

Finance and Resources Committee

10.00am, Thursday, 11 October 2018

Edinburgh Living: Management, Maintenance and Letting Services – Award of Contract Under Delegated Authority

Item number	7.13
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	1.6

Executive Summary

On [18 January 2018](#) the Council's Housing and Economy Committee agreed to establish two Limited Liability Partnerships (LLPs) with Scottish Futures Trust (SFT) to own and manage homes for mid market and market rent. The governance for the new LLPs known as "Edinburgh Living" is now in place. In [June 2018](#), this Committee agreed the transfer of the first tranche of homes from the Council to Edinburgh Living.

A procurement process to appoint a management, maintenance and lettings service provider to manage the homes on behalf of Edinburgh Living commenced in June 2018. At the request of bidders, the tender return deadline was extended by three weeks to take account of the summer holidays and key staff members being absent. Refusal to extend could have resulted in no or low-quality bids. Four tender returns have been received from bidders with the skills and experience required to deliver the service.

The extension has impacted on procurement delivery timescales. The assessment of tenders will now not be complete in time for Committee to award the contract. This report seeks the approval of the Committee to delegate authority to the Executive Director of Place to award a contract to the most economically advantageous organisation identified following conclusion of the competitive tendering process. This will mitigate the risk of completed homes remaining empty into the new calendar year.

Edinburgh Living: Management, Maintenance and Letting Services – Award of Contract Under Delegated Authority

1. Recommendations

- 1.1 It is recommended that the Finance and Resources Committee:
 - 1.1.1 Delegates authority to the Executive Director of Place, in consultation with the Convener and Vice Convener of this Committee, to award the contract to the most economically advantageous organisation identified following a competitive tendering process;
 - 1.1.2 Notes that the contract value is estimated to be £3.2 million to £3.3 million over a maximum period of six years; and
 - 1.1.3 Approve the provision of a short-term facility for Edinburgh Living to manage their cash flow position up to a maximum of £0.25m.

2. Background

- 2.1 On 20 July 2017, the Heads of Terms of the Edinburgh and South East Scotland City Region Deal (City Deal) were published. The Heads of Terms included a commitment to provide a finance and funding package, to establish a new partnership to deliver 1,500 homes at market and mid market rent in Edinburgh. The business case for two LLPs to deliver 1,500 homes was developed by the Council and SFT.
- 2.2 On [1 February 2018](#) the City of Edinburgh Council gave approval to establish the two LLPs in partnership with SFT. The LLPs aim to meet housing need and to accelerate house building in the City through acquisition of homes for market and mid market rent for let to households on low to moderate incomes.
- 2.3 The governance for the new LLPs is now in place and the first new mid market rent homes will be available for the LLPs to purchase in 2018/19.
- 2.4 Initially the new homes will be developed through the Council's growing house building programme and will form part of mixed tenure communities across the city. The LLPs will play a key role in delivering the Council's commitment to deliver 20,000 affordable homes over the next ten years.
- 2.5 The LLPs will operate under a single brand, 'Edinburgh Living'.

- 2.6 On 12 June 2018, the Finance and Resources Committee agreed the transfer of 105 new build homes from the Council to the Edinburgh Living mid-market rent LLP. The City of Edinburgh Council agreed the lending facility for the purchase of these homes on [28 June 2018](#).
- 2.7 The 105 homes identified for transfer to Edinburgh Living are being developed through the Council's house building programme with the first 33 homes due to transfer into Edinburgh Living in October and November 2018.
- 2.8 The day to day management of the homes will be delivered by a third-party Service Provider which will allow the Council to focus on delivering quality services to social rented tenants. The Council wishes to appoint a single Service Provider to provide the Letting, Management, Rent Collection Reactive, Planned and Landscape Maintenance services required by Edinburgh Living.
- 2.9 Edinburgh Living aims to deliver quality new homes in places where people want to live, and a high-quality customer experience. Excellent customer service is core to the values developed for Edinburgh Living.
- 2.10 It is expected that the Service Provider will share in the ethos and vision of Edinburgh Living in delivering a customer focussed product for those seeking a new home.

3. Main report

- 3.1 On 27 June 2018, the Council commenced a full tender exercise by placing a contract notice on the Public Contracts Scotland Portal as a single stage process. The tender and evaluation process is being conducted in accordance with Council Contract Standing Orders and Public Contracts (Scotland) Regulations 2015.
- 3.2 Bidders were invited to complete the European Single Procurement Document which features minimum standards in professional landlord registration and financial viability alongside a series of questions focused on practical delivery outcomes, customer service and tenant communication.
- 3.3 The process is designed to ensure openness and transparency in relation to evaluation outcomes and the high standards expected by the Council.
- 3.4 The tender was released with the intention of seeking an award of contract at this Committee on 11 October 2018. However, the tender submission deadline date was extended by three weeks from the original deadline of 30 July 2018 on the request of bidding suppliers. Suppliers required more time to understand the complexities and risks outlined in the specification during a period where many of their key staff were on annual leave.
- 3.5 A request for an extension to the deadline for tender returns was granted on the basis that bidders felt that they would not be able to complete bids to an acceptable standard, or submit a bid at all, during the summer holiday period.

- 3.6 Not extending this deadline could have resulted in no bids or low-quality bids, neither of which would have met the objectives of the procurement process and risked the quality of service to be provided to Edinburgh Living tenants.
- 3.7 As a result, the tender assessment and clarification process will no longer complete along the original timescales which were developed in line with reporting deadlines for this Committee.
- 3.8 Mid market rent homes at the Council's Greendykes development will be available for transfer to Edinburgh Living towards the end of this year and the first homes at North Sighthill will be available from January 2019. A lead in period for the Service Provider to establish the contract, set up robust contract management procedures and begin marketing the homes, is required in order to reduce any risk of homes remaining empty for an extended period of time and to provide the best level of customer service to tenants from the outset.
- 3.9 Due to the necessity of this contract lead in period taking place prior to the next meeting of the Finance and Resources Committee in December, delegated authority is sought to ensure a contract is in place by 20 October 2018.
- 3.10 A report on the outcome of the procurement process will be submitted to the Executive Director of Place for approval and award of contract.
- 3.11 Four tender submissions from suitably qualified bidders have been received. These submissions will be subject to evaluation by a technical evaluation panel consisting of four members of staff at differing operational and management levels across the Council and SFT.
- 3.12 The published award criteria places an emphasis on quality, as well as price, with the aim of selecting the most economically advantageous Service Provider. A cost quality ratio of 40% cost and 60% quality has been applied to all lots.
- 3.13 Following completion of the quality analysis, tender submissions are subject to a cost analysis. The cost analysis establishes the full price of tenders considering responses to the Schedule of Rates provided in the tender package. The lowest priced bid is allocated the 40% cost ratio. All other bids are scored on a pro rata basis against the lowest bid. As part of the tender, a pricing guideline was published to ensure that returns were aligned with the assumptions contained within the LLPs' financial models.
- 3.14 Scores are then combined with the scores from the cost analysis to derive an overall mark for each bidder out of a maximum of 100.
- 3.15 Evaluation is expected to be complete in time for contract to be in place by 20 October 2018.
- 3.16 Committee is asked to delegate authority to the Executive Director of Place to award the main contract for management and maintenance services following a competitive tender process that is expected to conclude in mid October. This will ensure sufficient lead-in time for the service provider to set up procedures and begin marketing homes at Greendykes and North Sighthill which are expected to be available for let in December and January.

- 3.17 On 28 June 2018 the Council approved lending £13m to Edinburgh Living to fund its purchase of 105 homes. The £13m forms part of the £248m consent from the Scottish Government which allows the Council to capitalise the loan to the Edinburgh Living and hence borrow to fund the loan should the Council choose to do so.
- 3.18 Cash flow modelling for Edinburgh Living shows that as with most new enterprises, there is a timing mismatch in the early life of the enterprise between initial costs and when the income stream from rents is received. A temporary bank overdraft facility for Edinburgh Living could be sought if the Council were to provide an explicit guarantee for the facility.
- 3.19 However, it makes no sense to pay interest to a third party when the Council would be taking on the credit risk in this scenario in any case. The Council's Treasury Management Policy Statement includes loans to Council Companies in the list of permitted investments. It is therefore proposed that the Council provides a short-term facility of up to £0.25m to Edinburgh Living to manage their cash flow position at an appropriate rate of interest.

4. Measures of success

- 4.1 The contract will be managed using Key Performance Indicators (KPIs).
- 4.2 A contract meeting will be scheduled between the Service Provider and the Council on a monthly basis to review KPIs; the Service Provider will report to the Edinburgh Living SMT on a quarterly basis.
- 4.3 A breakdown of the KPIs is provided at appendix 3.

5. Financial impact

- 5.1 Responses submitted are within expected budgetary parameters of £850 - £900 per property as outlined in the business case for the establishment of Edinburgh Living.
- 5.2 The Contract will be funded by the Council through the receipt of a management fee from Edinburgh Living. The Council and Edinburgh Living will enter into a management and maintenance agreement which will set out the terms of this payment. A proportion of the rental income from each home owned and let by Edinburgh Living will be used to cover this fee.
- 5.3 A sinking fund for long term life-cycle maintenance will be established from the outset through the collection of rents.
- 5.4 The costs associated with procuring this contract are estimated at £10,000.
- 5.5 The short-term facility for Edinburgh Living to manage their cashflow would be managed as part of the Council's overall investment arrangements with any use of the facility being accounted for as a debtor on the Council's balance sheet.

- 5.6 Viability tests need to be carried out and agreed by both the Council and Edinburgh Living before any tranche of houses is acquired. The business model used for the viability tests requires Edinburgh Living to build up a significant cash reserve position from rental income to manage future maintenance life-cycle costs. Therefore, it is very unlikely that Edinburgh Living would be in a negative cash position in the short to medium term. The risk to the Council in providing this facility is consequently regarded as very low.

6. Risk, policy, compliance and governance impact

- 6.1 The governance arrangements for Edinburgh Living have been approved by the City of Edinburgh Council. A Corporate Body comprised of elected members, the Director of Place and a Director of SFT is in place. The day to day management is carried out by a Senior Management Team (SMT). The Edinburgh Living Senior Management Team is made up of four senior Council managers and a senior member of staff from SFT.
- 6.2 The Council is procuring a management and maintenance service provider on behalf of Edinburgh Living. The contract being awarded through delegation will be between the Council and the third-party Service Provider.
- 6.3 The Council will enter into an agreement with Edinburgh Living which will set out the terms of the contract and the payment arrangements.
- 6.4 The new homes being purchased by Edinburgh Living will be let at market and mid market rents under the new Private Rented Tenancy (PRT).
- 6.5 The Service Provider will be subject to KPIs throughout the contract, many of which ultimately result in the termination of the contract for severe cases of non-performance. The Service Provider will meet the Council's contract manager on a monthly basis and will meet the LLPs Senior Management Team on a quarterly basis to review performance.
- 6.6 The risk of not approving the request to delegate would be the homes remaining empty for an extended period of time. This could have a financial, operational and reputational impact on the Council.

7. Equalities impact

- 7.1 An integrated impact assessment has been carried out for this project. A range of positive impacts have been identified. These include:
- 7.1.1 More accessible homes that are suitable for people who have mobility difficulties;
 - 7.1.2 More affordable homes to enable people to have a good standard of living;
 - 7.1.3 More people able to access housing which enhances rights in relation to privacy and family life; and

- 7.1.4 Community benefits secured through housing contracts can enhance rights to education and learning through development of links with schools.

8. Sustainability impact

- 8.1 Edinburgh Living will support development of sustainable communities.
- 8.2 New homes constructed for the LLPs are subject to the most recent Building Standards, focussing on energy efficiency.
- 8.3 The delivery of community benefits has been assessed as part of the procurement process and reviewed on a regular basis.

9. Consultation and engagement

- 9.2 Eight market engagement workshops took place in February and March 2018 to gain a better understanding of what the public expected from a mid market rent landlord in terms of quality of home and quality of service.
- 9.3 Benchmarking of Contract Terms and Conditions and lessons learned from the National Housing Trust (NHT) initiative have informed the development of the service specification.

10. Background reading/external reference

- 10.1 [City Deal – Proposal for New Housing Partnership with Scottish Futures Trust, Housing and Economy Committee, Thursday 02 November 2017](#)
- 10.2 [City Deal – New Housing Delivery Partnership Implementation, Housing and Economy Committee, Thursday 18 January 2018](#)
- 10.3 [City Deal – New Housing Delivery Partnership Implementation – Referral from the Housing and Economy Committee, City of Edinburgh Council, 01 February 2018](#)
- 10.4 [Annual Treasury Strategy 2017-18 - referral from the Finance and Resources Committee, City of Edinburgh Council, Thursday 16 March 2017](#)
- 10.5 [Annual Treasury Strategy 2018-19, City of Edinburgh Council, Thursday 15 March 2018](#)

Paul Lawrence

Executive Director of Place

Contact: Elaine Scott, Housing Services Manager

E-mail: elaine.scott@edinburgh.gov.uk | Tel: 0131 529 7968

11. Appendices

Appendix 1	Summary of Tendering and Tender Evaluation Processes
Appendix 2	Community Benefits List.
Appendix 3	KPIs relevant to the Edinburgh Living Management, Maintenance and Letting Contract

Summary of Tendering and Tender Evaluation Processes

Contract	Letting, Management & Maintenance Services.
Contract period (including any extensions)	3 + 3 years
Contract value	£3.2M - £3.3M in total over 6 years.
EU Procedure chosen	Open
Tenders returned	4
Recommended supplier	Not known at present
Primary criterion	Most economically advantageous tender to have met the ESPD minimum standards and technical specification of Place.
Evaluation criteria and weightings	60% Quality, 40% Price Quality (expressed as 100% of 60% below) Implementation Planning 10% Property Management 15% Tenancy Management 10% Team Structure 5% Account Management 10% Risk Management 5% Marketing 10% Rent Arrears 10% Data Protection 5% Fair Works Practices 5% Community Benefits 5% Presentation 10%
Evaluation Teams	Evaluation Team consists of personnel from SFT and the Place directorate as well as a member of the Finance team.

Community Benefits

As part of this contract the successful Service Provider is expected to provide community benefits drawn from the list below:

- work with tenants to foster/promote pride in the community
- work with Scottish Fire and Rescue Service to deliver fire safety in the home sessions
- deliver workshops on topics; such as, energy efficiency
- work with local community and charitable organisations to support the local community.
- Support local businesses/ stimulate the local economy
- Targeted recruitment and training e.g. jobs, training, work experience, job shadowing opportunities, apprenticeships for young persons and unemployed individuals
- Supported employment for people with disabilities or other disadvantaged groups
- Promotion of job opportunities through local agencies
- Training for existing workforce
- Mentoring – suppliers offering support and guidance to local organisations and individuals
- Suppliers using community venues and other community services
- Promotion of certain supply chain subcontractors (SMEs, social enterprises, supported businesses, Third Sector Organisations)
- The staff of suppliers undertaking volunteering within communities
- Community enhancement – resources provided for community facilities (e.g. playgrounds, habitat enhancements, environmental improvements) and initiatives (e.g. energy efficiency)
- Outreach and education opportunities within the community to those associated with or impacted by the types of service provided e.g. promoting careers in construction and trades or care and support to local schools
- Sponsorship of local organisations
- Community consultation, engagement and strengthening community relations

KPIs relevant to the Edinburgh Living Management, Maintenance and Letting Contract

KPI	Target	Measurable By	Implication
<ul style="list-style-type: none"> • All paperwork correctly executed, • rental income passed on within two business days of receipt • allocation consideration met, • deposits paid over to the Deposit Scheme • Visits at 4-6 weeks completed • Annual inspection completed 	100%	Annual visit to office premises, including random sample audit	Rebate of 10% of annual fee on each non- conforming file followed by category 1 special measures
Notify Council if any tenant has referred an increase in rent to the Rent Officer within two business days of the Service Provider receiving notification.	98%	Annual visit to office premises	Any costs that arise from non-notification. Category 1 special measures
Comply with all legislative responsibilities of the landlord on behalf of the LLPs (with the exception of Landlord Registration).	100%	Annual visit to office premises	Any costs that arise out of non-compliance Category 1, 2 and 3 special measures
Annual programme of planned maintenance and legislative checks submission by June 1 st every year.	100%	Receipt	Category 1 special measures, followed by category 2 special measures
Make safe or have relevant services restored in respect of emergency repairs within 4 hours	100%	Via Management Information submitted and Annual visit to office premises, including random sample audit	Any costs that arise out of non-compliance over the KPI target Category 1, 2 and 3 special measures
Carry out and complete urgent repairs within the timescales set out in table 2 above	95%	Via Management Information submitted and Annual visit to office premises, including random sample audit	Any costs that arise out of non-compliance over the KPI target Category 1, 2 and 3 special measures
Carry out and complete routine repairs within 15 business days	95%	Via Management Information submitted and Annual visit to office premises, including random sample audit	Any costs that arise out of non-compliance over the KPI target Category 1 and 2 special measures

<ul style="list-style-type: none"> • Tenancy Complaints: • Acknowledged within 24 hours • Resolved within 20 business days 	95%	Via Management Information submitted and Annual visit to office premises, including random sample audit	Category 1 and 2 special measures
Provision of Management Information monthly, including the monthly report.	100%	Receipt	Category 1, 2 and 3 special measures
Let each home within 100 calendar days of settlement date.	100%	Management information	Reduction in fee relating to that unit by 50% until home is let, until 6 months from the settlement date, followed by category 1 and 2 special measures. If not resolved by category 2 special measures the Council may consider removing the unit from the portfolio, in consultation with the LLPs.
Complete all works required and re-let homes within 31 calendar days of the last day of the previous tenancy	100%	Management information	Reduction in fee relating to that unit by 50% until home is let, for up to six months, followed by category 1 and 2 special measures. If not resolved by category 2 special measures the Council may consider removing the unit from the portfolio, in consultation with the LLPs.
<p>A KPI will be developed to ensure that the Service Provider puts measures in place to limit the impact on the LLPs caused by rent arrears. The KPI is likely to be based on the following trigger points:</p> <ul style="list-style-type: none"> • Engagement with tenant in arrears • Notifying the Council of rent arrears • Action to recover rental income • Action to recover possession of home <p>Reasonable timescales to be discussed</p>	100%	Management information and client accounting information	<p>A financial penalty will be implemented</p> <p>The Council will be entitled to remedy any failure and to recover any costs reasonably and properly incurred, from the Service Provider.</p> <p>Category 1, 2 and 3 special measures</p>
Carry out Community Benefits as set out in the Community Benefits definition within the Management and Maintenance Agreement	100%	Management information	Category 1 and 2 special measures

Implications

Category 1 Special Measures

Escalation of monthly contract management meeting to SMT level in order to resolve the situation. If this does not lead to service improvement, category 2 will be implemented.

Category 2 Special Measures

Meeting between senior Council officers and Chief Executive (or appropriate senior officer) of the Service Provider to discuss final agreed action plan. If this does not lead to service improvement within three months, category 3 will be implemented.

Category 3 Special Measures

Termination of Contract