

REPORT OF THE STRATEGIC DIRECTOR PLACE

**TO THE CITY MAYOR’S PROPERTY AND REGENERATION BRIEFING
25th January 2021**

ORDSALL RESIDENTIAL DEVELOPMENT SITES - REVIEW OF DEVELOPER PROPOSALS AND COMPARISON AGAINST COUNCIL SELF BUILD OPTION

RECOMMENDATIONS:

The City Mayor is recommended to:

Note the proposals detailed below in the body of this report and on the detailed terms set out in an accompanying Part 2 report for approval elsewhere on the agenda.

1. Note the outcome of the review of developer submissions received from interested parties for the Ordsall residential development sites;
2. Note the outcome of the advertising of the intention to dispose of areas of public open space under Section 123(1), (2a) of the Local Government Act 1972, if the sites are to be offered for sale/development;
3. Note the conclusions of the financial review of the proposed income-strip delivery models received in comparison with a Council self-delivery option;
4. Support the recommendation to proceed with a Council/Derive “self-build” option following the comparison of that option against the submitted proposals as detailed in the Part 2 report;
5. If a “sale/development” to a third party is preferred, to shortlist three bids as a basis for going back to those parties seeking best and final offers based on the Council’s revised brief for the sites; and
6. Authorise officers to revert back to the bidders to advise them of the proposed way forward.

EXECUTIVE SUMMARY:

Four proposed residential development sites in Ordsall, identified on the plan at Appendix A, were marketed for sale and six bid submissions have been received which are detailed within the Part 2 report.

Following scoring of the bids, there are three bidders, which when considering the indicative design, financial model and tenure flexibility required by the Council, score above the rest.

In taking the sites to the market the Council made it clear to bidders that it would consider all bids against a potential Council “self-build” option. That has been undertaken, with both internal and external financial input, the detail of which is set out within the report.

That financial analysis identifies that a “self-build” option could represent the best value for money option for the Council, subject to seeking to maximise Homes England and other available grant opportunities, and that such an approach provides the opportunity to deliver significant numbers of properties as part of the Derive Housing Company ambitions. The report provides detailed analysis as to why this conclusion has been reached. The report also points out some of the potential challenges and issues associated with a self-build approach.

The City Mayor is asked to support the Council/Derive “self-build” option, subject to the preparation of a detailed business case. If the above recommendation is not supported and a decision is taken to progress with a third party it is recommended that three bids are shortlisted as a basis for going back to those parties seeking best and final offers based on the Council’s revised brief for the sites.

The report also details that the sites have been advertised as a potential disposal of public open space, with no formal objections having been received.

BACKGROUND DOCUMENTS: Marketing brief

KEY DECISION: Not at this stage

1.0 BACKGROUND

1.1 The four development plots on the Ordsall estate were marketed in April/May 2020 with a brief to seek innovative proposals for the delivery of a high quality mixed-tenure development that would create a legacy/return for the Council rather than just generating a simple land receipt. A relatively high density of development of 400 to 500 units was envisaged across the four sites, based on indicative site layouts that had previously been under discussion with previous potential developer partners on the sites.

1.2 The marketing prospectus suggested that options for delivery could include:

- innovative development partner delivery models;
- the Council retaining units on completion;
- lease-wrap/income-strip models;
- or a hybrid of approaches.

1.3 The prospectus provided that all bids would be scored against a weighting system. The weighting system was provided to enable the Council to take into consideration other elements of the bid submission rather than solely the price. The chosen weighting system provided that:

- Experience & track record would attract 10% of bid weighting;
- Scheme proposals, sustainability and tenure mix 25% weighting;
- Financial proposition & delivery model 25% weighting;
- Flexibility to meet tenure and financial requirements 20% weighting;
- Social & community value 20% weighting.

1.4 The closing date for bid submissions was 29th May 2020 and a total of 6 bids were received.

2.0 DETAILS

2.1 The potential disposal of areas of public open space has been advertised without any representations being received.

2.2 Given the range of delivery options and supporting information submitted the review process has not been straightforward and comparison between delivery models with widely varying development densities and tenure mixes has been challenging. In addition, various planning and design issues have been raised by officers during the bid review process that would need addressing as part of any further dialogue with shortlisted bidders and may impact on eventual development densities and receivable capital receipt.

2.3 A summary of the bid submissions is provided in the Part 2 report.

3.0 SCORING AND MODERATION

3.1 Bid submissions have been reviewed against the weighting/scoring criteria set out in 1.3 above, with input sought from the Council's Planning (Development Control, Spatial Strategy and Sustainability), Regeneration, Housing Strategy and Finance teams. After scoring and moderation the submissions have been ranked 1 to 6, with the detailed scoring matrix supporting the ranking contained in the Part 2 report.

3.2 The assessment has identified three stand out bids and our recommendation would be to shortlist those three developers for further detailed dialogue if the decision is made to proceed with a developer partner.

- 3.3 If a decision to proceed with shortlisting is made, the three shortlisted bidders will be provided with initial planning feedback on their respective schemes and further guidance on anticipated site densities and tenure mix on which to base their updated submission. The bidders will be asked to consider the comments and proceed with a pre-planning application. Once the pre-planning application process is complete the shortlisted bidders will be asked to submit their best and final offers, subject to contract, and these will be the subject of a further report.
- 3.4 By requiring shortlisted bidders to take on board initial planning comments on their respective schemes and provide further guidance from Planning and Housing Strategy on acceptable site densities and tenure mix, it is anticipated that comparison between shortlisted bid submissions should be more straightforward than experienced during this initial review stage.
- 3.5 Shortlisted bidders would be asked to share their social value proposals for the project at the next stage of the selection process. Using the agreed themes, outcomes and measures will allow us to evaluate bidders proposals on a consistent basis and these proposals should form part of any resulting Development Agreement or build agreement with the selected party to safeguard the delivery of social impact, with progress to be reported through the Social Value Portal.

4.0 COUNCIL SELF-DELIVERY CONSIDERATION

- 4.1 The Ordsall sites marketing prospectus highlighted to prospective bidders that the Council would benchmark development proposals against a self-delivered scheme to test submissions from a best value perspective. Whilst some initial modelling was undertaken internally, given the specialist nature of the matter and the scale of the Council's housing delivery aspirations it was deemed prudent to seek some external financial advice from a specialist consultant on the self-delivery funding considerations.
- 4.2 The underlying objective of the analysis was to identify, at a high but robust level, whether there was any potential financial advantage to the Council in pursuing "self-delivery" by securing debt finance itself and appointing a private sector developer/construction partner on a design and build type basis.
- 4.3 The model also assumes that an additional resource capacity is required by the Council to enable it to initiate and deliver the development management and client management functions, either directly or indirectly. An allowance of a sum as detailed in the accompanying Part 2 Report has been adopted over the period of the development, however it is expected that this sum could also support overheads on other Council housing delivery schemes if delivered as part of a combined programme.
- 4.4 The conclusion of the financial review is consistent, in that the Council should be able to secure a better value for money outcome through a self-delivery approach rather than through the arrangements as set out within the bids, subject to the form of the scheme tenure, maximising any available Home

England grant funding and utilising other available funding sources such as Brownfield land remediation allocation. This approach would allow the Council to control the tenure mix and specification of construction and use its covenant strength to secure the most advantageous interest rates for the required financing of the scheme in a similar way to that used in recent years to support commercial investment in Central Salford.

- 4.5 This conclusion is predominantly driven by the Council being able to achieve a lower cost of funding, than through a developer partner.
- 4.6 Full details of the financial review and the assumptions adopted are provided in the accompanying Part 2 report.
- 4.7 Whilst the above conclusion and suggested way forward is consistent with the strategy for the Council to proactively self-deliver housing within the City, there are additional matters that need to be considered in coming to a decision on a self-build way forward; these factors are outlined in the Part 2 report.

5.0 SELF DELIVERY OPTION – Wider considerations

- 5.1 To support the Council's drive and ambition to deliver new affordable housing at scale, Property Services have undertaken a high-level review of the authority's existing land holding to better understand the overall tone of potential capacity to self-deliver that new housing.
- 5.2 The Council has sold significant land assets over the last 20 years and its residual asset base is therefore much diminished. Prime opportunities are limited in number, and our review has had, by necessity, to focus on mainly smaller sites that are likely to be more problematical and less cost effective to bring forward for development.
- 5.3 In addition to the housing schemes already being progressed we have identified all non-operational Council land assets of 0.25 acres or above that we consider have housing development potential. The assessment has been based on limited sifting parameters which considered location, access and site orientation. We have discounted those sites that have significant known development constraints, for example flood risk, that we believe renders them undevelopable in the short to medium term.
- 5.4 Land assets that are either committed disposals or at an advanced stage in negotiations have also been discounted.
- 5.5 Our review has indicated a potential housing land supply that could deliver an additional circa 2,100 homes across 40 site locations.
- 5.6 We now need to undertake detailed due diligence (title, planning, GI viability assessment) on the sites identified to further refine which may, or may not be, feasible development sites. We would envisage actual delivery potential to be

significantly lower than the headline housing capacity figures suggested, and it could realistically fall between 1,200 and 1,500 homes.

- 5.7 From those opportunities identified approximately 800 homes would be delivered in two locations, Ordsall (this site) being one of them. This reflects the importance of the Ordsall sites in providing the opportunity to help directly deliver units that the Council/Derive would own.

6.0 CONCLUSION & NEXT STEPS

- 6.1 Our approach to exposing the Ordsall sites to the market to explore the “art of the possible” on the delivery of new housing has been the subject of considerable market interest that has generated some interesting and thought-provoking proposals. It has required a complicated technical evaluation exercise to assess those bids and to consider the bids against a Council self-build scenario. It has highlighted that the Ordsall sites represent a significant opportunity for the Council as a self-delivery project and has greatly assisted the wider thinking around city wide strategic housing delivery.
- 6.2 The analysis of the bids against a Council self-build option concludes that a Council self-build option is the preferred and likely to be the most cost effective way forward using anticipated available funding sources, however given the considerations set out in detail in the Part 2 report the City Mayor will need to determine whether to proceed with the recommended Council/Derive “self-build” option or progress with the “sale/development” of the sites to a third party and to shortlist three bidders if that is the preferred option.
- 6.3 The Part 2 report and appendices set out in full the reasoning as to why a self-build option is the preferred way forward.
- 6.4 If the City Mayor supports the “self-build” way forward officers will start to work up detailed proposals for further consideration with a view to presenting a business case for the self-delivery option at the earliest opportunity.
- 6.5 If the City Mayor does not support a self-delivery approach, preferring to proceed with a developer partner solution, officers will progress that approach by proceeding to enter into further dialogue with the proposed three shortlisted bidders.

KEY COUNCIL POLICIES:

Council’s capital receipt programme, Regeneration, Housing.

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS: Not applicable

ASSESSMENT OF RISK: Medium

LEGAL IMPLICATIONS Supplied by: Jon Paramor, Deputy Head of Property, Shared Legal Service

In accordance with the provisions of Section 123 (2) of the Local Government Act 1972, a disposal by either of the two options, will have to be at a consideration that is not less than the best that can reasonably be obtained.

FINANCIAL IMPLICATIONS Supplied by: Chris Mee Strategic Finance Manager Ext 0434

Whilst the proposals used in the comparison with a council self-delivery model differ in tenure mix and numbers, consistent modelling assumptions have been used in this analysis (as set out in the Part 2 report). This has demonstrated that a council self-delivery model would potentially offer better value for money / return to the council in financial terms. However, members should also be aware of the significant capacity / resourcing which would be required to deliver these proposals (alongside existing commitments) and risks associated with delivery that would be passed to the successful bidder when considering whether to go for a self-delivery model.

PROCUREMENT IMPLICATIONS Supplied by: Richard Purcell, Principal Solicitor, Shared Legal Service

A competitive bidding process has been undertaken following the advertisement as a development opportunity on the Council's website and notification of the opportunity to a number of developers/agents/consultants. Bids have been evaluated and scored on the basis of the evaluation criteria made known and disclosed to bidders prior to bidding.

If a development partner is to be selected, a robust form of development agreement, giving the Council suitable rights, remedies and protections, will be developed, negotiated and agreed with the successful bidder.

HR IMPLICATIONS Supplied by: Not applicable

MEMBER COMMENTS: Not sought at this stage.

CLIMATE CHANGE IMPLICATIONS Supplied by: Mike Hemingway x3209

Sustainability issues considered during scoring process.

OTHER DIRECTORATES CONSULTED: Regeneration, Planning, Housing Strategy, Finance.

CONTACT OFFICER: John Nugent

TEL NO: 779 6072

WARDS TO WHICH REPORT RELATES: Ordsall

APPENDIX A: SITE