

# Finance and Resources Committee

10.00am, Thursday, 20 May 2021

## Fountainbridge development partner appointment recommendation

|                     |   |
|---------------------|---|
| Executive/routine   | Executive   |
| Wards               | Fountainbridge/Craiglockhart  |
| Council Commitments | <a href="#">1</a> , <a href="#">2</a> , <a href="#">10</a> , <a href="#">11</a> |

### 1. Recommendations

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- 1.1 It is recommended that the Finance and Resources Committee:
- 1.1.1 approve the award of a pre-development contract to Cruden Homes (East) Limited for the development at Fountainbridge, Edinburgh following a procurement process to identify the most economically advantageous tenderer, at a total cost of £1,109,937 for a period of 38 weeks; and
  - 1.1.2 note that a further report will be brought to Committee following the completion of the pre-development period seeking approval of the final business case and authority to enter into a Development Agreement for delivery of the mixed-use development.

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Executive Director of Place

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## Fountainbridge development partner appointment recommendation

### 2. Executive Summary

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- 2.1 In March 2018, the Housing and Economy Committee agreed to take forward the mixed use development on the Fountainbridge site. The masterplan for the site was informed by an extensive programme of Community engagement and originally approved in 2014. The community continue their support for the site and are represented through the Fountainbridge Sounding Board.
- 2.3 This report seeks approval for the award of a pre-development contract to Cruden Homes (East) Limited for a total cost of £1,109,937 for a 38-week period. Following successful completion of the pre-development period, a report seeking authority to proceed with the development of the site will be brought to a future Committee.

### 3. Background

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#### Project history

- 3.1 “Fountainbridge” (formerly known to as “India Quay”) here refers to 4.7 hectares of cleared brownfield land in Fountainbridge acquired by the Council in 2012. The new Boroughmuir High School has been developed on 1.2 hectares leaving 3.5 hectares of surplus land comprising plots E1–E2 and plots W1–W4 (as shown in appendix 2).
- 3.2 Planning consent was granted in June 2016 for a mixed-use redevelopment of the site (reference: [14/02814/PPP](#)). An updated masterplan (reference: [19/03097/PPP](#)) is minded to grant subject to a legal agreement being concluded.
- 3.3 On 27 March 2018, the Finance and Resources Committee (B agenda) approved the disposal of plot E1 to Vastint Hospitality BV for a residential-led development. The residual site is approximately three hectares.
- 3.4 On 22 March 2018, the Housing and Economy Committee (B agenda) resolved to take forward a mixed-tenure housing development on plots W1-W4 and take forward a workspace-led development of plot E2.
- 3.5 On [28 June 2018](#), the City of Edinburgh Council agreed an increase in the number and proportion of social housing rented homes on the site and agreed in principle the proposed approach to the delivery of a workspace-led development on plot E2.

- 3.6 On [1 November 2018](#), the Housing and Economy Committee agreed the preferred procurement route was to partner with (or appoint) a single developer (or a single consortium of developers) to work with the Council to deliver development across the whole site rather than procuring partners for individual plots.
- 3.7 On 7 March 2019, the Finance and Resources Committee (B agenda) agreed an Outline Business Case for the Fountainbridge development and agreed to the initiation of a procurement process to appoint a development partner.
- 3.8 In late 2019, the Council appointed Barhale Limited to undertake a programme of enabling works in Fountainbridge to help facilitate its future development, including the diversion of the Lochrin Sewer. These works commenced in January 2020 and following COVID-19 related delays, were completed in late-2020.

### **Development strategy**

- 3.9 The development proposals for the site (excluding plot E1 which, as set out above, has been sold) comprise of at least 436 homes (including 113 social rented homes and 64 mid-market rent and market rent homes) above 2,749 sqm (gross) of ground floor retail and professional services space along with approximately 10,333 sqm of office space above 1,603 sqm (net) of ground-floor retail space.
- 3.10 The development strategy is that the Council will bring forward the development of the site as a single package in conjunction with a development partner. The development partner will deliver the social homes and mid-market homes for a construction profit, while the office space, commercial space, and remaining residential units represent a development opportunity (with a projected value of £120-£140m) for which the partner will pay the Council a land receipt. The development partner will also be responsible for delivering an energy solution for the entire site.
- 3.11 The following elements of the development were fixed, and the Development Partner will be required to deliver them as set out by the Council:
- 3.11.1 Blocks W1 and W2 must be developed as residential accommodation;
  - 3.11.2 Blocks W3 and W4 must be developed in accordance with the Council's affordable housing design guidance;
  - 3.11.3 The proposals for plot W4 must deliver 113 homes for social rent for those in most pressing need; including homeless households. All flats would have lift access, while up to 12 homes would be fully wheelchair accessible. The proposals for plot W3 would deliver 64 homes for Mid-Market and Market rent. On completion, these homes will be transferred to Edinburgh Living (the Council's Limited Liability Partnership) for rent to people on low to moderate incomes who struggle with housing costs but are unlikely to be prioritised for social housing;
  - 3.11.4 All residential buildings must be tenure blind;
  - 3.11.5 E2 must be developed as a workspace;
  - 3.11.6 The E2 building must offer space at a range of rents and lettable spaces;

- 3.11.7 A low carbon energy solution must be put in place for the site comprising renewables-fired district heating, micro-renewables, or another solution in line with the Council's net zero carbon ambitions;
  - 3.11.8 A new substation must be developed to SP Energy Networks' specification; and
  - 3.11.9 The overall layout and massing should remain broadly consistent with the masterplan.
- 3.12 The following elements of the development were flexible, and the Development Partner will now work with the community and the Council to provide detailed responses to each. In addition to the contractual controls, the Development Partner will be required to secure planning permission and other necessary approvals:
- 3.12.1 The construction programme and methods;
  - 3.12.2 The detailed design of buildings W1 and W2;
  - 3.12.3 The tenure of the residential accommodation in buildings W1 and W2;
  - 3.12.4 The final design of buildings W3 and W4;
  - 3.12.5 The detailed design of building E2;
  - 3.12.6 The operating model and letting strategy for building E2;
  - 3.12.7 The detailed design and use class of the ground-floor space (currently commercial units);
  - 3.12.8 The detailed design of the public realm;
  - 3.12.9 The nature of the low carbon energy solution for this site; and
  - 3.13.10 The branding of the development, including building naming rights.

## **4. Main report**

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- 4.1 A Prior Information Notice (PIN) was placed in the Official Journal of the European Union (OJEU) in May 2019 to commence market research for a development partner.
- 4.2 An OJEU contract notice was published on 18 October 2019. Parties interested in becoming the development partner were invited to complete a European single procurement document (ESPD) to assess the financial capacity, business probity, experience, capability and social, environmental and fair work practices employed by the tenderers.
- 4.3 To generate further interest in the Project, the Council held a Procurement Launch Event on 30 October 2019, to give interested parties them further information on the Project and allow for potential connections with other organisations within the sector and provide a platform for consortia and collaboration.
- 4.4 On 29 November 2019, 10 ESPDs were received and following evaluation the top scoring six parties were invited to the tender stage.

- 4.5 Following delays resulting from the Covid-19 pandemic, an invitation to submit an initial tender was issued on 11 August 2020, with a deadline for returns of 20 December 2020. The tender was based on award criteria of 70% quality and 30% cost. The award criteria ratios were selected as the higher the quality of the tenderers, the more income can be maximised from the development and more innovative ideas and solutions for Place making can be achieved.
- 4.6 The Project Team wanted to encourage collaboration and strong communication with the local community groups from the outset of the procurement process. To support this, members of the Fountainbridge Sounding board from Fountainbridge Canalside Initiative (FCI) were invited to help develop the question to bidders on community engagement. They also agreed to present their vision for the site to the tenderers, to allow them to take account of this when preparing their tender submissions. Feedback on the procurement process and communication to date from FCI have been very positive. At this event, the Council also took the opportunity to explain the procurement process, award criteria and present the procurement strategy and vision.
- 4.7 On 20 December 2020, all six tenderers returned initial tender returns which were evaluated by the evaluation panel. At the completion of this evaluation, the tenderers were ranked on the basis of their quality scores.
- 4.8 The quality criteria is identified in Appendix 1 The bidders were asked to respond to each of these requirements. Of particular importance was their team, their approach to the pre-development period, their proposals for enhancement of the masterplan and how they will work with the local community. On the latter point, this question was informed by the community and assessed accordingly.
- 4.9 The cost criteria contained evaluation of costs for the pre-development period, additional services which may be required to complete the pre-development period, management costs for managing the on-site construction for the Council's affordable homes and the percentage of costs which the Development Partner would share with the Council should they exceed the pre-set profit level.
- 4.10 Following this evaluation, the top three ranked tenderers were invited to participate in a negotiation period. The aim of the negotiation was to improve the content of the bids as it was felt that there were areas of all three bids which could give additional value to the Project.
- 4.11 An invitation to submit final tenders was published to the three tenderers on 18 March 2021 and the tenderers resubmitted their proposals on 25 March 2021.

4.12 On the basis of the final tender solutions, the result of the procurement process is below:

| Tenderer                       | Cost Score   | Quality Score | Overall Tender Score | Overall Rank |
|--------------------------------|--------------|---------------|----------------------|--------------|
| <b>Cruden Homes (East) Ltd</b> | <b>24.91</b> | <b>57.75</b>  | <b>82.66</b>         | <b>1</b>     |
| <b>Tenderer 2</b>              | <b>27.64</b> | <b>53.38</b>  | <b>81.02</b>         | <b>2</b>     |
| <b>Tenderer 3</b>              | <b>21.32</b> | <b>56.53</b>  | <b>77.84</b>         | <b>3</b>     |

4.13 As identified above, the tenderer who submitted the most economically advantageous tender is Cruden Homes (East) Ltd. While led by Cruden Homes (East) Ltd, the project team consists of Buccleuch Properties, Hart Builders, 7N Architects, Etive Consulting Engineers, Atelier Ten and Hardies. The team has a wide range of experience in designing and delivering mixed use developments and large-scale regeneration projects such as Shawfair in Midlothian; the Commonwealth Games Athletes Village, Glasgow and Westfield, Edinburgh. They also have a strong record of working with local communities. As the top scoring tenderer from the evaluation, Cruden Homes (East) Ltd is therefore recommended for appointment.

## 5. Next Steps

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5.1 Subject to approval, the Council will award a pre-construction contract to Cruden Homes (East) Ltd. The pre-development period will commence on 1 July 2021 and run for approximately 38 weeks.

5.2 Over the course of the pre-development period, Cruden Homes (East) Ltd will work with the Council and the community to finalise plans for the site. This will include developing the greening plan originally developed by the community and finalising other key areas of work that the community has expressed an interest in such as the energy solution and the strategy for achieving vibrant and active ground floor units with a range of occupiers and services provided. Specific activities including the following will be carried out by the Council and Cruden Homes (East) Ltd:

5.2.1 Drafting a final business case for the Project;

5.2.2 Developing detailed designs for each of the five plots;

5.2.3 Agreeing the method and sequencing of construction;

5.2.4 Drafting and, where appropriate, submitting planning applications and other statutory consents;

5.2.5 Agreeing a funding strategy for the development;

- 5.2.6 Agreeing a low-carbon energy solution for the site;
  - 5.2.7 Agreeing the wording of a development agreement;
  - 5.2.8 Agreeing the wording of sale missives for plots E2, W1, and W2; and
  - 5.2.9 Agreeing the wording for a construction contract.
- 5.3 The following documents will be prepared in the pre-development period:
- 5.3.1 A finalised development agreement;
  - 5.3.2 Sale documents for plots E2, W1, and W2;
  - 5.3.3 A construction contract; and
  - 5.3.4 A final business case.
- 5.4 At the end of the pre-development period (should both parties wish to proceed) the Housing, Homelessness and Fair Work Committee will be asked to agree the final development strategy for the site and subsequently the Finance and Resources Committee will be asked to appoint Cruden Homes (East) Limited for the development period.

## **6. Financial impact**

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- 6.1 The Fountainbridge site was bought by the Council in 2012 for £13,850,000 in order to allow the new Boroughmuir High School to be delivered. The remaining land, not needed for the school, was earmarked as a development site and £10,000,000 of the debt associated with the purchase was allocated.
- 6.2 In 2017, an excambion of land was agreed with Vastint (the neighbouring landowner) in order to align ownership boundaries with the agreed masterplan. A net payment of £5,850,000 was received for the sale of Plot E1 as part of this transaction.
- 6.3 The tender submitted by the preferred tenderer contains a commitment to provide the Council with a minimum capital receipt of £13,200,000 should it enter into a Development Agreement at the end of the pre-development period. This receipt will more than repay the outstanding capital advances relating to the purchase of the Fountainbridge site. In addition, overage provisions will be put in place to ensure that any additional profit is shared with the Council.
- 6.4 The direct financial impact arising from this report is a cost of £1,109,937 to fund the predevelopment period. This amount will be repaid by the preferred tenderer at the point of entering into the Development Agreement and for the avoidance of doubt, this is in addition to the £13,200,000 capital receipt. If the preferred tenderer chooses not to proceed, they will be contractually required to refund this amount in any case. The only scenario where the money will not be refunded is if the Council chooses not to proceed, although the Council would own the rights to any work undertaken during this period.

- 6.5 Following the completion of the pre-development period, a further report will be brought to committee seeking approval of the final business case and the authority to enter into the Development Agreement.
- 6.6 It is recognised that there will be cash flow implications for the Council as pre-development costs will be incurred in advance of capital receipts. This will be managed within the Council's overall capital programme.
- 6.7 The delivery of affordable homes on the site is supported by both the Scottish Government's Affordable Housing Supply Programme (AHSP) with £6,670,000 allocated for new social rented homes as well as Housing Infrastructure Funding (HIF) of £1,100,000 which has supported enabling works.

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

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- 7.1 The Fountainbridge development will deliver the masterplan for the site which has enjoyed sustained strong support from the local community. The Fountainbridge Sounding Board has been regularly consulted on proposals for the site. They have had a specific focus on the public realm/greening plan and the ground floor uses of the blocks to ensure social enterprise and community uses are included in the mix to ensure the development has active frontages. All the tenderers were in agreement with these proposals.
- 7.2 The successful tenderer has committed to continuing working with the community to develop plans for the site and Council officers will also continue to support this process.
- 7.3 The successful tenderer has also committed to the following community benefits and fair work proposals as part of their tender proposal:
  - 7.3.1 Drafting a final business case for the Project;
  - 7.3.2 £100,000 community fund for projects to enhance the canal, tow path creating park spaces and commissioning of local arts projects;
  - 7.3.3 12 work experience placements for Boroughmuir High School pupils & long term unemployed (ranging from 1 week to 8 weeks);
  - 7.3.4 Five pre-apprenticeships from Boroughmuir High School with two gaining full-time apprenticeships;
  - 7.3.5 Two summer internships paid the Real Living wage for 12-week period;
  - 7.3.6 Woman in Construction campaign and meet the buyer events;
  - 7.3.7 Agreement to sign up to Council's Construction Charter;
  - 7.3.8 Real Living Wage for all employees and sub-contractors; and
  - 7.3.9 No zero-hour contracts.

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

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- 8.1 Fountainbridge – District Heating and Procurement Strategy – [report to Housing and Economy Committee on 1 November 2018](#).
- 8.2 Fountainbridge Development – Outline Business Case – report to the Finance and Resources Committee on 7 March 2019 (B agenda).

## **9. Appendices**

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- 9.1 Appendix 1 – Summary of Tendering and Tender Evaluation Process.
- 9.2 Appendix 2 – Fountainbridge site plan.

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

|  |   |                    |
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| <b>Contract</b>  | Fountainbridge Development including Pre-Development Period   |                    |
| Estimated Contract Value (including extensions)                  | £1,109,937 for the Pre-Development Period   |                    |
| Procurement Route Chosen   | Competitive Procedure with Negotiation  |                    |
| Tenders Returned   | 6 Initial Tender Returns, 3 Final Tender Returns  |                    |
| Name of Recommended Supplier(s)                                  | Cruden Homes (East) Ltd   |                    |
| Price / Quality Split  | <b>Price 30%</b>  | <b>Quality 70%</b> |
| Evaluation criteria and weightings and reasons for this approach | Pre-Development Costs   | 40%                |
|  | Additional Services   | 10%                |
|  | Development Management Fee  | 10%                |
|  | Overage   | 40%                |
|  | Project Delivery Team   | 17.5%              |
|  | Project Programme and Narrative   | 12.5%              |
|  | Approach to Pre-Development Period  | 20%                |
|  | Site Proposals  | 17.5%              |
|  | Procurement and Sub-Contractor Accreditation Process  | 5%                 |
|  | Community Engagement and Consultation   | 12.5%              |
| Community Benefits   | 5%  |                    |
| Approach to Environmental Requirements                           | 5%  |                    |
| Fair Work Practices  | 5%  |                    |
| Business Continuity  | 5%  |                    |
| Contract Documents   | Pass/Fail   |                    |
| Evaluation Team  | Senior Project Manager, Place<br>Senior Responsible Officer, Place<br>Investments Senior Manager, Resources |                    |

## Appendix 2 – Fountainbridge site plan

