case document appended to this report and the case put forward for outsourcing the Council's Commercial Property Management Function to GVA Grimley Ltd.
- 2.2. The Cabinet approves the proposal to outsource the Council's Commercial Property Management Function and authorises officers to proceed to call off a contract from the Council's Property Framework with GVA Grimley Ltd, the named contractor on the Framework for providing commercial property management services.

3. REASONS FOR DECISION

- 3.1. The case for outsourcing the current in-house service is that the proposed external provider, with its access to a wide range of professional services and support, will achieve better financial returns for the Council from its professional and efficient management of the Council's Commercial Property Portfolio.
- 3.2. At its meeting in September 2013 the Cabinet gave its approval to the establishment of a new Property Framework for the Council with Tri-borough access. The Cabinet approved the award of contracts for all services on the Framework apart from Lot 1 – Commercial Property Management – for which it required clarification over the cost benefits of outsourcing this service.
- 3.3. The Cabinet's approval is now sought to proceed with Lot 1 and the outsourcing of the Council's in-house service to GVA Grimley Ltd, the sole contractor for such services on the Framework..

4. INTRODUCTION AND BACKGROUND

- 4.1. During 2013 Valuation & Property Services (VPS) took the lead in a project to renew the Council's property contract. Rather than renew the contract with one supplier-contractor, it was decided to package the required property services into 8 Lots, and seek bids from contractors for the separate Lots. The rationale for this was the Council would have contractors with the right expertise working on the individual Lots, rather than one general contractor providing all the services. The extra time and cost to the Council of clienting a number of contractors should be offset by better quality across the contract.
- 4.2. Working closely with Legal Services and Procurement, VPS procured a new framework agreement using the Restricted Procedure in accordance with the Public Contract Regulations 2006. For maximum flexibility a property framework was selected, with Tri-borough access. In addition to existing services being renewed, it was decided to outsource – for the first time – two areas of work hitherto carried out in-house by VPS, namely commercial property management (Lot 1) and rating services (part of Lot 3).
- 4.3. The 2 stages of the procurement procedure were followed and contractors were selected for the 8 Lots, with a recommendation to the Cabinet that the contractors be placed on the Framework and contracts called off for services when required.
- 4.4. The Cabinet at its meeting in September 2013 approved the selection of the contractors and the establishment of the Property Framework for all 8

Lots, but it endorsed the earlier recommendations of the Joint Management Team who found that the business case for outsourcing Lot 1 was not proven. Accordingly, the Cabinet deferred the decision to call off a contract for Lot 1 pending clarification of the cost benefit of outsourcing the Commercial Property Management function to the external contractor named on the Framework.

- 4.5. Appended to this report is a Business Case document which endeavours to clarify the cost benefit of signing up to Lot 1.
- 4.6. The City of Westminster's own single provider property contract expired earlier this year and Westminster is now availing itself of the H & F procured Tri-borough Property Framework. As of 01 May 2014 Westminster has called off a contract with GVA Grimley Ltd for the provision of Commercial Property Management Services.- Lot 1.
- 4.7. If the Council's Cabinet approves the Recommendations in this report, then the Council will call off a contract for Lot 1 with GVA Grimley :Ltd with effect from January 2015. The contract will be for the remaining life of the Framework – until 30 September 2017 – and the notional value of the contract will be £ 54,000 per annum.

5. PROPOSAL AND ISSUES

- 5.1. These are covered in the previous section and in detail in the Business Case document. But to précis the Business Case:
 - 5.1.1 The management of the Commercial Property Portfolio is currently undertaken by VPS (property management, lease renewals, new lettings etc) and by Corporate Finance (rent invoicing, rent collection and accounting). Due to the limited resources available to the two service sections, the Portfolio has not been managed pro-actively or robustly in recent years nor has sufficient attention been given to financial management to ensure that rents are collected on time and in full. As a result, the Portfolio has underperformed and the Council has not benefitted in full from the income potential of the Portfolio.
 - 5.1.2 The Portfolio is modest in size, compared with the size of the other Tri-boroughs' commercial property portfolios, but with a potential current rent roll of some £ 2.7 Million per annum from a fully let Portfolio, the income is not insignificant – and the Portfolio warrants proper and efficient management.
 - 5.1.3 The option of employing additional staff in-house was considered but dismissed due to the much better value-for-money option of outsourcing the service to GVA Grimley who have the experience and all round expertise to deliver the best financial returns to the Council from their efficient and professional management of the service. The Council's in-

house service with limited numbers (even with extra staff) could never match the pool of expertise within the contractor's organisation.

5.1.4 The financial justifications, potential savings and benefits are set out in the Business Case, but the key figures are as follows:

* Cost to Council (payment of GVA Grimley's fees) in year 1 - £ 69,875
cost to be shared 50:50 HRA and General Fund, using Invest-to-Save monies.

* Over 4 years, the projected additional income – after fees – is £ 238,165

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. These are covered in the Business Case document. To précis the Options considered:

6.1.1 Option 1 – Retain in-house and the status quo
Option 2 – Retain in-house with additional staff
Option 3 – Outsource service to named contractor on the Property Framework – GVA Grimley Ltd

6.1.2 Option 3 offers the best value for money and the best potential financial return to the Council.

7. CONSULTATION

7.1. This took place during the 2-stage Procurement Procedure.

8. EQUALITY IMPLICATIONS

8.1. An Equalities Impact Assessment was carried out during the 2-stage Procurement Procedure.

9. TUPE & HR ISSUES

9.1 There are no staff from the Council transferring under the TUPE Regulations in relation to the proposed recommendations. Other potential staff transfers may apply to an existing provider and this is set out in detail in the attached Business Case.

10. LEGAL IMPLICATIONS

- 10.1 Legal advice on the procurement of the Property Framework was provided by external lawyers TLT. The procurement was carried out in accordance with EU procurement rules, the Public Contract Regulations 2006 and the Council's Contract Standing Orders.
- 10.2 The Property Framework sets out the procedure by which call off contracts can be awarded under it. If the Cabinet approves the Recommendations in this report then it is in order for the Council to call off a contract for Lot 1 services from the contractor named on the Property Framework, GVA Grimley Ltd.
- 10.3 Implications verified/completed by: Keith Simkins, Principal Solicitor, Legal Services tel: 020-7361-2194.

11. FINANCIAL AND RESOURCES IMPLICATIONS

- 11.1 The Business Case for outsourcing Lot 1 – the Commercial Property Management function - is that after year one of the contract the contractor's costs for providing the service will be more than covered by improvements in the financial returns from the professional and efficient management of the Portfolio.
- 11.2 Over a four year period it is predicted that an improvement in the Number of properties that will be let and a more diligent approach to rent reviews over the next four years will yield additional net income of £238k as set out in the table below.

<i>Sources of funding</i>	Amount (one off or per annum)	Distribution of costs				
		Year 1	Year 2	Year 3	Year 4	Totals
VPS First year Fee and set up costs		69,875	0	0	0	69,875

..Financed from Invest to save 50:50 General Fund :HRA						
on-going VPS Management Costs		0	48,675	48,675	48,675	146,025
Additional Income projections			67,500	150,525	236,040	454,065
Totals		(69,875)	18,825	101,850	187,365	238,165

11.3 During the first year of the contract the predicted cost to the Council for the outsourced service is £ 69,875 and the Council is asked to fund these cost from the invest to save fund, shared equally between the HRA and the General Fund.

11.4 Implications verified/completed by: Gary Hannaway TTS Head of Finance, Extension number 6071

12. RISK MANAGEMENT

12.1 The Business Case document has considered the risk management implications and this is contained in a Risk Analysis at paragraph 3.4. Additionally, it is stated in the business need that for some years Valuation & Property Services (VPS) has had the professional expertise and dedicated, experienced staff in-house to manage the Portfolio – but it has lacked support and the numbers required to pro-actively manage the Portfolio to obtain the very best value out of it. There are information management risks recognised in that GVA Grimley will need time to get to know the Portfolio and set-up and implement its rent collection and management systems with links to the Council's own systems. Keeping the current service delivery model with limited financial support may prevent desired improvements in debt management and rent collection. In addition, the size of the stand-alone Portfolio does not warrant investment in the best financial and property management systems to optimise the efficient management of the Portfolio that working with the contractor can achieve.

12.2 Operationally risk management performance of the contractor will remain the responsibility of the department and form part of its internal risk management monitoring system.

12.3 Implications verified by: Michael Sloniowski ext:2587.

13. PROCUREMENT AND IT STRATEGY IMPLICATIONS

- 13.1 The recommendation is for the Council to call off from Lot 1 of a Framework that it let in 2013 in accordance with the Public Contract Regulations 2006. There are no further procurement related issues that need to be taken into consideration..
- 13.2 Implications verified/completed by: Alan Parry, Procurement Consultant (TTS) ext. 2581.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Property Files – the procurement of the Property Framework	Marcus Perry ext 2835	VPS Town Hall Extension

LIST OF APPENDICES: The Business Case document