

Finance and Resources Committee

10.00am, Tuesday, 5 September 2017

Craigmillar Regeneration – Award of Contracts

Item number	7.20
Report number	
Executive/routine	Executive
Wards	17 – Portobello/Craigmillar

Executive Summary

This report advises committee of the next stage in the Council led regeneration of Craigmillar and seeks approval to award two contracts to CCG (Scotland) Ltd (CCG) with a combined estimated contract value of £34,531,895. The Housing Revenue Account (HRA) investment will deliver 269 quality new homes for people on low to moderate incomes, a range of community benefits; including 14 apprenticeships, work placements and engagement with schools and colleges. It will create opportunities for new residents to be involved in the design and management of community gardens and management of the homes.

The new homes will be built on two Council owned sites at Greendykes (plot G) and at Craigmillar town centre (plots 12-15) and form part of the approved masterplans and delivery plans for the areas. The development at Greendykes G has full Planning Consent and is expected to start on site in late 2017, subject to contract award. Development of the Craigmillar town centre is expected to commence in 2018, and statutory consents being in place.

Craigmillar Regeneration – Award of Contracts

1. Recommendations

- 1.1 It is recommended that the Finance and Resources Committee:
 - 1.1.1 Agrees a project budget of £26,403,558 for the development of 194 homes and associated works at Craigmillar town centre and designates the Executive Director of Place, or nominated delegate, to award the contract to CCG under the Scottish Procurement Alliance (SPA) framework, providing the contract value does not exceed £25,000,000;
 - 1.1.2 Agrees a project budget of £10,739,151 for the development of 75 homes and associated works at Greendykes G and designates the Executive Director of Place, or nominated delegate, to enter into the building contract and other ancillary documents with CCG to the value of £9,531,895;
 - 1.1.3 Note that both projects form part of funding requirements presented within the [Housing Revenue Account \(HRA\) five year capital programme](#) approved by Council on 21 January 2016; and
 - 1.1.4 Note the Council will seek authority to initiate the compulsory purchase of a share of a small area of land within the Craigmillar town site if agreement cannot be reached with the owner.

2. Background

- 2.1 The Council and its housing association partners have delivered more than 700 homes in Craigmillar with plans in place for around 600 more homes. The £89,000,000 already invested in new homes has transformed the area, creating jobs and supporting the local economy.
- 2.2 On 21 January 2016, the Council approved plans to expand the Council's 21st Century Homes housebuilding programme to 8,000 new homes over the next ten years; as part of the HRA budget strategy for 2016/17.
- 2.3 In order to deliver the HRA budget strategy, the Council engaged with Parc (Craigmillar) Ltd (PARC) to identify sites in Craigmillar that could be developed for affordable housing. Opportunities were identified to accelerate housing development at Greendykes G and Craigmillar town centre through HRA investment ([Appendices 1- 3 location plans](#)). Both sites benefitted from having

Planning Permission in Principle and feasibility studies demonstrated that housing development would be financially viable through the HRA.

- 2.4 Full Planning Permission was secured for development of 75 homes at Greendykes (56 for mid market rent and 19 for social rent) on [7 December 2016](#). An application for full Planning Permission for 194 homes (55 for social rent, 53 mid market rent and 86 for market housing) at Craigmillar town centre was submitted on 7 July 2017. This report sets out the Council's approach to procuring house builders and seeks approval to award two contracts.

3. Main report

- 3.1 The Council is committed to delivering new energy efficient homes that meet or exceed building standards within well designed and managed places. The procurement strategy for new homes seeks to support the Council to secure these outcomes and deliver best value for the HRA.
- 3.2 A range of options are available to the Council for procuring house builders which include appointment via pre-procured national frameworks; such as SCAPE and Scottish Procurement Alliance (SPA), as well as issue of invitations to tender through the Public Contracts Scotland Portal. Following consideration of available options, the Council's 21st Century Homes Programme Board agreed to initiate a tender exercise for the Greendykes G project by placing a contract notice on the Public Contracts Scotland Portal. The outcome of the tendering process is set out in sections 3.9 to 3.14 in this report with a summary of key information provided in [Appendix 4](#).

Craigmillar Town Centre (plots 12-15)

- 3.3 The site forms part of an approved masterplan that includes provision for new homes, shops, restaurant, play area and public realm with land identified to the west end of the masterplan site for a new school as shown on the plan in [Appendix 3](#).
- 3.4 CCG is currently constructing new homes for Dunedin Canmore Housing Association at plots 19 and 20 immediately adjacent to the site. This provides an opportunity to create efficiencies of scale and accelerate the development of the Council owned land through appointment of CCG via the SPA Framework. The SPA Framework is set up specifically for use in Scotland by organisations that deliver social rented housing. There are three workstreams within the SPA framework for off-site construction of new homes. CCG is top ranked on Workstream 2 of the SPA Framework "Supply of Panelised Building Systems" and this allows the Council to directly award the contract to CCG.
- 3.5 CCG is currently building new homes for the Council and Port of Leith Housing Association at Leith Fort. The project is currently on budget and on programme with new homes expected to be handed over to the Council in September 2017.

- 3.6 Appointment of CCG, via the SPA Framework will add momentum to the regeneration of the wider Craigmillar area. There is also a benefit in terms of the scale and continuity of community benefits that can be delivered across the two projects, for example, apprentices working on plots 19 and 20 will get the opportunity to continue their training at plots 12 to 15.
- 3.7 It is proposed that, following committee approval and full assessment of the developed tender costs, a contract would be awarded to CCG for the design and build of 194 homes on plots 12 to 15. It is proposed that the building contract will be the SBCC JTC Design and Build 2011 edition. The Council will only enter into the building contract when planning permission is in place and a fixed price is agreed with the contractor. The Council's independent cost consultant will be asked to certify that the fixed price proposed represents value for money for the Council.
- 3.8 There is a small area of land within the site (delineated in red on [appendix 3](#)) where the Council does not hold full ownership. This plot previously held two privately owned ground floor shops with four Council owned flats above. When the town centre area was demolished in 2001, the Council took ownership of one of the shop units but failed to reach agreement with the second owner, who has retained a sixth share in the land. Negotiations are underway with the owner to purchase this sixth share and it is hoped a reasonable settlement will be reached. However, if negotiated agreement cannot be reached, Committee authority will be requested to progress with Compulsory Purchase of the share of the land.

Greendykes G

- 3.9 A comprehensive tender exercise was initiated for the project by placing a contract notice on the Public Contracts Portal on 8 April 2016. Fifteen organisations noted interest in the contract with seven organisations submitting Pre- Qualification Questionnaires (PQQs) by the closing date of 18 May 2016. The aim of the PQQ evaluation was to allow the Council to identify suitably qualified and experienced bidders to be invited to tender by considering their financial stability, technical capability, capacity, experience, organisational processes and procedures evidenced by project examples.
- 3.10 As a result of the PQQ process five bidders were selected to be invited to tender. In the invitation to tender it was stated that the contract would be awarded on the basis of the Most Economically Advantageous Tender with 30% of the overall score being given to the tender response on quality and 70% given to price. The elements making up the quality evaluation scoring are set out at [Appendix 4](#).
- 3.11 Tenders were submitted by four bidders on 7 February 2017 with the quality evaluation undertaken throughout the remainder of the month. A threshold of 50% of the total available marks for quality is set to ensure that any bidder failing to provide a satisfactory response to the published evaluation criteria requested within the tender documentation will not be considered further. All bidders passed the 50% threshold and were subject to cost analysis.

- 3.12 The quality scores were then combined with the scores from the cost analysis to derive an overall score for each bidder out of a maximum of 100. The results are detailed in the table below:

Bidder	Quality Score	Price Score	Total Score
CCG (Scotland) Ltd	18.75	64.97	83.72
Bidder 2	19.20	56.38	75.58
Bidder 3	19.80	63.46	83.26
Bidder 4	20.1	52.35	72.45

- 3.13 The bidder with the highest overall score which represented the Most Economically Advantageous Tender (MEAT) is CCG, however, the initial construction works costs were outwith the Council's affordability envelope and in excess of the Council's pre-tender cost plan.
- 3.14 CCG were invited to carry out a value engineering exercise of the project to bring the tender amount closer to the cost plan. All other bidders were informed of this and allowed time to respond, no objections were received. The Council, therefore, worked with CCG to identify and agree potential cost savings to the project while committing to ensuring the quality and design of the end product would not be compromised. Through this process, £329,276 of savings were identified and the contract price recommended for award is now £9,531,895.
- 3.15 Committee is asked to note that funding is in place for both projects and to agree that contracts be awarded to CCG (Scotland) Ltd. Council development of the sites will accelerate the regeneration of Craigmillar, provide much needed affordable homes and community benefits.

4. Measures of success

- 4.1 Delivery of 269 energy efficient new homes on brownfield sites, contributing to the continued regeneration of the wider area.
- 4.2 Development of accessible homes including seven wheelchair homes to meet a range of housing needs.
- 4.3 Delivery of the homes to a design specification which meets all related requirements. All homes to be built to maximise energy efficiency, reducing the demand for heating to keep energy costs low for tenants.
- 4.4 A range of community benefits are included in the contracts including apprenticeships, engagement with local schools and colleges and a contractor contribution towards a community investment fund (£1,000 for every £1,000,000 of the contract value) and a dedicated Community Benefits expert to ensure that community benefits are collaborative, well communicated, relevant and monitored.

- 4.5 A successful natural ventilation trial at Greendykes G, providing data for improved natural ventilation in new houses and successful monitoring of pilot homes at Craigmillar Town Centre built to Gold Standard 1 and 2, providing data to help inform decisions on future standards for new homes built by City of Edinburgh Council.
- 4.6 The new community will be given the opportunity to be involved in the design and management of open spaces within both developments.

5. Financial impact

- 5.1 The total funding requirement for the two projects is estimated at £37,142,709. This includes the sums paid to the contractor, professional fees and costs (including Clerk of Works and Council's independent cost consultant). The cost for each project are shown below:

Craigmillar Town Centre

Sum to be paid to contractor (estimate)	£24,518,776
Other Fees and Costs (estimate)	£1,884,782
Total Development Cost (estimate)	£26,403,558

Greendykes G

Sum to be paid to the contractor (fixed)	£9,531,895
Other fees and costs	£ 1,351,606
Contribution (from PARC) for Shared Roads	-£144,350
Total Development Cost	£10,739,151

- 5.2 The Council's independent cost consultant, David Adamson Partnership (DAP), has reviewed the costs for both projects against previous Council and housing association tender prices. Taking account of inflationary costs, abnormal costs (such as provision of Sustainable Urban Drainage Systems) and differences in energy efficiency standards to allow an accurate comparison, DAP has concluded that the average basic construction cost in current market conditions, of £118,612 per unit for Greendykes G and £116,479.34 for Craigmillar Town Centre is competitive and represents value for money for the Council.
- 5.3 Both contracts with the contractor will be fixed price; thus minimising the financial risk to the Council. Detailed planning consent is in place for the Greendykes G project and a fixed price has been established through the tendering process. The contract will, therefore, be awarded to CCG following committee approval. The fixed price for the town centre project will be agreed once Planning Permission is in place. A contract will only be placed with CCG if the site can be delivered within a contract value of £25,000,000 and the approved budget of £26,403,558.

- 5.4 The report outlines total capital expenditure plans of £26,403,558 for Craigmillar Town Centre. 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 £26,403,558 and interest of £26,067,000, resulting in a total cost of £52,471,000 based on a loans fund interest rate of 5.05%. The annual loan charges would be £1,727,000.
- 5.5 The report outlines total capital expenditure plans of £10,739,151 for Greendykes G. 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 £10,739,151 and interest of £10,602,000 resulting in a total cost of £21,341,000 based on a loans fund interest rate of 5.05%. The annual loan charges would be £702,000.
- 5.6 Modelling has shown that the rental income from the new homes will exceed the cost of loan charges, management and maintenance costs so that both projects will make a positive contribution to the HRA over the lifetime of the 30 year business plan.
- 5.7 Grant funding of £1,007,000 for Greendykes G has been secured from Scottish Government's affordable housing supply programme to support the delivery of socially rented homes on the Greendykes site. Grant funding will also be sought to support the delivery of social rented homes at Craigmillar Town Centre.
- 5.8 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.
- 5.9 As the capital expenditure outlined in this report forms part of the approved capital investment programme, provision for funding will be met from the revenue loan charges budget earmarked to meet overall capital investment programme borrowing costs.
- 5.10 The costs associated with procuring both contracts are estimated at £20,001 - £35,000.

6. Risk, policy, compliance and governance impact

- 6.1 Fixed price contracts will be secured for both projects which mitigates the financial risk to the Council. The tender process for Greendykes G has been undertaken in compliance with the Public Contracts (Scotland) Regulations 2012. The SPA framework is OJEU compliant.

- 6.2 As part of the Council's due diligence, confirmation was sought from CCG that all newbuild homes will be designed and constructed to meet or exceed the current Scottish Building Standards. Fire safety assessments that consider both the design and suitability of materials are undertaken as part of the statutory consents process.
- 6.3 In line with 21st Century Homes development procedures a suitably qualified and experienced Construction Project Manager will manage the contracts on behalf of the Council. The construction works will be closely monitored by an experienced Clerk of Works and collateral warranties will be provided by the contractor and design team.
- 6.4 The housebuilder's performance will be measured against Key Performance Indicators contained within the contract. Progress in delivering the projects will be reported to the 21st Century Homes Programme Board which meets monthly and includes representatives from representation from Housing Services, Legal, Finance, Procurement, Planning and Localities.
- 6.5 CCG use off site construction methods and has confirmed that it has sufficient resources in place; including workforce to develop both sites within the timescales agreed with the Council.

7. Equalities impact

- 7.1 The Equality and Rights Impact Assessment for both sites was reviewed in April 2016 and the following positive outcomes against the three Public Sector Equality Duties will be delivered by the construction of new homes at Craigmillar:
 - 7.1.1 A mix of house types will be developed 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;
 - 7.1.2 Highly insulated, energy efficient homes with low heat demand will reduce running costs for tenants and help address fuel poverty; and
 - 7.1.3 Building of new affordable housing has a positive impact on poverty and inequality targets by increasing access to housing for people with low incomes.

8. Sustainability impact

- 8.1 Housing development at Craigmillar will bring brownfield sites back into use. The proposed new build homes will be built to high standards in terms of energy efficiency and sustainability and will, therefore, help to reduce fuel poverty.
- 8.2 The Greendykes G development will include a district heating scheme delivered through a Combined Heat and Power (CHP) system. This will complement the existing district heating at Greendykes C and the multi storey flats at Greendykes

and Wauchope. With a new district heating project being proposed at the Bio Quarter there is the potential to create a district heating network for South Craigmillar.

- 8.3 Homes at Craigmillar town centre will be heated by gas fired boilers and have Solar Photovoltaic (PV) on the roofs. The Solar PV panels will help achieve the required carbon reduction levels and also afford benefit to tenants via generation of electricity and reduction in bills. The Council will receive a small amount of feed-in tariff for electricity generated. The option of providing a district heating scheme was explored but due to the low heat demand required for homes and the extent of infrastructure required for the system, it was assessed as failing to provide a cost benefit to tenants. A district heating system would have added approximately £1,000,000 to the capital cost of the project.
- 8.4 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:
- 8.4.1 The proposals in this report will reduce carbon emissions as construction methods and materials will maximise the energy efficiency of the building and minimise the requirement for heating. In addition, a district heating scheme with combined heating and power will be installed to offset the carbon emissions resulting from the new construction;
- 8.4.2 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 green space will be created with the potential for a community growing area; and
- 8.4.3 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.
- 8.5 New housing developed through the Council's house building programme is designed to an improved sustainability standard (Silver Standard). The standard includes a number of energy efficient and environmentally friendly design proposals such as heat recovery, space heating, improved natural lighting and space solutions. Silver Standard exceeds the minimum requirement of the Scottish Building Regulations (Bronze Standard).
- 8.6 At Craigmillar Town Centre, some of the homes will be built to meet Gold Standard Aspects one and two of section seven of the sustainability handbook. The performance of these homes, compared to the homes built to Silver Standard, will be monitored as part of a pilot project to help inform future use of the Gold Standard.

- 8.7 At Greendykes G, a two year research project is being undertaken, in conjunction with Mackintosh Environmental Architecture Research Unit (MEARU) to investigate natural ventilation in domestic buildings. Research so far has indicated that the quality of indoor air in new airtight houses is poor. This project will investigate a natural ventilation solution which requires no human interaction against a standard vented solution.

9. Consultation and engagement

- 9.1 Community engagement has taken place in relation to the proposals for both sites. This has included drop-in style events and meetings with interested stakeholders. 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.
- 9.2 There will be opportunities for new residents to be involved in the management of new homes and to design and manage communal open space within the developments.

10. Background reading/external references

- 10.1 [Niddrie Mains Road Site, Edinburgh](#)
- 10.2 [Housing Improvement Programme delivering the budget strategy in 2016/17](#)
- 10.3 [21st century homes-progress – report to Health, Social Care & Housing Committee, 10 November 2015](#)

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11. Appendices

Appendix 1 - Plan showing Greendykes G and Craigmillar Town Centre

Appendix 2 - Greendykes North Masterplan

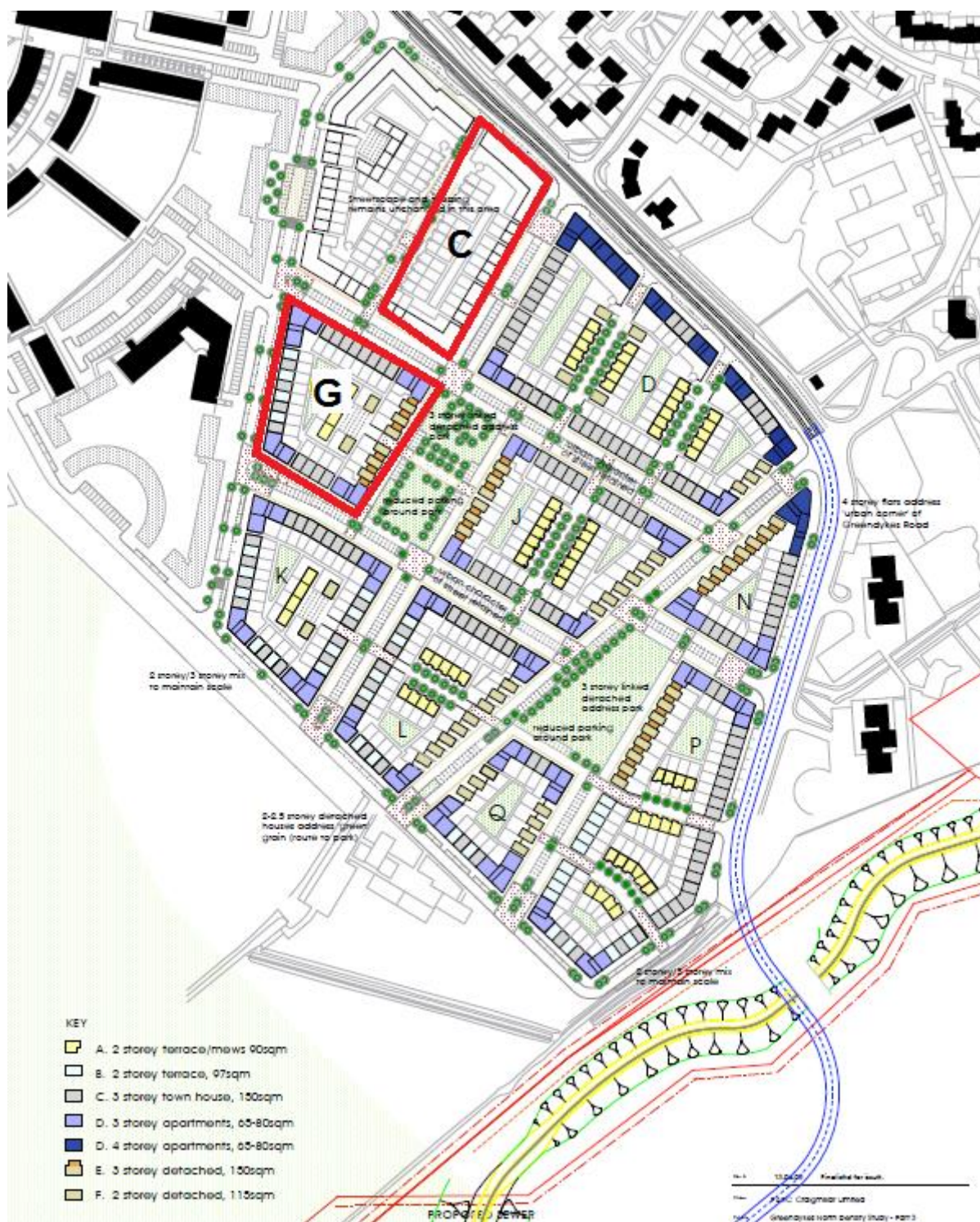
Appendix 3 - Town Centre Plan Showing Indicative Plot Locations – From Planning Permission in Principle Ref 14/03416/PPP and Location of Privately Owned Land Within Masterplan Boundary

Appendix 4 - Summary of Tendering and Tender Evaluation Processes

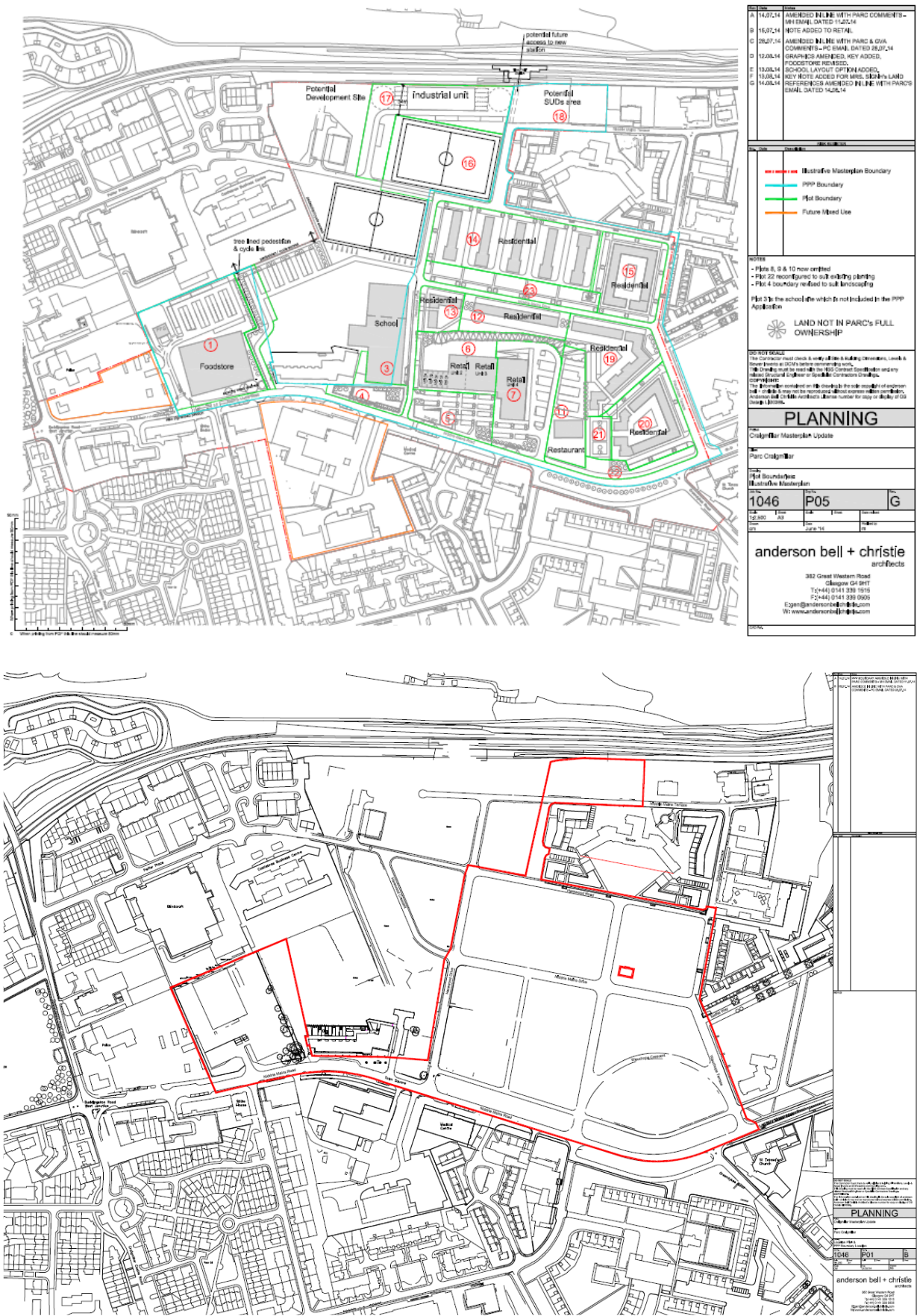
Appendix 1 - Plan showing Greendykes G and Craigmillar Town Centre



Appendix 2 - Greendykes North Masterplan



Appendix 3 - Town Centre Plan Showing Indicative Plot Locations – From Planning Permission in Principle Ref 14/03416/PPP and Location of Privately Owned Land Within Masterplan Boundary



Appendix 4 - Summary of Tendering and Tender Evaluation Processes

Contract	Principal Contractor for Housing Development at Greendykes Phase G, Craigmillar, Edinburgh
Contract period	15 months
Contract value	£9,531,895
Standing Orders observed	2.4 Requirement to advertise 5.1.b Selection of the most economically advantageous tender
Portal used to advertise	www.publiccontractsscotland.co.uk
EU Procedure chosen	Restricted
Invitations to tender issued	5
Tenders returned	4
Tenders fully compliant	4
Recommended supplier	CCG Scotland Ltd
Primary criterion	Most economically advantageous tender to have met the qualitative and technical specification of the client department
Evaluation criteria and weightings	30% Quality, 70% Price Delivery of the Contract – 15% Project Programme and Narrative – 15% Delivery of District Heating System – 20% Logistics – 15% Risk Register – 10% Quality Control – 10% Community Benefits and Corporate Responsibility – 5% Sustainability – 5% Fair Work Practices – 5%
Evaluation Team	Senior Construction Project Manager x2, Construction Project Manager x1 and Independent Cost Consultant, David Adamson Partnership (DAP)

Contract	Principal Contractor for Housing Development Craigmillar Town Centre, Edinburgh
Contract period	24 months (estimate)
Contract value	£24,489,981.13 (estimate)
Standing Orders observed	3.2, 4.1, 4.2, 5.1, 5.3, 6.1, 8.1
Portal used to advertise	N/A – Direct Award via Scottish Procurement Alliance Framework
EU Procedure chosen	Direct award using the Scottish Procurement Alliance (SPA) Framework for off-site construction, which been procured in compliance with the OJEU Regulations
Invitations to tender issued	NA
Tenders returned	NA
Tenders fully compliant	NA
Recommended supplier	CCG Scotland Ltd is the top ranked on Workstream 2: Supply of Panellised Building Systems of the Scottish Procurement Alliance (SPA) Framework
Primary criterion	Top ranked on Workstream 2: Supply of Panellised Building Systems of the Scottish Procurement Alliance (SPA) Framework for off-site construction.
Evaluation criteria and weightings	N/A – Direct Award
Evaluation Team	Senior Construction Project Manager x 1, Construction Project Manager x 1 and Independent Cost Consultant, David Adamson Partnership (DAP)