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# Procurement of Investment Portfolio Services – Supporting Information

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## 1. Introduction/Background

- 1.1 The Council adopted a Property Investment Strategy (PIS), 'the strategy' prepared by property consultants JLL (dated March 2017) on 9 May 2017. The strategy was reviewed and refreshed and adopted by the Council on 1 March 2018.
- 1.2 The strategy, as an addendum to the Treasury Management Strategy, increased the level of borrowing to increase the capital programme by £50m allowing the purchase of commercial investment property. In compliance with the adopted strategy, the Council functions as an 'Informed Client' with enhanced capability provided by an external Property Consultant, to acquire and manage income producing commercial property throughout the UK.
- 1.3 In accordance with the Contract Rules of Procedure (part 11 of the WBC Constitution) a procurement exercise was undertaken through the HCA (now Homes England) framework agreement for the appointment of the property agent services.
- 1.4 Montagu Evans (ME) were appointed as the Councils Property Consultants in August 2017.
- 1.5 With the support of the Property Consultants (Provider), £48m of the authorised £50m of funds has now been successfully invested.
- 1.6 On 3 July 2018, the Council resolved to allocate an additional £50m of funds for the acquisition of commercial property aligned with the Council's strategy.
- 1.7 It is estimated that an overall £100m portfolio may potentially generate circa £2.5m of fees during the term of the contract for the Provider.
- 1.8 Due to the overall contract value and subsequent increase in fee generation, the Councils Legal team advised the Council to carry out a procurement process for services associated with the additional fees. Owing to the potential for this to create two parallel contracts it was agreed to cancel the existing HCA contract with ME at an appropriate time and undertake a procurement process to cover the investment of the additional £50m and the management of the entire £100m portfolio (once fully invested).
- 1.9 Terminating the Council's contract with ME early is allowable within the HCA framework without cost consequence. This is a consequence of the increased level of service and associated fees and there are no performance issues with the current level of service provided by ME.
- 1.10 A competitive procurement process was undertaken during August 2018 by the Council's Property Services Team utilising the Crown Commercial Service (CCS) Framework. The conclusion of that process is that ME were successful in their

tender submission and should now, subject to Executive approval, be appointed under the terms of the CCS framework contract for the five year contract.

- 1.11 This report requests the Executive resolves to delegate authority to (a) Head of Finance to award the call off contract to Montagu Evans following a mini competition dated 31 August 2018 under the terms of the Crown Commercial Services Framework (ref: RM3816 dated 12 April 2017) and (b) Head of Legal Services to enter into a call off contract.

## 2. Supporting Information

- 2.1 ME were initially appointed to provide Property Investment and Management/Facilities advice during August 2017 and were appointed after a competitive tender process via the HCA Framework. At the time of the contract award (for a term of three years with the potential to extend for a further two years) it was envisaged that the total committed funds would not exceed £50m. The Potential Providers on the HCA Framework submitted their Tender on this basis.
- 2.2 The initial £50m has been successfully invested (actual total of £48m spent inclusive of fees) in less time than originally envisaged.
- 2.3 The Council resolved on 3 July 2018 to allocate a further £50m creating, once fully invested, a capital investment of £100m, income-producing, commercial property portfolio (inclusive of purchaser's costs).
- 2.4 It is estimated that the total fees generated for a single Provider for a £100m portfolio (inclusive of acquisitions fees) to be in the region of £2.5m over the life time of the contract, a period of five years.
- 2.5 The original HCA contract is explicit that it was for a maximum of £50m and does not allow for a significant increase in fees for services provided by the Provider. The Councils legal team advised that to continue using the HCA contract for the entire £100m portfolio would expose the Council to the potential for legal challenge.
- 2.6 It was the view of WBC Property Services Team that a split commercial property portfolio administered via two separate contracts would be inefficient and lose strategic oversight, and that a single contract would be most effective. This view was presented to and received the support of the Property Investment Board (PIB)
- 2.7 Subsequently, following direction from PIB, Property Services undertook a Further Competitive procurement process via the CCS framework. It is worth noting that the HCA has now been replaced by the Homes England (HE) and the replacement Framework was not available to the council at the time of seeking suitable frameworks.
- 2.8 The Councils tender process was launched on 10 August 2018 with all twelve Potential Providers on the CCS framework invited to Tender. The Tender process was run in adherence with the Framework rules and ended on 31 August 2018. Only one Provider submitted a Tender – Montagu Evans.
- 2.9 The frameworks rules for a single Provider submission are as follows:

*“If the Authority receives only one Tender in relation to this Further Competition, the Potential Provider will be awarded the Contract provided that they meet the*

*Minimum Total Score of 65 for Quality and the Price is within the range of fees previously provided by the Supplier on the Framework.”*

- 2.10 The submitted tender was reviewed and scored by a panel of four which included an independent person from another team within the Council. Montagu Evans scored 78.8 on Quality and the Price was confirmed to be ‘within the range of fees previously provided by the Supplier on the Framework’.
- 2.11 When comparing the tender submission made by Montagu Evans, on the price of the services provided when with the previous contract the costs are either the same or less than previously structured.
- 2.12 At the end of the Further Competition process, it was concluded that ME were a suitable Provider to support the Councils PIS and it would be appropriate to engage the Provider for the tendered contract period of 5 years using a CCS Framework Contract.

### **3. Options for Consideration**

- 3.1 Option 1: To maintain the status quo. Whilst the existing arrangement with ME has been successful, advice from the Councils Legal team suggests that continuing with the existing HCA contract would leave the Council exposed to legal challenge and is as such untenable.
- 3.2 Option 2: Maintain the current HCA contract with ME for the original £50m portfolio only (for the contract term) and re-tender for the second £50m tranche of the portfolio. This option may or may not result in the appointment of two separate Providers. It was the view of PIB and the Property Services team that the potential to have the two separate Providers would be inefficient and lose overall strategic oversight.
- 3.3 Option 3: To not appoint a consultant. Integral to the adopted strategy is that the Council works as an ‘Informed Client’ with enhanced capability provided by Property Consultants. The Councils Property Services team does not have specialist knowledge such as for commercial acquisition and commercial property management, subsequently it is necessary to buy in the additional skill sets in order to achieve the objectives set out in the PIS.
- 3.4 Option 4: Following on from the Further Competition process, appoint ME under a CCS Framework contract (the HCA contract would be terminated early so as to align the entire £100m portfolio).
- 3.5 The selected Provider has the commercial skill sets, coverage and experience required to enhance the Councils Property team service and successfully implement the PIS.

### **4. Proposals**

- 4.1 Following on from the Further Competition process run during August 2018 utilising the CCS Framework, ME were selected by the tender assessment panel on 4<sup>th</sup> September 2018 to be awarded the contract subject to final sign-off by the Council’s Executive. The award is based on a rigorous evaluation process that assessed ME’s Tender on quality, technical merit and value.

- 4.2 The Executive resolves to delegate authority to (a) Head of Finance to award the call off contract to Montagu Evans following a mini competition dated 31 August 2018 under the terms of the Crown Commercial Services Framework (ref: RM3816 dated 12 April 2017) and (b) Head of Legal Services to enter into a call off contract.

## 5. Conclusion

- 5.1 In conclusion, the PIS in its current form represents a very solid base from which to build a £100m (inclusive of fees), UK wide, defensive and income producing commercial property portfolio.
- 5.2 The Councils experience in the market since May 2017, emerging market trends and the stock availability, have provided the basis to increase the quantum invested to £100m.
- 5.3 Central to this initiative is the appointment of appropriate Commercial Property Consultants to support the Councils Property Services Team and PIB.
- 5.4 Mindful of the above, it is requested that the Executive resolve to appoint ME as Consultants for the Commercial Property Portfolio.

## 6. Consultation and Engagement

- 6.1 Council Legal Team
- 6.2 Homes and Communities Agency (HCA)
- 6.3 Crown Commercial Service (CCS)

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**Wards affected:** Not applicable

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**Strategic Aims and Priorities Supported:**

The proposals will help achieve the following Council Strategy aim:

☒ **MEC – Become an even more effective Council**

The proposals contained in this report will help to achieve the following Council Strategy priority:

☒ **MEC1 – Become an even more effective Council**

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