

Part 1: Open to the public

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REPORT OF

The Strategic Director Place  
TO  
Procurement Board  
ON  
7<sup>th</sup> April 2021

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TITLE: Approval to Award the Contract for Property Management Services at 100 Embankment and 2 New Bailey Square

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RECOMMENDATION:

That Procurement Board approves the award of the Contract for Property Management services at 100 Embankment and 2 New Bailey Square as detailed in the table below:

1. Approve the appointment of Knight Frank LLP to provide property management services for occupiers of the above named properties on behalf of the City Council
  2. Authorise the Shared Legal Service to complete any necessary legal documents to give effect to this decision.
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Detail required	Answers
<b>Title/Description of Contracted Service/Supply/Project</b>	100 Embankment and 2 New Bailey Square
<b>Name of Successful Contractor</b>	Knight Frank LLP
<b>Supplier Registration Number</b> <i>(to be supplied by Corporate Procurement)</i>	
<b>Type of organisation</b> <i>(to be supplied by Corporate Procurement)</i>	Limited Liability Partnership
<b>Status of Organisation</b> <i>(to be supplied by Corporate Procurement)</i>	Non-SME
<b>Contract Value</b>	£319,340.00
<b>Other Costs</b>	£0
<b>Contract Duration</b>	36 months
<b>Contract Start Date</b>	03/05/2021

<b>Contract End Date</b>	03/05/2024				
<b>Optional Extension Period 1</b>	24 months				
<b>Optional Extension Period 2</b>	N/A				
<b>Who will approve each Extension Period?</b>	Strategic Director (extension < £150k)				
<b>Contact Officer (Name &amp; number)</b>	James Kington 07855 146 516				
<b>Lead Service Group</b>	Place				
<b>How the contract was procured? (to be supplied by procurement)</b>	Mini Competition				
<b>Framework Details (where applicable) (procurement body, framework reference &amp; title, start/ end date)</b>	OJEU Tender				
<b>Funding Source</b>	Building Occupiers via Service Charge				
<b>Ethical Contractor</b>	<table border="1"> <tr> <td>Mayor's Employment Charter Committed to sign up to charter</td> <td><input type="checkbox"/></td> </tr> <tr> <td>Accredited Living Wage Employer</td> <td><input type="checkbox"/></td> </tr> </table>	Mayor's Employment Charter Committed to sign up to charter	<input type="checkbox"/>	Accredited Living Wage Employer	<input type="checkbox"/>
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**EXECUTIVE SUMMARY:**

The Council has committed to take a 25 years lease of 2 New Bailey Square, Salford which will provide 10 floors of grade A office space. It has also forward funded the construction of 100 Embankment, Salford which will provide ground and 8 upper floors of grade A office space. The buildings are located close to Manchester City Centre and are considered to form part of the wider city centre office market. Seeking to attract blue chip occupiers, the buildings are in competition with similar properties in e.g. Spinningfields and the “prime core” of Manchester city centre. The overall presentation of this type of building and the level of services provided is a critical factor in both attracting tenants and maintaining an outstanding level of service. Experience of managing this type of property is not present in the City Council.

Following approval by Procurement Board to go to market to identify a managing agent, tenders were received from 14 companies which stated they had the capacity and proven experience of managing multi-occupied, grade A office space. The bids from all tenders were scored and ranked and the purpose of this report is to seek approval to appoint the company which achieved the highest score to manage both properties.

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## BACKGROUND DOCUMENTS:

2 New Bailey Square Report to Procurement Board 8<sup>th</sup> January 2020

100 Embankment Report to Procurement Board 4<sup>th</sup> March 2020

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## KEY DECISION:

Yes

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## DETAILS:

### 1. Background

- 1.1 During 2017, the City Mayor approved the Council taking a 25 years wrapper lease over 2 New Bailey Square. This building was completed in November 2020 and is 188,000sq ft spread over ground and ten upper floors plus a rooftop terrace available for use by the building's tenants. Since the Council signed the agreement for lease in 2017, terms were agreed with Eversheds Sutherland and BLM, two firms of solicitors to occupy 6½ of the 10 office floors. A lease has also recently been completed to Sainsburys supermarket for part of the ground floor.
- 1.2 At the same time as the approval for 2 New Bailey Square was given, the Council agreed to forward fund the construction of 100 Embankment. This is a 166,500sq ft building on ground and eight upper floors. It is the second and final phase of the Embankment development which occupies the site of the former Exchange Station. The building was completed in May 2020 during the early stages of the pandemic. During the early part of 2020, the Council was aware of firm interest from a multinational company in purchasing the building which pre-dated the lockdown. An exclusivity agreement with the prospective purchaser was signed, and whilst they expended considerable time and money in undertaking due diligence on the property, their interest ultimately waned. As a consequence, and with the wider slowdown in the office market caused by the pandemic, a pause was put on the decision to award property management contract, as it was not known at that stage whether the Council would require the service.

- 1.3 The nature of Grade A office space requires specialist managing agent services, this is crucial to achieve the required letting of the space as well as managing the reputational and financial risks involved in running this type of property. Experience of managing similar properties is not available in-house therefore it was recommended that the Council's requirement for these services was put out to market.
- 1.4 The other peculiarity with both these contracts is that the fee payable to the managing agent for the provision of all services is recoverable from the tenants under the building service charge. With tenants already committed to 6½ floors in 2 New Bailey Square, 65% of the contract costs are already covered for that buildings share of the costs. If the buildings proceed to be fully let, there will be no financial impact on the Council from the award of these contracts.
- 1.5 The appointed agent would be responsible for the full remit of property services at the buildings on behalf of the council. The agents would manage the full service charge budgets for each building which currently equates to £921,000 per annum for 2 New Bailey and £297,545 per annum for 100 Embankment this includes This includes rent collection, health and safety, events, security, utilities and cleaning

## **2. The Procurement Process**

- 2.1 The procurement route selected for property management contracts was an open tender posted on The Chest.
- 2.2 The project went to tender on the 21<sup>st</sup> May 2020 with tenders returned on 22<sup>nd</sup> June 2020.
- 2.3 Fourteen companies submitted tenders and these were largely of a high quality from companies with experience in the market.
- 2.4 The tender evaluations were undertaken by staff in the Property Services team who have experience in property management and were involved in the preparation of the tender documents.

- 2.5 The tenderers were asked to confirm that they were able to provide a schedule of services to both the Council and its tenants in the two buildings and list examples of comparable properties on which they have or are working. These submissions were scored independently. The intention, pre-pandemic, had been to invite the top five highest scoring tenderers to make in-person presentations to answer a further series of questions. As the in-person presentations could not take place, written submissions from the top five were reviewed and then scored instead. Due to the nature and status of the buildings, the initial tender submissions had a weighting of 60%, presentation/written responses, quality questions 20% and price 20%.
- 2.6 Based upon the scoring criteria, Knight Frank LLP received the highest overall score based on both its ability to provide the core services and its responses to the quality questions. Whilst not submitting the lowest cost tender, the bid was within the lowest 25% of tenders received. A summary table is shown of the overall scores and rankings is set out below, Knight Frank LLP are bidder 8;

## 2 New Bailey Square

Summary of Moderation Scoring					
Bidder	Quality Score	Interview Score	Price Score	Total Score	Rank
	60%	20%	20.00%	100%	
1	40.00%	15.00%	20%	75%	2
2	38.00%		13%	50.98%	6
3	36.00%		13%	49.36%	9
4	34.00%		17%	50.72%	7
5	42.00%	14.00%	13%	69.37%	4
6	36.00%		12%	48.10%	12
7	30.00%		19%	49.10%	10
8	42.00%	16.00%	19%	76.84%	1
9	40.00%	14.00%	19%	72.92%	3
10	14.00%		9%	22.52%	14
11	34.00%		15%	48.75%	11
12	40.00%	7.00%	13%	59.90%	5
13	32.00%		14%	46.47%	13
14	36.00%		13%	49.46%	8

## 100 Embankment

Summary of Moderation Scoring					
Bidder	Quality Score	Interview Score	Price Score	Total Score	Rank
	60%	20%	20.00%	100%	
1	40.00%	15.00%	21%	76%	2
2	38.00%		14%	51.78%	7
3	36.00%		13%	48.59%	12
4	34.00%		19%	53.35%	6
5	42.00%	14.00%	14%	70.19%	4
6	36.00%		14%	50.03%	10
7	30.00%		20%	50.28%	9
8	42.00%	16.00%	20%	78.00%	1
9	40.00%	14.00%	20%	74.08%	3
10	14.00%		9%	23.04%	14
11	34.00%		15%	49.21%	11
12	40.00%	7.00%	13%	59.67%	5
13	32.00%		15%	47.36%	13
14	36.00%		14%	50.29%	8

n.b. the highest scoring tenderers based on the initial submissions are shown highlighted yellow

### 3. Social Value

- 3.1 The tender documentation asked six questions of the tenderers including one specifically related to Social Value, carrying a 10% weighting of the 60% within this section.
- 3.2 Knight Frank demonstrated a commitment to social value in its submission. Particular points of note were looking to recruit young people from Salford who are NEET into Knight Frank's wholly owned facilities management company. The aim of this programme would look to train a number of young people in all aspects of facilities management, providing them with on the job experience and a potential route into employment.
- 3.3 Knight Frank also ask all their subcontractors which provide services to their buildings to price based on paying staff the real living wage. The company estimates that following the award of the two property management contracts, it will allow an increase in the value of subcontractor awards to

local suppliers by a combined sum of c.£570,000 per annum. Where possible, they have made a commitment to utilise local Salford suppliers for the two Salford buildings and will endeavour to use local supplier in general across all the buildings they have under management.

#### **4. Risk**

4.1 The financial risk to the Council is mitigated by the fee for the property management services being recoverable from the occupiers of the two buildings as part of the building service charge. Over 65% of the costs of the management fee for 2 New Bailey Square are already covered as a result of the lettings which have taken place in that building to date. As yet, no occupiers are confirmed for 100 Embankment so all the running costs are payable by the Council. However, as the building does not have tenants, the full suite of services is not being provided so the running costs will be reduced until tenants take occupation.

4.2 The level of running costs for the building will be kept under review with the managing agent. This is both to ensure unnecessary expenditure is minimized as far as possible but also to ensure that the service charge level remains competitive with other similar buildings. The overall costs of occupation are high on the list of criteria considered by potential building occupiers so the day to day management has a direct effect on the attractiveness of the building.

#### **5. Funding**

5.1 The business case supporting the Council's involvement in both these buildings was approved by the City Mayor in May 2017. Whilst the means of holding the buildings differ, 2 New Bailey Square is held on a lease and 100 Embankment is owned by the Council, the profile of occupiers being sought and the services provided to those occupiers are similar for both. The appointment of an external managing agent has also been made on the other grade A office property the Council control at One New Bailey, a building which is fully occupied so that no costs of the managing agent fall due from the Council.

5.2 As mentioned above, funding for the costs of the appointment are borne by occupiers of the buildings with the Council only responsible for the proportion of the costs attributable to vacant areas. 2 New Bailey Square is over 65% occupied whereas currently, 100 Embankment is wholly unoccupied. As further lettings are achieved at the buildings there will be a proportional reduction in the landlords running costs.

5.3 The management fee to appoint Knight Frank is £52,000 per annum year 1, £53,000 per annum year 2 and £52,000 per annum year 3. The fee for each building is the same. The total year 1 fee is therefore £104,000.

## **6. Conclusion**

- 6.1 It is recommended that Procurement Board gives their approval to;
1. Approve the appointment of Knight Frank LLP to provide property management services for occupiers of 100 Embankment and 2 New Bailey Square, Salford.
  2. Authorise the Shared Legal Service to complete any necessary legal documents to give effect to this decision.

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### **KEY COUNCIL POLICIES:**

Salford 2025, a Modern Global City  
Creating prosperity in Salford

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### **EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS:**

There are no equality impact assessment implications arising from this report.

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### **ASSESSMENT OF RISK: Low**

The actual costs of appointment are low when set against the level of running costs of the buildings and the Council's commitment to them. The potential exists that up to 100% of the costs of the appointments will be borne by the building occupiers resulting in no financial impact to the Council

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#### SOURCE OF FUNDING:

The appointments will be funded initially through the building service charges with the Council, as landlord, paying a proportion based on the vacant areas within each building.

As part of the original 2017 approval for the Council to be involved with both buildings, model cashflow projections were prepared which included annual revenue sums for the running costs of both buildings. These were based on cautious, realistic and optimistic scenarios. Both buildings are currently either in line with or bettering the realistic forecast scenarios.

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#### LEGAL IMPLICATIONS: Supplied by: Tony Hatton, Principal Solicitor

When commissioning contracts for the procurement of goods, services or the execution of works, the Council must comply with the provisions of the Public Contracts Regulations 2015 as well as its own Contractual Standing Orders (CSO's), Financial Regulations and the duties of Best and Social Value. In addition, the PCR require that contracting authorities treat candidates equally and in a non-discriminatory way and act in a transparent manner, failing which the award of a contract may be subject to legal challenge.

The procurement procedure undertaken in this matter including publication on the Chest portal appears robust and compliant with the requirements of CSO's and PCR. The appointment of the provider for the Property Management Services at 100 Embankment and 2 New Bailey Square follows an open tender process which is outlined within the body of the report, with bidders being evaluated on the most economically advantageous tender, resulting in the proposed award of the contract to Knight Frank LLP.

Having undertaken the open tender exercise process set out in the report, the Council may take comfort that value for money has been obtained and periodically tested, with open competition maintained.

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#### FINANCIAL IMPLICATIONS: Submitted by: Chris Mee Strategic Finance Manager Ext 0434

The appointments will be funded initially through the building service charges with the Council, as landlord, paying a proportion based on the vacant areas within each building.

Provision for these costs was built into Business Case projected cashflows at the time the schemes were approved by members, including provision for potential council liability on vacant areas, which will be met from a combination of rental income generated and resources set aside within the New Bailey reserve.

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PROCUREMENT IMPLICATIONS: Supplied by: Heather Stanton, Category Manager, ext 4241

This contract was advertised as an open tender on the Chest ensuring an open and transparent procurement in accordance with SCC Contractual Standing Orders under the Council's Constitution governing contract procurement.

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HR IMPLICATIONS: Supplied by:

There are no HR implications arising from this report.

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CLIMATE CHANGE IMPLICATIONS:

There are no climate change implications arising from this report

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OTHER DIRECTORATES CONSULTED:

Finance

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CONTACT OFFICER:

James Kington 07855 146 516

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WARD(S) TO WHICH REPORT RELATE(S):

Specify the ward(s) affected, if all wards, state this fact.

Ordsall

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