

**Decision Maker:** ER&C PDS

**Date:** Wednesday 20 November 2019

**Decision Type:** Non Urgent

**Title:** TFM Contract Monitoring Report

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**Chief Officer:** Sara Bowery, Director of Housing, Regeneration and Planning

**Ward:** All Wards

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1. Reason for report

This report is intended to provide the ER&C PDS with a review of the Facilities Management offering by Amey Plc in respect of performance from January to September 2019 together with a detailed review of the approach Cushman and Wakefield have applied in relation to their targeted £1m savings from the TFM Contract.

2. **RECOMMENDATION(S)**

- 2.1 That the ER&C PDS is recommended to note the update provided by Amey Plc in respect of performance from January to September 2019.
- 2.2 That the ER&C PDS is recommended to note the work undertaken by Cushman and Wakefield to date in respect of delivering the £1m of additional savings to the Council as a benefit of utilising Cushman and Wakefield's services.

## Impact on Vulnerable Adults and Children

1. Summary of Impact: It is not considered that there will be any impact on Vulnerable Adults and Children other than that a number of premises where services are provided to this group are included within the Council's property portfolio.

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## Corporate Policy 1. Policy Status: Existing Policy:

2. BBB Priority: Excellent Council

## Financial

1. Cost of proposal: N/A
2. Ongoing costs: N/A
3. Budget head/performance centre: N/A
4. Total current budget for this head: N/A
5. Source of funding: N/A

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## Personnel

1. Number of staff (current and additional):N/A
2. If from existing staff resources, number of staff hours: N/A

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## Legal

1. N/A
2. Call-in: Non Applicable:

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## Procurement

1. Summary of Procurement Implications: N/A

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## Customer Impact

1. None

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## Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A

### 3. COMMENTARY

3.1 This report covers two elements of the TFM Contract;

Amey Performance January – September 2019 and Cushman and Wakefield additional Growth & Cost Savings Performance to date

3.2 Members should note that this report does not cover the future strategic direction of the TFM Contract. The TFM contract commenced on 1 October 2016 and expires on 1 October 2021. There is an option to extend the contract for a further three years. This could be achieved via a single extension or could be broken down into 1+1+1 years (although the latter option is not advised by Legal and would not be cost effective for any parties to the contract).

3.3 Benchmarking is under way and contractually has to be undertaken in 42nd month of the contract (April 2020). Amey has to report on the outcome of the benchmarking exercise in the form of a lessons learned report. Discussions regarding value for money and pricing schedules will be informed by the contents of their report. The Client Team has agreed Amey's Benchmarking Plan, which outlines how it will benchmark the services. This will then be reviewed and referenced by market views so that Officers can provide Members with recommendations as to the future of the contract.

3.4 This work is due to be completed by Amey in early January 2020. Following analysis of this exercise, Officers will then report to the Executive with a series of recommendations as to the future strategic direction of this contract.

#### 3.5 **Amey Performance January – September 2019**

##### **Introduction**

3.6 Attached at Appendix 1 is a report from Amey detailing their view as to performance for the period January – September 2019.

3.7 During this period the Client Property Team have held numerous meetings with Amey and together with appearances at this committee the Amey Account Manager has been repeatedly reminded of the importance of ensuring that the Council's facilities are regularly inspected and that faults are pre-empted. The outcome of these interventions has seen an improvement in the generic approach taken by Amey and the number of faults and repairs logged by Amey staff by month is shown below;

<b>Jan</b>	<b>Feb</b>	<b>Mar</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>
180	107	142	116	103	149	142	109	129

3.8 Amey are also interacting with other Service areas and regularly attend when requested at the Departmental Representatives Forum.

3.9 During the reporting period Amey undertook 3,475 Reactive tasks and undertook 3,636 Planned tasks. A breakdown of these via category and response time is detailed within the Amey report at Appendix 1.

3.10 During the reporting period the contractual KPI's have been achieved (with a failure in April regarding Planned Preventative Maintenance)– however since September there has been a failure in Planned Preventative Maintenance which is likely to roll into October. This was attributable to misconduct by members of Amey's staff, with prompt action being taken by Amey in accordance with HR procedures. In all cases the appropriate financial penalty has been applied.

## Cushman and Wakefield Additional Growth & Cost Savings Performance to date

### Introduction

- 3.11 This report explains how CW approaches its comments in respect of Income growth and cost savings focusing on what sort of growth and savings are being achieved, how these are recorded and monitored, current progress and forecast up to March 2021. In essence this work (as set out at 3.16-3.23) is the main service provided by Cushman and Wakefield.
- 3.12 Cushman and Wakefield are also responsible for undertaking the Councils Statutory Asset Valuations and Members will be aware that they are currently undertaking a revaluation of the Council's asset base following recommendations from the Councillors Auditors. This work is ongoing and being monitored by the Assistant Director – Strategic Property and the Director of Finance.

### Contractual Requirements

- 3.13 Cushman & Wakefield's sub-contract with Amey states that:

“The Sub-Contractor may make savings in the following ways:

- Adopting a more commercial approach to managing rents which will result in an increased income; and
- Adopting a more commercial approach to service charge recoveries.”

### Cushman and Wakefield Approach

- 3.14 At the outset of the income growth analysis period Cushman and Wakefield discussed with the Council the approach which would be taken to analysing the income growth which would be attributable to the work undertaken by them and agreed certain parameters to reflect the sort of growth the Council might normally have forecasted and the additional growth which is attributable to CW's new approach.
- 3.15 CW has identified several categories which they use to allocate the income growth and savings which they secure. These categories can be described as follows:
- 3.16 **Rent Reviews** – Many of the leases the Council has granted to its tenants have periodic rent reviews at intervals of every three or five years. The leases contain terms which link the rent increases to market conditions and both parties negotiate to reach an agreement on the new rent. If agreement is not possible then there is usually provision in the leases to appoint an independent expert to determine what the rent should be. CW undertakes these negotiations on behalf of the Council. Some leases will have rent increases which are index linked and these may occur more regularly, sometimes annually.
- 3.17 **Lease Renewals** – Commercial leases fall broadly into two categories when it comes to how to handle negotiations. Some tenants will have rights to have their leases renewed through negotiation. Others will have been granted leases which specifically exclude such rights and will have no automatic right to renewal. In both cases negotiations are required in a similar fashion to rent reviews and again a set of parameters was agreed with The Council relating to how to analyse the income growth achieved.
- 3.18 **New Lettings** – This relates to property which has either been vacant on a long-term basis – such as at Market Square or properties at which tenants have not renewed their leases, have vacated resulting in the need to re-let the property. In these cases, market conditions and letting assumptions at the commencement of marketing are considered when analysing the

income growth achieved and amounts attributable to the success CW has in exceeding market expectations.

- 3.19 **Lease Renegotiations** – There are sometimes opportunities to renegotiate favourable lease terms for the Council before leases expire and improve income return brought about from having developed good working relationships with the Council’s tenants and then being able to work with them to reach a result which meets both parties’ objectives.
- 3.20 **Cost Recharges** - Many Council leases entitle the Council to recover not only rent but other sums such as insurance, utilities costs or service charges. CW undertakes a rolling review of the leases to check that the full and proper recovery of these sums is being achieved. Where gaps in historic recovery are identified and the amounts are corrected resulting in new higher charges being made, CW report on the increases achieved.
- 3.22 **The Glades & The Walnuts Shopping Centres** - The leasing arrangements at each shopping centre require both long leaseholders to provide an annual account to the Council of expenditure to help calculate what the Council’s contribution – as freeholder - should be. Historically these accounts were usually accepted on face value without detailed scrutiny. Since CW’s involvement, specialist service charge accountants now examine the figures provided and more robustly challenge these where necessary.
- 3.23 **Cost Refunds** - This category generally relates to those situations where the Council itself is responsible for paying sums and through the work of CW savings or refunds have been achieved. These include for example:
- Service Charges – The Council has an obligation to pay a service charge at the retail parades. CW audited the sums paid and discovered that the Council had been incorrectly overcharged resulting in a refund of previous charges and reduction of ongoing ones. Current and future payments are closely monitored by our consultants and challenged as and when necessary.
  - Business Rates – CW’s specialist Business Rates team has renegotiated the rateable value of several interests at which the Council is responsible for paying rates and because of this there have been sizeable refunds for previous payments and a reduction in the annual amount payable going forward. The decrease in the annual payments is included in the overall analysis.
  - Rents payable when the Council is a tenant itself – Similarly to the rent review situations described above, CW also deal with rent reviews when the Council is a tenant and similar criteria for the analysis of savings achieved have been discussed with the Council

### **Measuring Income Growth & Cost Savings**

- 3.24 CW follow a very rigid and transparent approach when it undertakes all the events described above. Individual surveyors are allocated specific jobs such as rent reviews and lease renewals and then must complete initial reports on the anticipated outcome which are checked and signed off by line managers. The cases are robustly reviewed by line managers as the events progress and all correspondence and meetings are carefully recorded. When the event is completed line manager and client approval is sought and these cases are regularly reviewed to help collate the figures used for the income growth/cost saving analysis. Separate files are created in which all documents are held, and these are available to the Council to check to ensure the work undertaken and sums claimed can be validated.
- 3.25 All instructions to Liberata are also recorded to ensure the new sums are properly collected.

- 3.26 During the summer CW undertook an independent audit of this process and sums recorded whereby a separate management team reviewed the work done on a line by line basis and either signed off the amounts claimed or adjusted these where necessary.
- 3.27 For each quarterly period a schedule is used to record each individual transaction, event or saving with details of the following:
- Address
  - Tenant (or landlord)
  - Type of event – rent review, lease renewal, renegotiation etc.
  - Date of event
  - Current rent
  - Council's budgeted growth forecast
  - New rent achieved
  - Difference between new and forecasted rents
  - Cross check to filed details and evidence
  - Cross check with Finance team
- 3.28 An overall schedule is also kept so that progress can be monitored at a high level and then linked to individual events. This is attached at Appendix 2.
- 3.29 CW understand the importance of ensuring that our figures are transparent and verifiable by the Council's Property and Finance teams and to that extent have adopted a painstaking approach to making sure on an individual line by line, case by case basis that amounts corroborate.
- 3.30 Regular reviews with the Property and Finance teams have taken place during the review period and robust discussion and challenge takes place to ensure the amounts confirmed as contributing to the overall total are in line with the agreed parameters of measurement.

### **Current Position & Forecast**

- 3.31 The Master Schedule at Appendix 2 illustrates the current position and progress which has been made
- 3.31 To end of the second quarter of 2019/2020 period total growth/savings amount to £411,000
- 3.32 Based on actual performance to date and forecast to end of 2020/2021 the current overall total is expected to be £850,000.
- 3.33 CW anticipate that during the Q4 and Q1-4 2020/21 that the current projected shortfall of £150k against the £1m target will be closed as ongoing work relating to Service Charge calculations/deductions from the Glades/Walnuts continues – these are taking longer due to complexities of the lease and analysis of accounts .
- 3.34 Members should note that no inclusion of lump sum savings and refunds e.g. historic service charge recoveries and rates refunds. For example, against the 2010 Rating List, CW achieved refunds of £184,000 due to the work they undertook for the Council during 2017/18. The target

£1m relates to year on year growth/revenue savings. The decrease in the annual payments is included in the overall analysis

3.35 Detailed spreadsheets detailing each quarter's linear approach undertaken by Cushman and Wakefield to support the cumulative figures shown at Appendix 2 are provided in the Part 2 Report supporting this Report.

#### **4. IMPACT ON VULNERABLE ADULTS AND CHILDREN**

It is not considered that there will be any impact on Vulnerable Adults and Children other than that a number of premises where services are provided to this group are included within the Council's property portfolio.

#### **5 POLICY IMPLICATIONS**

5.1 The Council's aims include being an authority which manages its assets well.

#### **6 FINANCIAL IMPLICATIONS**

6.1 The efficiencies and savings Cushman and Wakefield have achieved are detailed at Appendix 2. These continue to be monitored and reconciled against budgets.

<b>Non-Applicable Sections:</b>	Personnel Implications , Legal Implications And Procurement Implications
Background Documents: (Access via Contact Officer)	