

# Finance and Resources Committee

10.00am, Thursday, 9 June 2016

## 21st Century Homes - Procurement of a Developer for North Sighthill

Item number	7.19
Report number	
Executive/routine	Executive
Wards	Sighthill / Gorgie

### Executive Summary

---

This report details the outcome of the tender evaluation for the procurement of a developer for the North Sighthill project and seeks approval to appoint a preferred bidder to deliver the housing development in partnership with the Council.

It is anticipated that works will start on site in spring 2017. The project will deliver a total of 316 homes within four and a half years of contract award.

### Links

---

Coalition Pledges	<a href="#">P8, P9, P11,P29</a>
Council Priorities	<a href="#">CP10, CP12</a>
Single Outcome Agreement	<a href="#">SO4</a>

## 21st Century Homes - Procurement of a Developer for North Sighthill

### Recommendations

---

It is recommended that Finance and Resources Committee:

- 1.1 Approves the appointment of Keepmoat Regeneration Ltd as Preferred Bidder for the North Sighthill project.
- 1.2 Notes the total budget of £19.339m for the North Sighthill project, as detailed in the Financial Implications section of this report.
- 1.3 Notes that the £12.746m of prudential borrowing forms part of funding requirements presented within the Housing Revenue Account (HRA) five year capital programme approved by Council on 21 January 2016.
- 1.4 Authorises the Executive Director of Place, on behalf of the Council, to enter into the Development Agreement and all other ancillary documents (which will comprise the 'Contract') relative to the North Sighthill project.

### Background

---

- 2.1 Development of the North Sighthill site was included in the 21st Century Homes business case approved by Health, Social Care and Housing Committee on 3 March 2009.
- 2.2 Between November 2006 and March 2013, a total of 451 households at North Sighthill were re-housed and a community centre and library re-provisioned to create a site for a new build housing development. There has been significant public consultation leading to the development of a master plan and a housing and public realm Design Guide. Consultation included the North Sighthill Development Group, the local Community Council, ward Councillors and Edinburgh College.
- 2.3 Approval of Matters Specified in Conditions for the affordable housing element of the project was granted by Planning on 21 October 2015. Design proposals include 184 affordable housing units for the Council, a 250sqm ground floor commercial shell and approximately 132 housing units for private sale. A location plan is included at Appendix 1 and the approved site layout plan is included at Appendix 2.

- 2.4 On 21 April 2015 the Health, Social Care and Housing Committee agreed to declare part of the site surplus to the operational requirements of the Housing Revenue Account (HRA) and available for disposal as private housing.
- 2.5 On 13 May 2015, Finance and Resources Committee agreed to invite tenders for the development of Council homes and private housing. This report advises committee of the outcome of the tendering process.

## **Main report**

---

- 3.1 The North Sighthill project aims to deliver regeneration through the delivery of well designed housing, high quality public realm, a mix of housing tenures, 250sqm of commercial / retail space, support for jobs and wider community benefits.
- 3.2 As agreed by Committee on 13 May 2015, a fabric first approach will be taken to the construction of Council homes, including high levels of thermal insulation and air tightness. This will minimise the demand for heating and help tenants to keep their energy costs low.
- 3.3 The procurement approach adopted for this project was a restricted tender process. On 30 March 2015 a contract notice was published in the Official Journal of the European Union (OJEU) inviting expressions of interest from suitable developer applicants to deliver the project.
- 3.4 Interested parties responding to the OJEU notice were provided with a Pre-Qualification Questionnaire (PQQ). The Council evaluated PQQ responses and on 24 November 2015 issued an Invitation to Tender (ITT) to five bidders. One bidder subsequently withdrew interest.
- 3.5 Four tenders were received by the Council on 11 March 2016.

### **Tender Evaluation**

- 3.6 The evaluation criteria formed part of the ITT. Tenders were evaluated on the basis of both quality and financial and commercial criteria, with the overall weighting applied 40% to quality and 60% to commercial. The 40% weighting applied to the quality criteria reflects the Council's commitment to ensure a high quality in workmanship, materials, project delivery and health and safety will be delivered by the successful developer, while securing best value for money in the construction price. A summary of the tender evaluation process is included at Appendix 3.
- 3.7 Tenders were scored in isolation by Evaluation Panel members in relation to quality (including contract delivery and community benefits) and financial and commercial aspects. The panel was comprised of Legal, Procurement, Construction and Financial professional staff and consultants. Consensus meetings took place following scoring of the quality and commercial elements and a final consensus meeting for the combined scoring took place on 18 April 2016. Edinburgh Tenants Federation attended a presentation by the bidders on their design proposals for the site.

- 3.8 The evaluation of the financial and commercial submissions was undertaken on the basis of affordability, including the cost of the construction of the affordable housing and the residual land value and overage offerings, financial robustness and risk and approach to appointing a factor and life cycle cost analysis. Bidders were required to submit fixed price bids for the delivery of the Council homes and commercial unit and guaranteed capital receipts in respect of the land for the private homes. Unsuccessful bidders submitted either a higher price or a bid that was caveated and transferred financial risk to the Council.
- 3.9 As part of the comprehensive tender evaluation process a number of value-for-money tests were undertaken. The results of these tests are as follows:
- The two lowest tender costs for the delivery of the Council homes were within the Quantity Surveyor's Cost Plan estimates provided in June 2015.
  - An independent cost consultant reported that the tender prices submitted compare favourably with similar projects, when reviewed on a cost per internal square metre basis.
  - Three of the four offerings in respect of capital receipts for the land for private sale homes compared extremely favourably with an earlier land valuation completed for the site.
- 3.10 The outcome of the tender evaluation is that Keepmoat Regeneration Ltd achieved the best overall score and has been identified as the Preferred Bidder.
- 3.11 The tender from Keepmoat Regeneration Ltd was assessed as delivering the highest quality of the four bids and it also scored the highest in relation to the commercial proposal. Final tender scores are included in Appendix 4.
- 3.12 Keepmoat Regeneration Ltd is an existing regeneration company with a presence in Scotland, England and Wales. The company will deliver the Council homes, commercial unit and the private sale homes.
- 3.13 Following award of the Contract the preferred bidder will develop designs and seek statutory consents, including detailed planning consent for the private sale properties. It is anticipated that works will commence on site in the spring of 2017.
- 3.14 The programme for developing the private housing at North Sighthill is dependent on the housing market and homes will be marketed by the developer for outright sale. The company aims to sell between three and four homes per month and this is considered a reasonable target in the current market.
- 3.15 The developer may also offer shared-equity homes and the Development Agreement incorporates intervention and acceleration rights to enable the developer and Council to consider alternative models to hasten sales, if required.
- 3.16 The Council will grant the developer a licence to occupy the site for the purpose of constructing housing for private market sale. Sale of the land will be to the individual purchaser as they conclude the purchase of their home.

## Measures of success

---

- 4.1 A total of 316 tenure blind affordable and private homes to be delivered within a target date of spring 2021. All homes will be constructed to maximise energy efficiency, reducing the demand for heating and helping to keep energy costs low for occupants.
- 4.2 A total of 184 Council homes for rent (96 social rent and 88 mid-market rent) and 250sqm commercial shell for the sum of £17,804,805, to be delivered within two and a half years from award of contract.
- 4.3 A commitment to develop 132 units of private housing for sale concurrently with the Council housing to ensure maximum regeneration benefit.
- 4.4 Homes will be of bespoke design, energy efficient, tenure blind across the development in terms of materials and appearance, address carbon impact by the inclusion of renewable energy in the form of solar Photo Voltaic (PV) panels. All homes will be accessible and 10% of Council homes will be suitable for wheelchair users. The full development will achieve Secure by Design accreditation.
- 4.5 A capital receipt of £3,712,437 to be delivered in three instalments: at contract sign up, 12 months thereafter and 24 months following contract sign up.
- 4.6 Delivery of community benefits including 7 new apprenticeships and 24 employability programme candidates (a proportion of whom will be taken forward as apprentices), business insight and career support programmes, engagement with third sector organisations in supply chain, £200,000 in grant funding and 100 hours of staff voluntary support, investment in and support of community environment, arts and network projects.
- 4.7 A commitment to community engagement and development of community enterprise.
- 4.8 High quality public realm, including amenity ground and shared open space for use by residents.
- 4.9 A 250sq m retail shell that may be suitable for community or local business uses as a single, large unit or could be sub-divided into a maximum of three smaller units.

## Financial impact

---

- 5.1 The preferred bidder has submitted a fixed price tender of £17,804,805 for the design and build of the Council housing and commercial unit and a payment of £3,712,437 for the land for private sale units. The capital receipt is forecast to be secured between 2016 and 2018.
- 5.2 The total funding requirement for the North Sighthill project is estimated at £19.339million. This figure includes the fixed contract price for the design and build of the Council homes, commercial shell unit and associated public realm and costs to the Council of managing the contract, including all professional fees.

- 5.3 Grant funding of £2.880 million has been secured by the project and, with the developer receipt of £3.712 million, will be utilised to fund the development. The preferred approach to meet the outstanding requirement is from prudential borrowing.
- 5.4 The North Sighthill project will be funded as follows:
- |                                    |                 |
|------------------------------------|-----------------|
| - Agreed Scottish Government grant | £2.880 million  |
| - Developer Receipts               | £3.712 million  |
| - HRA Prudential Borrowing         | £12.746 million |
| - Total required funding           | £19.339 million |
- 5.5 In the period to March 2016 £0.439 million costs were incurred on the North Sighthill project. The remaining £18.900 million will be incurred between April 2016 and the end of 2019.
- 5.6 The report outlines total capital expenditure plans net of third party funding of £12.746m. If this expenditure were to be funded fully by borrowing, the overall loan charges associated with this expenditure over a 30 year period would be a principal amount of £12.746m and interest of £12.874m, resulting in a total cost of £25.62m based on a loans fund interest rate of 5.1%. The annual loan charges would be £0.854m.
- 5.7 It should be noted that the Council's Capital Investment Programme is funded through a combination of General Capital Grant from the Scottish Government, developers and third party contributions, capital receipts and borrowing. The borrowing required is carried out in line with the Council's approved Treasury Management Strategy and is provided for on an overall programme basis rather than for individual capital projects. Following instruction from Members, notional loan charge estimates have been provided above, which it should be noted are based on the assumption of borrowing in full for this capital project.
- 5.8 As the capital expenditure outlined in this report forms part of the approved HRA capital investment programme, provision for funding it will be met from the revenue loan charges budget earmarked to meet overall capital investment programme borrowing costs.
- 5.9 It is anticipated that from 2020/21 the project will begin making a return to the HRA. It is anticipated to deliver a return of around £11.9 million over a 30 year period (net of the borrowing cost).
- 5.10 A fixed price has been secured for the delivery of the Council homes and commercial shell unit. This significantly mitigates the financial risk to the Council. Active contract management will be required to ensure that any additional costs arising during the construction period are minimised and handled appropriately through the change control mechanism set within the Development Agreement.
- 5.11 A suitably qualified and experienced Senior Construction Project Manager will manage the contract on behalf of the Council. The construction works will be monitored by an experienced Clerk of Works.

- 5.12 The costs associated with procuring this contract are estimated at up to £35,000.

## **Risk, policy, compliance and governance impact**

---

- 6.1 The tender process has been undertaken in compliance with the Public Contracts (Scotland) Regulations 2012.
- 6.2 The Council and its legal and commercial advisors assessed the risks to the Council of entering into a Development Agreement with Keepmoat Regeneration Ltd. The company is financially sound and will provide a parent company guarantee.
- 6.3 A Programme Board is in place for the 21st Century Homes programme, with representation from Housing and Regulatory Services, Legal, Finance, Procurement, Planning and Localities.
- 6.4 The developer's performance will be measured against Key Performance Indicators contained within the Development Agreement. Progress in delivering the project will be reported to the 21st Century Homes Programme Board.
- 6.5 The developer receipts payable in terms of the land value are guaranteed and will be paid in three tranches between 2016 and 2018.
- 6.6 Consent from Scottish ministers to dispose of HRA land under Section 12 of the Housing (Scotland) Act 1987 will be sought, in accordance with standard procedure.
- 6.7 Following appointment of the preferred bidder, procurement rules allow the Council to clarify aspects of the tender and confirm commitment, provided that this does not risk distorting competition or causing discrimination. There can be no material change to the developer proposal or to the price. It is, therefore, proposed that Committee grants delegated authority to the Executive Director, Place to award the contract.

## **Equalities impact**

---

- 7.1 The Equality and Rights Impact Assessment for this project was reviewed in April 2016 and the following positive outcomes against the three Public Sector Equality Duties will be delivered by the North Sighthill project:
- 7.2 A mix of house types will be developed at North Sighthill to meet a range of housing needs. All Council housing will be accessible and built to Housing for Varying Needs standards, with 10% of new social rented homes suitable for wheelchair users.
- 7.3 Highly insulated, energy efficient homes with low heat demand will reduce cost in use for tenants and help address fuel poverty.
- 7.4 Building of new affordable housing has a positive impact on poverty and inequality targets by increasing access to housing for people with low incomes.

- 7.5 A Lettings Plan will be developed for the new housing for approval by Health, Social Care and Housing Committee. The Lettings Plan will be consistent with the Council's broader housing allocations policy which is reviewed periodically to ensure that it complies with current equality legislation.
- 7.6 Community benefits in terms of jobs, education and training will be secured through the North Sighthill contract.

## **Sustainability impact**

---

- 8.1 The impacts of this report in relation to the three elements of the Climate Change (Scotland) Act 2009 Public Bodies Duties have been considered, and the outcomes are summarised below.
- 8.2 The proposals in this report will reduce carbon emissions because a fabric first approach will be taken to maximise the energy efficiency of the building envelope and minimise the requirement for heating. In addition, a renewable energy source in the form of solar PV panels will be installed to offset the carbon emissions resulting from the new construction.
- 8.3 The proposals in this report will increase the city's resilience to climate change impacts because a brownfield site will be regenerated, reducing pressure of the city's green belt. Sustainable Urban Drainage Systems (SUDS) will be utilised to flood-proof the development; and areas of public realm green space will be created.
- 8.4 The proposals in this report will help achieve a sustainable Edinburgh because the development will help address the demand for affordable housing for rent in the city; the development will provide opportunities for job creation and training; and the development will comply with current building regulations and use materials chosen on the basis of appropriate lifespan and low maintenance requirements, minimising environmental impact

## **Consultation and engagement**

---

- 9.1 There was a high level of community engagement in the development of the master plan for the site and the Design Guide for the Council homes. These were developed in consultation with the North Sighthill Development Group (which includes representatives from the North Sighthill Residents Association, the Community Council, Napier University, Edinburgh College, Edinburgh Tenants Federation, the Sighthill medical centre, fire station and Parks).
- 9.2 The North Sighthill Development Group and the Community Council have been consulted regarding the proposals for the site prior to submission for Planning approvals. Ward councillors have also been consulted regarding the proposals for the site.
- 9.3 The local community and ward councillors will be kept informed in relation to the development of the housing proposals and the timetable for developing the site.



- 9.4 The developer has undertaken to engage fully with the local community in the assessment of detailed community benefits requirements and will appoint a community engagement specialist to lead this process.
- 9.5 There will be opportunities for new residents to be involved in the management of the new homes and the area through participation in a residents association. Local community groups and residents will also be given the opportunity to influence the design of public realm areas and the public arts projects on the site.

## Background reading/external references

---

- 10.1 [21st Century Homes - Development of Site at North Sighthill - referral report to Finance and Resources Committee, 13 May 2015](#)

### Paul Lawrence

Executive Director, Place

Contact: Colette McKenna, Senior Project Manager (Construction)

E-mail: [colette.mckenna@edinburgh.gov.uk](mailto:colette.mckenna@edinburgh.gov.uk) | Tel: 0131 529 7429

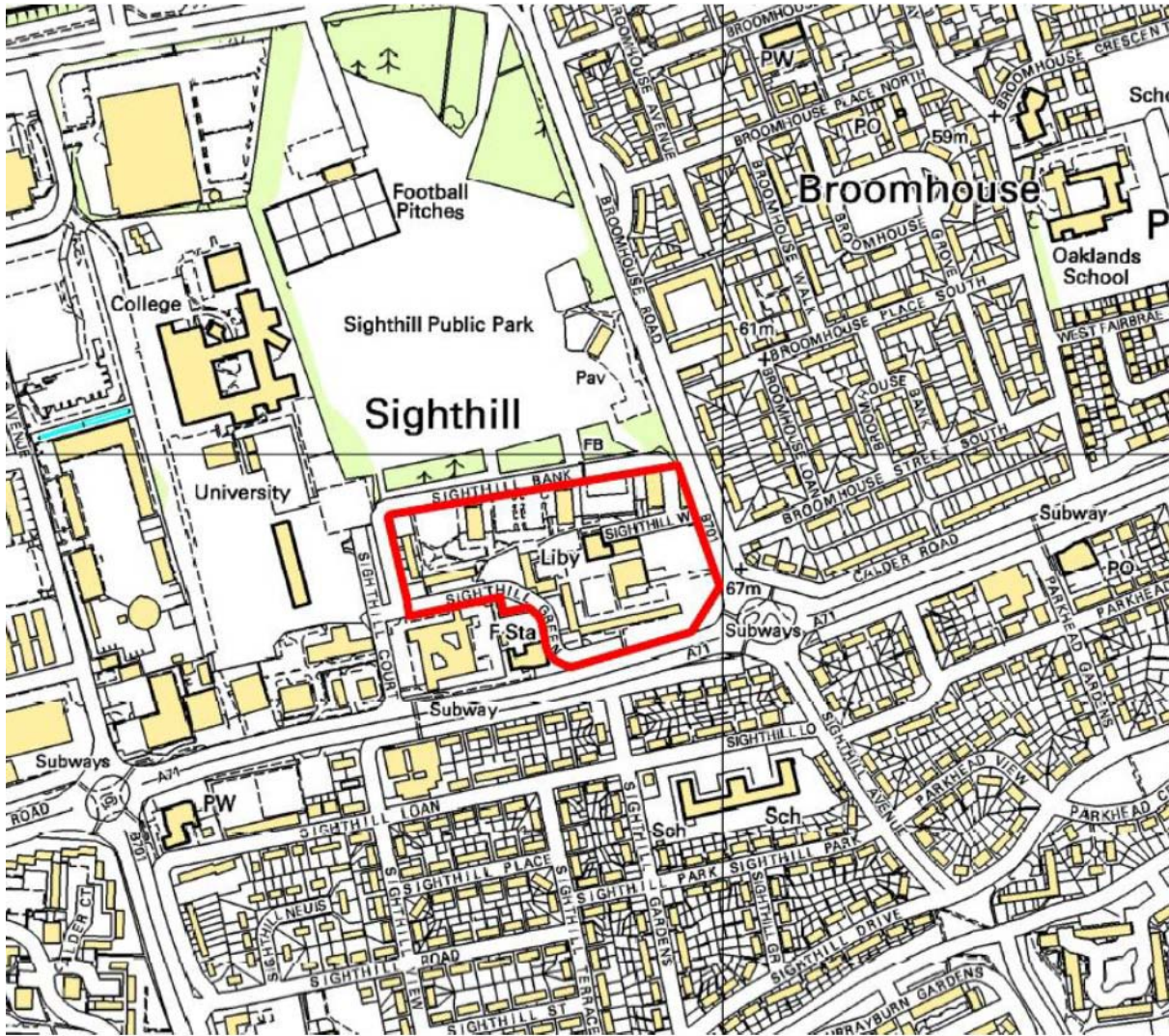
## Links

---

<b>Coalition Pledges</b>	<p>P8 - Make sure the city's people are well housed, including encouraging developers to build residential communities, starting with brownfield sites</p> <p>P9 - Work in partnership with Scottish Government to release more funds for Council homes for rent</p> <p>P11 - Encourage the development of co-operative housing arrangements</p> <p>P29 - Ensure the Council continues to take on apprentices and steps up efforts to prepare young people for work</p>
<b>Council Priorities</b>	<p>CP10 - A range of quality housing options</p> <p>CP12 - a built environment to match our ambitions</p>
<b>Single Outcome Agreement</b>	<p>SO4 - Edinburgh's communities are safer and have improved physical and social fabric</p>
<b>Appendices</b>	<p>Appendix 1 - North Sighthill Site Location Plan</p> <p>Appendix 2 - North Sighthill Site Layout Plan</p> <p>Appendix 3 - Summary of Tendering and Evaluation Processes</p> <p>Appendix 4 - North Sighthill tender scores</p>

Appendix 1:

North Sighthill Location Plan





Appendix 2:  
North Sighthill Site Layout Plan



**NORTH SIGHTHILL DEVELOPMENT**



- - - Area Within Red Line CEC
- - - Area Within Blue Line Developer
- - - Area Within Green Line Shared Cost of Roads

**PROPOSED SITE PLAN**  
10/06/2015 1:1000 @A3

### Appendix 3:

#### Summary of Tendering and Tender Evaluation Processes

Contract	Procurement of a Developer for North Sighthill
Contract period	4.5 years
Estimated contract value	£17.805 million
Standing Orders observed	yes
Portal used to advertise	yes
EU Procedure chosen	Restricted
Governing UK Regulation	Public Contracts (Scotland) regulations 2012
Invitations to tender issued	5
Tenders returned	4
Tenders fully compliant	yes
Recommended suppliers	Keepmoat Regeneration Ltd
Primary criterion	Most economically advantageous tender to have met the qualitative and technical specification of the client department

**Appendix 3(continued):**

**Evaluation Weightings – Quality (weighting 40%)**

<b>Category</b>	<b>Sub-Criteria</b>	<b>Sub-Criteria %</b>
<b>Written Submission: Delivery, Design, Quality, H&amp;S, Sustainability, Contract terms</b>	Project delivery team & structure; Roles & responsibilities; Relevant skills & experience	10%
	Project Programme; Sequencing and delivery at key milestones	10%
	Methodology; Delivery strategy; Site issues	5%
	Design quality and compliance with Design Guide ; Approach to delivering master plan; Understanding of required architectural & public realm design quality	10%
	Project specific quality control proposals; Design, construction and procedural quality control	10%
	Approach to Community Benefit; Engagement; Wider Regeneration Initiatives	5%
	Approach to sustainability; waste reduction; innovation	5%
	Project specific approach to management of health & safety	5%
	Contract and Contractual Relationships	15%
	<b>Total</b>	<b>75%</b>
<b>Bidder Presentation</b>	Design quality and approach to overall development of site	15%
	Innovation, value engineering and added value	5%
	Community Engagement	5%
	<b>Total</b>	<b>25%</b>

**Appendix 3(continued):**

**Evaluation Weightings – Financial & Commercial (weighting 60%)**

<b>Category</b>	<b>Sub-Criteria</b>	<b>Sub-Criteria %</b>
<b>Financial and Commercial</b>	Affordability – construction cost for affordable housing (Risk adjusted NPV)	60%
	Affordability - Residual Land Value Receipt (Risk adjusted NPV)	15%
	Affordability – Council element of overage payments	3%
	Financial Risk & Robustness: Risk register; payment structures; Financial cost template; Financial model; Contract sum analysis; Funding solution; Delivery solution for private house sales	17%
	Post construction Management & Maintenance: Proposals for appointing factor; Life cycle cost analysis	5%
	<b>Total</b>	<b>100%</b>

## Appendix 4:

### North Sighthill Final Tender Scores

Criteria	Keepmoat	Bidder 2	Bidder 3	Bidder 4
Quality (40%)	33.4	26.8	32.4	29.2
Commercial & Financial (60%)	53.16	52.32	43.26	37.32
<b>Total weighted score (100%)</b>	<b>86.56</b>	<b>79.12</b>	<b>75.66</b>	<b>66.52</b>

Submitted costs for the construction of the Council housing ranged from £17,385,471 (lowest) to £21,714,615 (highest).

Residual land values offered for the private sale land ranged from £3,712,437 (highest) to £1,375,251 (lowest). To ensure a fair comparison, bids were evaluated on the basis of Net Present Value, to take account of the timings of payments and receipts.