

## **National Housing Trust – Appointment of Developers to Framework Agreement Update**

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### **Finance and Resources Committee**

**7 June 2011**

#### **1 Purpose of report**

- 1.1 On 11 January 2011, Committee approved a report on the National Housing Trust (NHT). This report provides an update on the progress with procurement of private developers and the results of the Invitation to Tender stage of this process.

#### **2 Summary**

- 2.1 The Council is currently involved in the procurement of private developers to deliver up to 600 homes for mid-market rent through the NHT delivery model. The Council has agreed to lend up to £55M under the Prudential Borrowing Framework to finance the Council's contribution toward these homes. The Council's borrowing will be backed by a Scottish Government guarantee covering both revenue and capital costs.
- 2.2 Tenders were submitted to the Scottish Futures Trust (SFT) on 14 January 2011 and evaluated by the Council and the SFT. Tender submissions from four developers for five development sites passed the evaluation and, following approval by Directors, each was invited to enter into a framework agreement with the Council and the SFT.
- 2.3 The procurement process will be completed through a competitive 'call-off' procedure, the Invitation to Mini-Tender (ITMT), with each of the developers on the Framework Agreement required to submit a final bid which contains the definitive financial model and construction timescales against which their development proposal will be delivered.
- 2.4 Bids will again be evaluated by the Council and SFT. On the basis of the result of the mini tender evaluation developments will then be called off, in the order they are ranked from first to last, until all developments are called off or the Council's 600 unit limit is reached and/or the £55M borrowing limit is reached.
- 2.5 Contracts will not be called off until the Council has received a financial guarantee from Scottish Government in terms acceptable to the Director of Finance.

- 2.6 At call off stage, the Council will enter into Limited Liability Partnerships (LLPs) with developers. The Council will provide funding to LLPs to enable homes to be purchased on completion from developers. Developers are expected to complete homes by March 2013.

### **3 Main report**

- 3.1 The Council is working with Scottish Government and the SFT to procure private developers to build up to 600 homes for mid market rent and enter into joint ventures with the Council, by way of Limited Liability Partnerships (LLP), through the NHT initiative. The Council's participation in NHT was approved by the Policy and Strategy Committee on 03 August 2010, with the £55M increase to prudential borrowing to fund participation approved by the City of Edinburgh Council on 19 August 2010.
- 3.2 Under the terms of the NHT initiative, the Council will lend between 65% and 70% of the cost which will enable the LLP to purchase completed homes from selected developers. The remainder of the funding will be provided by the private developer. The Council will be a member of the LLP; along with the developer and SFT.
- 3.3 The LLP will rent out homes at mid market rents for a minimum of 5 years. Between years 5 and 10 the properties will be sold to repay debt. Capital receipts from the sale of properties must be used, in the first instance, to service the Council's debt prior to repayment of any private sector debt. The Scottish Government guarantee will cover interest payments and repay the Council's debt if there is a shortfall in rental or sales income.
- 3.4 On 11 January 2011 a report was presented to the Finance and Resources Committee requesting the use of delegated authority to allow the Directors of SfC and Finance, in agreement with the Head of Legal and Administrative Services, and following consultation with the Finance and Resources Convener, to approve the Council's entry into a Framework Agreement with the SFT and those private developers successfully progressing from the ITT stage of the procurement. This was required because the timescale for procurement, controlled by the SFT, did not align with pre-fixed Committee dates. The report was approved.
- 3.5 On 14 January 2011 five developers submitted ITT bids for six development sites. Qualitative elements of the bids were evaluated by the Council with quantitative elements evaluated by the SFT. Evaluation scores were combined and the sites were ranked according to the combined score from first to last.
- 3.6 At this stage one bid failed to meet the minimum statutory requirements applied to all bids and the developer was informed that they would be excluded from further participation in the NHT procurement process. After a further statutory ten day standstill period the remaining four successful developers were invited to enter into the Framework Agreement. (Details of the successful developers and development sites can be found in Appendix.1)

- 3.7 All four developers have now entered into the Framework Agreement with the Council and the SFT.
- 3.8 The final stage of the procurement process is the Invitation to Mini-Tender (ITMT). Developers that have successfully progressed and signed the Framework Agreement must submit a final bid which provides the definitive financial figures and delivery timescales which will form the basis of their contractual obligations for the delivery of units through the NHT. The ITMT bids will be evaluated by the Council and SFT with successful bids re-ranked on the basis of their evaluation score. The ranked developments will then be called off in order from highest scoring to lowest until either all developments are called off or the Council reaches either of its upper limits of 600 homes or investment of £55M.
- 3.9 The Council will not enter into call off contracts or LLPs with developers prior to receipt of a financial guarantee from Scottish Government in terms that are acceptable to the Director of Finance.
- 3.10 It is anticipated that the procurement process will conclude in July and, subject to receipt of the Scottish Government guarantee, the Council will enter into LLPs with successful developers. It is anticipated that construction of affordable homes will commence in 2011. The Council will lend LLPs funds to purchase completed homes from developers in 2012/13.

#### **4 Financial Implications**

- 4.1 £55M of prudential borrowing has been approved by City of Edinburgh Council. These funds will be committed when the Council enters into call off contracts with developers following the final stage of the procurement process. The Council will not enter into financial commitments with developers until the Scottish Government guarantee is in place. Funding will not be made available to LLPs to purchase homes until homes are completed. Homes must be completed by March 2013.
- 4.2 The Scottish Government will provide a financial guarantee to the Council against its borrowing. This will minimise any financial risk to the Council, with the main remaining risk being the movement in interest rates between contract call off date and the purchase of the houses which will be managed by the Council as part of its overall Treasury Management function. Borrowing for NHT will not affect prudential borrowing planned for other projects.

#### **5 Environmental Impact**

- 5.1 All development sites currently being taken forward through the NHT procurement process are brownfield in nature. This will reduce the environmental impact of new housing development.
- 5.2 Investment and new supply will result in housing which is of a higher quality and which meets current energy efficiency standards.

## **6 Conclusions**

- 6.1 Following the granting of delegated authority by F&R Committee on 11 January, and the evaluation of ITT submissions, the Council and SFT have entered into a Framework Agreement with four developers for five development sites.
- 6.2 Developers will be invited to mini-tender as the final stage of NHT procurement. The ITMT bids are a final opportunity for developers to improve the financial information associated with their development in an effort to improve its ranking. Projects will again be evaluated by the Council and SFT. Those developers receiving pass marks will be called off and enter into contracts with the Council and SFT; creating LLPs which will own the homes.
- 6.3 The information included in ITMT bids will provide the basis for the financial and delivery elements of the contracts which will be entered into by the Council, the SFT and developers to secure delivery of all units under the NHT programme in Edinburgh.

## **7 Recommendations**

- 7.1 The Finance and Resources Committee is requested to:
- a) Note progress in taking forward the NHT initiative in Edinburgh.
  - b) Agree to receive a further report on the outcome of the NHT procurement process in September.

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Appendices	1. NHT developers and development sites
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Single Outcome Agreement	Single Outcome 2 - We realise our economic potential with more and better employment opportunities for our people. Single Outcome 10 – We live in well designed, sustainable places where we are able to access the amenities and services we need.
Background Papers	Delivery of affordable homes through the NHT – Policy & Strategy Committee – 03 August 2010 Delivery of affordable homes through the NHT – City of Edinburgh Council – 19 August 2010 National Housing Trust – Appointment of Developers to Framework Agreements - Finance and Resources Committee - 11 January 2011

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### Appendix.1 - NHT Developers and Developments

<b>Developer</b>	<b>Development Site</b>
Places for People	Lochend North
Places for People	Madelvic 8
Miller Homes	Telford North
Hillcrest/Teague	Salamander Street / Salamander Place
New City Vision	Niddrie Mains Road