

# Finance and Resources Committee

10am, Thursday, 23 January 2020

## Award of Private Sector Leasing

Executive  
Wards  
Council Commitments

### 1. Recommendations

---

- 1.1 It is recommended that the Finance and Resources Committee:
  - 1.1.1 Approves the award of a contract for Private Sector Leasing to Link Group Ltd to commence on 1 April 2020 for a period of five years with the option to extend for up to a further five years with an estimated total value of £225.9m over the ten years. This comprises lease costs of £173.0m and management fees of £52.9m.

**Alistair Gaw**

Executive Director for Communities & Families

Contact: David Smith, Planning & Partnership Service Manager

E-mail: [david.smith@edinburgh.gov.uk](mailto:david.smith@edinburgh.gov.uk) | Tel: 0131 529 7335

# Finance and Resources Committee

## Award of Private Sector Leasing

### 2. Executive Summary

---

- 2.1 This report seeks approval to award a contract for Private Sector Leasing to Link Group Ltd, to commence on 1 April 2020 for a period of five years with the option to extend for up to a further five years with an estimated total value of £225.9m over the ten years. This comprises lease costs of £173.0m and management fees of £52.9m.

### 3. Background

---

- 3.1 The City of Edinburgh Council has a duty to provide temporary accommodation for homeless households and households at risk of homelessness under the Housing (Scotland) Act 1987 and subsequent legislation. To fulfil this statutory duty, the Council requires additional property for those households requiring temporary accommodation.
- 3.2 This procurement exercise seeks to replace the current Private Sector Leasing Service (PSL) contract which provides homes procured from the private rented sector and seeks to expand current provision to 1850 properties. The current PSL contract is due to end in March 2020.
- 3.3 This service is for the Homelessness and Housing Support Service Area within Safer and Stronger Communities who are responsible for homelessness services and discharging the Council's duties under Homeless legislation. This includes delivering a temporary accommodation service.

### 4. Main report

---

- 4.1 The expansion of the provision of self-contained properties for homeless households has resulted from the requirements of the Scottish Government's Rapid Rehousing Transition Plan and the need to replace current provision of unsuitable temporary accommodation (Unsuitable Accommodation Order 2004 and later revisions).
- 4.2 Service user feedback has informed the new service specification. Other stakeholder input into this commissioning exercise has come via the Edinburgh

Homelessness Forum, Strategic Homelessness Action Partnership in Edinburgh, the Homelessness Services Commissioning Strategy and dialogue with partner agencies.

- 4.3 A Prior Information Notice (PIN) was issued on 1 April 2019 on Public Contracts Scotland to provide awareness of this opportunity to the market. A briefing session was held on 13 May 2019 with interested parties. This involved an introduction and overview of the service and provided an opportunity for questions.
- 4.4 The key consideration in respect of this future contract was consideration of the market rate for rented accommodation in Edinburgh, to ensure that any remuneration to private landlords through the contract achieves best value, whilst also attracting owners/landlords to join the PSL scheme for the purposes of improving the supply of appropriate homelessness accommodation.
- 4.5 It is acknowledged and born out from our experience to date that there are many advantages to private landlords joining the scheme, such as; having a guaranteed rental income, no requirement to pay management fees to traditional letting agencies and all repairs and annual safety checks are carried out through the contract on their behalf.
- 4.6 On 14 October 2019, the Council published a Contract Notice under Open Procedure, as set out in the Public Contracts (Scotland) Regulations 2015, with a tender submission deadline of 20 November 2019.
- 4.7 The procurement procedure allowed the Council to identify suitable tenders in terms of compliance with the procurement regulations and the service specific criteria.
- 4.8 Customer focus and the delivery of the service to vulnerable people was considered a priority. This was reflected in the quality criteria as well as price and submissions were assessed on the most economically advantageous tender.
- 4.9 A cost/quality ratio of 20% :80% was applied to ensure that the quality submissions were of a high standard. To further ensure the quality element of the service a minimum quality threshold of 65% was applied, with the Council having discretion to disqualify tenderers who did not achieve this threshold.
- 4.10 Pricing was capped at a management fee of £60 per week with the Council having discretion to disqualify tenderers who submitted bids over this threshold.
- 4.11 A total of eight providers registered interest in the Contract Notice and tenders were received from two providers.
- 4.12 A summary of tendering and the tender evaluation process is attached at Appendix One.
- 4.13 The tenderer with the highest overall score, which represents the highest quality and most economically advantageous tender, is Link Group Ltd and it is proposed to award the contract for a period of five years with the option to extend at the Council's discretion for up to a further five years.

## 5. Next Steps

---

- 5.1 Subject to approval, the services will commence on 1 April 2020 and will allow the Council to meet its obligations regarding the provision of temporary accommodation services.
- 5.2 The contract will be managed by the Planning & Partnership Service, supported by the Temporary Accommodation Service operational staff; both located in Homelessness Services.
- 5.3 The appointed service provider, in conjunction with the Council, will implement the contract. As with previous PSL contracts provision is made in the existing leases to carry over to the next contract. The service provider seeks to grow property numbers in line with the Council's operational requirements. The initial target is 1850 properties, but this may increase depending upon homeless trends with the City.

## 6. Financial impact

---

- 6.1 The value of this contract is estimated at £225.9m over the full ten-year contract period (including extensions). This comprises lease costs of £173.0m and management fees of £52.9m.
- 6.2 This is calculated considering;
- 6.2.1 Over the next five years, the PSL stock level is anticipated to increase to 1,850 properties being supplied by this contract;
- 6.2.2 A £58.50 weekly management fee per property; and
- 6.2.3 A cap on rent equal to 80% of market rate
- 6.3 The change in stock level and costs are as follows:

Financial year	Lease Expiry	Number of leases renewed	Increase in costs - mgt fee and lease renewals	Increase in number of PSL properties	Net saving from reduced B&B/ Shared Accom	Net change in cost	Cumulative number of PSL properties
2020/21	2020	105	390,782	111	-710,398	-319,617	1,410
2021/22	2021	203	297,733	110	-703,998	-406,266	1,520
2022/23	2022	28	41,067	110	-703,998	-662,932	1,630
2023/24	2023	378	554,399	110	-703,998	-149,599	1,740
2024/25	2024	513	752,398	110	-703,998	48,400	1,850
2025/26	2025	0	0	0	0	0	1,850
2026/27	2026	16	23,467	0	0	23,467	1,850
2027/28	2027	15	22,000	0	0	22,000	1,850
2028/29	2028	34	49,867	0	0	49,867	1,850
2029/30	2029	7	10,267	0	0	10,267	1,850
		1,299	2,141,978	551	-3,526,391	-1,384,413	

- 6.4 The current mix of temporary accommodation and insufficient PSL stock due to a buoyant property market in Edinburgh has created a financial pressure of £2.2m.
- 6.5 The increase in management fees from £55 per week to £58.50 will cost an additional £0.2m per annum and the increase in rents will cost an additional £1.9m by 2029 as existing leases are renewed.
- 6.6 Increasing PSL stock by 551 properties over the next five years and reducing the reliance on B&B and Shared Accommodation will reduce costs by £3.5m. If successful, this will result in a net reduction of £1.4m in temporary accommodation costs by 2029/30, which will provide partial mitigation of existing pressures.
- 6.7 The stock level will require to increase by 335 properties by 2029/30 in order for the increase in management fee and rent to be cost neutral. It is projected that stock will increase from 1,299 properties at the beginning of the contract to 1,850 properties by the end of year five. Annual lease costs and management fees will increase over the duration of the contract as stock levels are gradually increased during years one to five and as existing leases are renewed.
- 6.8 Under the current contract, stock levels have been reducing in recent years as the maximum rents that can be offered to landlords in the scheme fail to keep pace with increasing market rates. It is estimated that under the current contract, stock levels would continue to reduce, resulting in an additional annual cost of £1.6m by 2029/30. Therefore, the increase in payment to a maximum of 80% of market rate is expected to reverse this decline in stock levels and deliver an additional 551 properties, resulting in a net reduction in annual costs.
- 6.9 It is expected that the exact costs will vary with relation to several factors, including number of available properties and void periods.
- 6.10 The costs associated with procuring this contract are estimated to be between £10,000 and £20,000.

## **7. Stakeholder/Community Impact**

---

- 7.1 Customer feedback in the form of questionnaires is carried out for the current services every six months. This customer feedback has been used to inform the development of the future service. On-going Service user feedback will be sought to help with monitoring the PSL contract and assist with developing standards
- 7.2 Feedback from internal staff has resulted in the new service being available to more homeless households as it will now be offered to people regardless of whether they have a support need or not. The model has also been developed to open it up to people who may not have been able to afford this in the past due to welfare reform.
- 7.3 Further insights will be taken from the session with interested parties and the specification was updated following this.
- 7.4 There are no impacts on carbon, adaption to climate change and sustainable development arising directly from this report.

- 7.5 The Sustainable Procurement Policy was considered and applied through the request of community benefits. Link Group Ltd will be required to deliver community benefits in line with the value of work awarded by the Council; benefits to be delivered will be agreed at the contract commencement and monitored throughout the life of the contract by the contract manager.
- 7.6 The contract recommended for award is compliant with procurement regulations and the Contract Standing Orders. The risk of legal challenge relating to contractual arrangements for the provisions of this service is thereby reduced.
- 7.7 Fair Work response confirms that Link Group Ltd is an accredited Living Wage Employer.
- 7.8 The Community benefits that will be delivered under the contract include, for each year of the contract, a Modern Apprenticeship in Business Administration and a six-month work placement; mentoring placements, Link Giving Trust grants, outreach and education and school work placements.

## **8. Background reading/external references**

---

- 8.1 None.

## **9. Appendices**

---

- 9.1 Appendix 1 – Summary of Tendering and Tender Evaluation Process

## **Appendix 1 – Summary of Tendering and Tender Evaluation Processes**

<b>Contract</b>	<b>CT2628 Private Sector Leasing</b>	
Contract Period	1 April 2020 – 31 March 2025 with the option to option to extend for up to a further five years	
Estimated Total Contract Value (including extensions)	£173.0m - lease costs £ 52.9m - management fees £225.9m – total costs over 10 years	
Procurement Route Chosen	Open Procedure	
Tenders Returned	2	
Price / Quality Split	<b>Quality 80</b>	<b>Price 20</b>
	<b>Criteria</b>	<b>Weighting (%)</b>
Quality Evaluation Criterion and Weightings	Procurement of Properties	25%
	Delivering the Service	20%
	Property Standards	20%
	Capacity to deliver the Contract	15%
	Quality Assurance and Performance Monitoring	5%
	Service Delivery Team	5%
	Community Benefits	5%
	Fair Working Practices	5%
Evaluation Team	Officers from Safer and Stronger Communities	