

Finance and Resources Committee

10.00am, Thursday, 3 March 2022

Granton Waterfront Phase 1 – Pre-Development Services – Delegated Authority Award of Contract

Executive
Wards
Council Commitments

Executive

1. Recommendations

- 1.1 It is recommended the Finance and Resources Committee:
 - 1.1.1 Approves Delegated Authority to the Executive Director of Place, in consultation with the Convenor and Vice Convenor of the Finance and Resources Committee, to award a contract for pre-development services related to Phase 1 of the Granton Waterfront Development following the outcome of the ongoing procurement process;
 - 1.1.2 Notes the contract commencement would be on or before 1 July 2022; and
 - 1.1.3 Notes that a briefing will be provided to each Group's spokes people outlining the outcome of the procurement process following its completion.

Paul Lawrence

Executive Director of Place

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Granton Waterfront Phase 1 – Pre-Development Services – Delegated Authority Award of Contract

2. Executive Summary

- 2.1 On [5 October 2021](#), the Policy and Sustainability Committee approved the Outline Business Case (OBC) for the Granton Waterfront development. The Council is currently at the Invitation to Tender stage of the procurement process for a Development Partner for the provision of pre-development services related to Phase 1 of the development.
- 2.2 To meet the approved timeline of the OBC this report seeks Committee approval to provide Delegated Authority, in line with the Scheme of Delegation, to the Executive Director of Place in consultation with the Convenor and Vice Convenor of the Finance and Resources Committee to award a contract to the tenderer identified as the most economically advantageous. Political Group spokespeople for Finance and Resources will also be provided with a briefing on the outcome of the procurement process.
- 2.3 To meet the business case requirements the contract requires to commence by 1 July 2022 to ensure the approved delivery programme is achieved.

3. Background

- 3.1 In February 2020, the Council agreed a [Development Framework](#) setting out the vision, strategy, and high-level design principles for the regeneration of the Granton Waterfront. The Council also agreed a [Programme Delivery Plan](#) setting out the high-level route to delivery.
- 3.2 In mid-2020, the Council commenced work on an OBC for the Development which was approved by the Council's Policy and Sustainability Committee on 5 October 2021.
- 3.3 In advance of the OBC, a programme of early action projects with standalone business cases have been initiated: the delivery of around 700 net zero carbon homes, the refurbishment of the former Granton Gasworks railway station (Granton Station) and a disused former warehouse (West Shore Studios) as creative enterprise hubs, and the illumination and subsequent restoration of the Gas Holder.

- 3.4 Following approval of the OBC, the Council commenced a procurement process to appoint a Development Partner. The procurement process is ongoing, and this report seeks Delegated Authority to the Executive Director of Place, in consultation with the Convenor and Vice Convenor of the Finances and Resources Committee to award a pre-development contract to the successful tenderer following successful completion of the procurement process.

4. Main report

- 4.1 Commercial and Procurement Services, in conjunction with the Granton Waterfront Project Team, are in the final stages of the procurement process to appoint a Development Partner for the pre-development services for Phase 1 of the Granton Waterfront Development. At the time of this report being presented to the Finance and Resources Committee, the invitation to tender has been published to five potential tenderers and the outcome of the process is not yet known.
- 4.2 A Prior Information Notice (PIN) was placed on Public Contracts Scotland on 18 October 2021 to commence market research for a Development Partner. Interested parties were invited to note interest, complete a questionnaire and attend an engagement session with the Granton Waterfront Project Team and Commercial and Procurement Services.
- 4.3 The purpose of the market engagement was to ascertain interest levels for the development to support the procurement strategy and gain insight into the capacity, capability and experience of potential tenderers to ensure the optimum procurement strategy and maximise the success of the chosen route to market.
- 4.4 To generate further interest in the Project, the Council held a Procurement Launch Event on 16 December 2021 to bring together interested parties to give them further information on the Project and allow for potential connections with other organisations within their sector to support consortiums and collaborations.
- 4.5 Following the market engagement, a Contract Notice was published on 13 December 2021. Parties interested in becoming the development partner were invited to complete the Single Procurement Document (SPD) or selection stage. The purpose of the SPD was to assess the financial capacity, business probity, experience, capability and social, environmental and fair work practices employed by the tenderers.

Development strategy

- 4.6 The Contract Notice identified the development proposals for Phase 1 of the site, which comprise of around 785 homes (including 200 affordable homes and 145 homes to be managed by Registered Social Landlord partners). There will also be approximately 2,000 sqm of private sector and 1,000 sqm of public sector commercial space and the delivery of a low carbon energy solution. In line with place making principles, there will be delivery of high-quality public realm of adoptable standard throughout the site and sustainable transport infrastructure.

- 4.7 The development strategy is that the Council will bring forward the development of Phase 1 as a single package in conjunction with a Development Partner. The Development Partner will deliver the affordable homes, public sector commercial space and public realm for a construction profit, while the private sector commercial space, and private sector residential units represent a development opportunity for which the partner will pay the Council a land receipt. The Development Partner will also be responsible for delivering the Council's chosen energy solution for the site.
- 4.8 The procurement route for the project is a Competitive Procedure with Negotiation (CPN). This means the Council extending an invitation to tender to a selected number of potential suppliers following the outcome of the selection stage, to be followed by an optional negotiation period (within which elements of the tender can be negotiated), then a final tender submitted prior to award.
- 4.9 The following elements of the development are fixed, and the Development Partner will be required to deliver them:
- 4.9.1 Delivery of a private housing development of approximately 440 homes;
 - 4.9.2 Deliver around 200 Council homes of mixed tenure to the Council's design guidance within timescales approved during the pre-development period;
 - 4.9.3 Deliver around 2,000 sqm of ground-floor private sector commercial space and 1,000 sqm of public sector commercial space with active frontages at appropriate ground floor locations throughout;
 - 4.9.4 Create opportunities for Registered and Social Landlord (RSL) partners to deliver around 145 homes;
 - 4.9.5 Deliver high quality public realm of adoptable standard throughout the site and sustainable transport infrastructure;
 - 4.9.6 Delivery of the low carbon energy solution identified by the Council following the outcome of an ongoing options appraisal and Final Business Case; and
 - 4.9.7 Maintain and enhance community engagement and support consultation.
- 4.10 The following elements of the development are flexible, and the Development Partner has autonomy to determine the following elements of the development (albeit the Council will retain oversight and planning consent and other approvals will be required):
- 4.10.1 The construction programme and methods of construction;
 - 4.10.2 The detailed design of the various elements of the development;
 - 4.10.3 The tenure of the private residential accommodation;
 - 4.10.4 The tenure within each specific plot in keeping with the overall agreed tenure mix ratios;
 - 4.10.5 Flexibility to accelerate the delivery of homes or other mixed-use elements by amending the phasing strategy to expedite the regeneration;
 - 4.10.6 The detailed design and use class of the private ground-floor commercial space;
 - 4.10.7 The detailed design of the public realm;
 - 4.10.8 Factoring arrangements across the development; and
 - 4.10.9 The branding of the development, including building naming rights.

- 4.11 On 28 January 2022, five SPDs were submitted to the Council for evaluation. Based on all of the bidders meeting the discretionary and mandatory pass / fail requirements along with financial probity checks, all five were invited to tender.
- 4.12 An invitation to submit an initial tender was issued on 7 February 2022 to the five tenderers. The tender returns are 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.
- 4.13 It is deemed important to the success of the project to place a contract award with the successful tenderer as soon as possible following competition of the procurement exercise. The outcome of the procurement process is expected to be finalised in mid-April in line with the timelines set out and agreed within the OBC. Seeking approval for contract award after the local government election would likely mean contract commencement in late Summer/Autumn once timescales for the Finance and Resources Committee to be reconvened and the contract standstill period are factored in, creating a time lag between selecting a preferred bidder in April of up to six months. This would result in the Development Partner requiring to hold their identified project team in waiting and is likely result in an increase in contract cost or the preferred bidder moving on to another more immediate opportunity.
- 4.14 When the tenders are returned, the award criteria will be evaluated by the evaluation panel. The quality criteria are summarised in Appendix 1. The cost criteria contains 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 any enhancement that the Development Partner is willing to offer on the minimum capital receipt expected. The Council will also seek to share a percentage of any income exceeded beyond a pre-set profit level within the contractual arrangements agreed.
- 4.15 Following this evaluation, the Council reserves the opportunity to invite the top three ranked tenderers to participate in a negotiation period. The aim of any negotiation would be to improve the content of the tenders and provide additional value to the Project. If it is felt that additional value could not be achieved, the Council would proceed with the contract award process to the top ranked tenderer following the evaluation of the initial tender returns.
- 4.16 The outcome of the procurement process will be shared with Finance and Resources political group spokespeople.
- 4.17 The outcome of the first stage of the pre-development period and the provision of the Final Business Case (FBC) will be presented for approval to a Council committee in Summer 2023. This will include details of the proposals for the site, all associated costs, the confirmed capital receipt and the Development Partner's commitments in relation to community benefits.

- 4.18 In the event that the FBC is not approved, this contract contains a break clause which will cease the Council's contractual relationship with the Development Partner. If the FBC is approved, the second stage of the pre-development period will commence and the Development Partner will continue for a further six months to finalise costs, design, seek statutory approvals and finalise the Development Agreement.
- 4.19 Approval of the Development Agreement will be subject to a further Finance and Resources Committee report in late 2023, early 2024.

5. Next Steps

- 5.1 Subject to approval, the Council will award a pre-development contract to the successful tenderer following completion of the procurement process. The pre-development period will commence on 1 July 2022 and run for approximately 18 months, with a break clause at the end of 12 months.
- 5.2 Over the course of the pre-development period, activities including the following will be carried out by the Council and the successful tenderer:
- 5.2.1 Develop detailed designs to Royal Institute of British Architects (RIBA) Stage 4 for each element of Development within the scope of Phase 1, carrying out consultation as required;
 - 5.2.2 Agree the method and sequencing of construction, wherever possible incorporating modern methods of construction;
 - 5.2.3 Produce a detailed cost plan, commercial proposals and refine the funding strategy to allow a Final Business Case to be created;
 - 5.2.4 Compile work packages and undertake the procurement of contractors for the construction and works elements, wherever possible utilising local contractors and Small and Medium-sized Enterprises (SMEs);
 - 5.2.5 Draft and where appropriate submit planning applications and other statutory consents, noting that following a screening request, the Planning Authority have confirmed that the proposed Phase 1 of development does not require an Environmental Impact Assessment to be carried out;
 - 5.2.6 Support any required funding requirements; and
 - 5.2.7 Finalise the Development Agreement.
- 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 the commercial private elements;
 - 5.3.3 A building 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) a Council committee will be asked to agree the FBC for phase 1 of regeneration and

subsequently the Finance and Resources Committee will be asked to appoint the Development Partner for the development period.

6. Financial impact

- 6.1 An OBC for the Granton Waterfront regeneration programme was presented to Policy and Sustainability Committee in October 2021. Detailed analysis of costs and funding reveal a significant funding gap for the programme of £381.2m. Based on the extent of the shortfall, it is concluded that a phased approach towards delivery should be adopted and it was agreed that further business case development should proceed for the first phase of regeneration, 'The Heart of Granton'.
- 6.2 This first phase has a funding gap of £70.1m. Over the next 15 months a FBC for Phase 1 will be developed by bringing Development Partner skills and expertise, developing a case for a low carbon energy solution, progressing designs, achieving further cost certainty to reduce optimism bias and creating a deliverable Phase 1 that aims to secure a package of government grant funding to close any remaining viability gap. Should the Council be successful in securing the £70.1m required to close the funding gap, Phase 1 could proceed and further detailed work could commence to obtain funding for the remaining three phases.
- 6.3 The tenders submitted by all tenderers must contain a commitment to provide the Council with a minimum capital receipt of £10m, should it enter into a Development Agreement at the end of the pre-development period. This assessment of minimum capital receipt is based on the provision of serviced plots for development of private residential and commercial space.
- 6.4 The direct financial impact arising from this report is the cost to fund the pre-development period. An element of this cost relating to private sector plot design 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 capital receipt agreed. If the preferred tenderer chooses not to proceed and enter into a Development Agreement, 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 As approved within the OBC, the costs relating to the pre-development period will be funded by the Housing Revenue Account (HRA). As the HRA is a key stakeholder and landowner at Granton, these costs will be funded from the HRA revenue budget. An element of the cost represents front funding from the HRA and, with the HRA acting as an enabler, will allow the development of a proposed phased delivery of regeneration and new social and other affordable homes to progress. These costs have been planned for within the 30-year HRA Business Plan and form part of the proposed 2022/2023 HRA Budget Strategy reported to the Finance and Resources Committee on [3 February 2022](#). A key outcome of the pre-development period is securing a funding and financing package to ensure a first

phase of regeneration is viable and deliverable. Securing this will allow the HRA to benefit from front funding through the realisation of capital land receipts and government grant funding over the period of the approved project.

- 6.6 Following the completion of the first stage of the pre-development period, a further report will be brought to a Council committee seeking approval of the final business case. Following this, the second stage of the pre-development period will be carried out and when completed, the authority to enter into the Development Agreement will be sought from Finance and Resources Committee.

7. Stakeholder/Community Impact

Consultation

- 7.1 The Granton Waterfront Development Framework was produced collaboratively with partners, community and key stakeholders.
- 7.2 Extensive consultation has been undertaken over the last 12 months on developing and delivering early action projects which align with the aspirations of the development framework to create from the start, a new vibrant, healthy and sustainable coastal town on Edinburgh's waterfront.
- 7.3 A stakeholder management and communication plan has been developed to ensure that the regeneration programme meets the needs and expectations of the community and key stakeholders. The stakeholder engagement process will run continuously throughout the life of the programme. The Granton Project Team will work with the appointed development partner to ensure that this is embedded from the outset and that the design and delivery of a first phase of regeneration is shaped by the community and key stakeholders.

Community Benefits

- 7.4 The Development Partner appointed will be required to support the Council's economic and social regeneration strategic goals and to deliver community benefits that are shaped by local context and the needs of the local community. This will be considered as part of the pre-development period and agreed prior to entering into the Development Agreement.
- 7.5 A public consultation exercise will be undertaken to establish the needs of the local community and determine a weighting for community benefits delivered as part of the Granton Waterfront regeneration. Respondents will be asked to rank potential benefits by local priority which will inform the contractual requirement for the benefits delivered by the contractor. Potential benefits will include:
- 7.6 Employability and Skills – facilitating training, work experience, jobs and apprenticeship opportunities which create employment, promote local economic growth and skills development, such as:
- 7.6.1 Creating apprenticeships to help increase levels of youth employment;
- 7.6.2 Creating jobs for unemployed people and priority groups;

- 7.6.3 Providing work placements and training opportunities to unemployed people, to help them gain work experience to aid their job search; and
- 7.6.4 Providing work experience to students and pupils to help them make career choices.
- 7.7 Community Engagement and Improvement– supporting resident and community projects and improvement schemes across a range of themes. This could include donations of materials, equipment, facilities, goods, staff time, volunteering or expertise:
 - 7.7.1 Support for local recreational, environmental, health, wellbeing, arts, heritage or sports activity – such as community enhancement (i.e. community landscaping projects), improvements to local physical infrastructure (i.e. repair works to community spaces), contributing to public art projects or city dressing/streetscape enhancements; and
 - 7.7.2 Contributions to agreed projects supporting local capacity building and services which address challenges associated with inequalities.
- 7.8 Education and outreach – developing business partnerships with schools and colleges which contribute to their curriculum and help promote an integrated and inclusive society such as:
 - 7.8.1 Construction curriculum support programmes in schools and colleges;
 - 7.8.2 Workplace visits for schools or college students, careers events, awareness days or workshops;
 - 7.8.3 Mentoring sessions with local schools, or job shadow opportunities.
- 7.9 Supply chain and business collaboration – supporting the principles of community wealth building through supporting local supply chains:
 - 7.9.1 Offer sub-contract opportunities to local SMEs, social enterprises and third sector suppliers; and
 - 7.9.2 Provision of contractor time, skills or mentoring/training support which help build supply chain, supported business or third sector capacity (i.e. accounting, Human Resources and Health & Safety advice).
- 7.10 The procurement process being followed is compliant with all relevant regulations as well as the Council’s Contract Standing Orders. The risk of legal challenge relating to this procurement has therefore been minimised.

8. Background reading/external references

- 8.1 None.

9. Appendices

- 9.1 Appendix 1 – Summary of Tendering and Tender Evaluation Process.

Appendix 1 – Summary of Tendering and Tender Evaluation Processes

Contract	Granton Waterfront Phase 1 including Pre-Development Period	
Procurement Route Chosen	Competitive Procedure with Negotiation	
Tenders Returned	Not known at this stage, 5 tenderers invited	
Name of Recommended Supplier(s)	Not known at this stage	
Price / Quality Split	Price 30%	Quality 70%
Evaluation criteria and weightings and reasons for this approach	Price	30%
	Enhancement over minimum capital receipt (minus) Pre-Development Costs Additional Services Development Management Fee	80% 10% 10%
Evaluation criteria and weightings and reasons for this approach	Quality	70%
	Project Delivery Team Project Programme and Narrative Approach to Pre-Development Period Site Proposals Presentation Community Engagement and Consultation Community Benefits Approach to Environmental Requirements Fair Work Practices Contract Documents	15% 10% 17.5% 17.5% 10% 10% 5% 5% 5% 5%
Evaluation Team	Programme Director – Edinburgh Waterfront, Place Programme Manager – Edinburgh Waterfront, Place Planning Advisor, Place Head of Estates, Place, Principal Accountant, Corporate Services	