

NORTH SOMERSET COUNCIL DECISION

DECISION OF: EXECUTIVE MEMBER FOR FINANCE AND PERFORMANCE

**WITH ADVICE FROM: DIRECTOR FOR DEVELOPMENT & ENVIRONMENT
AND HEAD OF STRATEGIC PROCUREMENT**



DECISION NO: 19/20 DE 230

SUBJECT: Procurement Plan to procure a developer in respect of the council-owned development land that forms the first phase of Parklands Village, Weston-super-Mare.

KEY DECISION: NO

REASON: Procurement plans are not deemed Key Decisions in the Contract Standing Orders.

BACKGROUND:

This report supports the delivery of the first phase of development land at Parklands Village, Weston Super Mare. The development of the council's land ownership has secured Outline Planning Consent; a financial return is assumed in the council's capital programme. Funding has been granted by Homes England to support an accelerated delivery pace.

DECISION:

It is requested that this Procurement Plan be approved to proceed to procure a developer for the first phase of the council's land interest at Parklands Village for the delivery of 425 residential units, including 30% affordable housing.

REASONS:

1. Introduction

The council owns approximately 34ha of land within the Parklands Village site, which is identified for residential led mixed-use development in the adopted Development Plan. The Council has successfully secured outline planning consent (reference: 16/P/2758/RG4) for the following:

- 700 residential dwellings
- 14,500 sqm (gross) office space
- 300 sqm (gross) retail space
- 420 place primary school
- Associated playing fields and open space



Planning permission was granted on 12th January 2018. Condition 1 of the Decision Notice requires the development to have begun before the expiration of ten years from the date of approval; therefore, 12th January 2028. Condition 2 requires the first application for the approval of Reserved Matters to be submitted within three years from the date of this permission. To date, no Reserved Matters Applications have been submitted.

The site will be enabled for development upon completion of the North-South link road from the A371. This road is being delivered by the council and is already under construction with completion scheduled for October 2020. It includes the provision of strategic utilities.

The council has recently been awarded a grant of £9.861m from Homes England under the Local Authority Accelerated Construction (LAAC) Programme. The funding is towards delivering a first phase of Parklands Village, which includes 425 dwellings on approximately 14 ha of the consented land.

The LAAC Grant Funding Agreement was signed by Homes England and the Council on 15th August 2019. It includes requirements on pace of housing delivery, use of Modern Methods of Construction (MMC) and the provision of affordable housing. Further detail is provided later in this report.

2. Requirement and summary of procurement proposals

The council is seeking to appoint a developer to deliver the first phase of Parklands Village, comprising 425 dwellings and associated site infrastructure.

The selection of a developer will follow a process similar to the Competitive Dialogue procedure. The Concession Contracts Regulations 2016 ("CCR") apply to this scheme.

The council have instructed Jones Lang LaSalle (JLL) and Bevan Brittan to provide development consultancy and legal advice to support the delivery of the first phase.

Research and advice provided by JLL suggests the most appropriate route for disposing of the site is a Development Agreement via a Building Lease. This route will provide the council with an appropriate level of control over the development to help ensure it satisfies the requirements of the outline planning permission and LAAC Grant Funding Agreement. This approach is recognised by Homes England and leading housebuilders as an established route.

The Tender and Development Agreement will reflect the requirements of the Outline Planning Consent (as applicable to this phase) and the terms of the Homes England funding agreement, including:

- Delivery of 425 residential units
- Delivery of 30% affordable housing
- Not less than 75 dwellings to be delivered using volumetric construction.
- Not less than 350 dwellings to be delivered using be panelised construction.
- Submission of a Reserved Matters application by 1st December 2020.

- Start of development by 1st September 2021 with start of first housing unit by 1st May 2022.
- Completion of housing delivery by 1st May 2027.

A conditional Development Agreement will be exchanged with the successful developer. Upon satisfaction of specific conditions, it would become unconditional and a Building Licence entered in to that allows the developer access to the site to construct the scheme. This form of Development Agreement is frequently used by Homes England.

3. Market / suppliers

JLL has undertaken soft market testing with a range of developers to determine their appetite for delivering Phase 1 Parklands Village. This took place between August and September 2019.

A redacted summary of the findings from this soft market testing is appended to this report.

Throughout the soft market testing exercise no concerns were raised from parties as to the attractiveness of the council as a customer. Approximately half of the developers canvassed had previous experience with OJEU procurement exercises and would consider future opportunities tendered via the OJEU route.

MMC is an important requirement of this opportunity. Whilst a few national developer/contractors raised concern as to MMC there was generally a good level of interest from national developers/contractors who had previous experience using MMC forms of construction.

In contrast the interest from SME/regional house builders was more limited. Based on the feedback from the market we understand this is principally due to:

- The substantial scale of the opportunity.
- The disposal via a building lease, which limits the ability for a developer to secure development funding as they never own the freehold of the site.
- The high build out rate target is challenging because these developers typically have slower delivery rates.
- They typically do not like acting in consortia with PLC housebuilders as they find it difficult to respond to price reductions.

In respect of Registered Providers of Affordable Housing, there was clear demand from several providers. However, they are unable to commit as lead purchaser so would need to partner with a housebuilder to take the S106 quantum of affordable housing plus any additionality units.

A key issue identified by several developers canvassed was the ability to achieve the delivery rates prescribed under the LAAC Grant Funding Agreement. JLL anticipate this is a factor that will likely encourage a consortium (for example made of a housebuilder/contractor and housing association).

4. Lessons learned from previous projects

JLL and Bevan Brittan have extensive experience supporting public sector clients with the optimal delivery and disposal of their land interests. In relation to the procurement process, the following aspects are important:

- Make the process as efficient and streamlined as possible to maximise market interest.
- Ensure that information within the data room is as complete as possible to underpin accurate bid assumptions.
- Utilise the progressive stages of the process to reduce the number of bidders so that the final stages involve a limited number of parties. This will help maximise the commitment of the best-fit bidders.
- Prepare clear and robust assessment criteria which reflect the council's objectives and priorities for the scheme.

The procurement exercise should have regard to the above to ensure good quality and robust submissions that are appropriate to the nature of the opportunity.

5. Route to market

The opportunity will be advertised in the Official Journal of the European Union (OJEU), and will follow a process similar to the Competitive Dialogue procedure, allowable under the Concession Contract Regulations 2016.

All developers who wish to submit responses will be able to do so. Officers considered using a Framework Agreement but decided not to pursue this option as it would limit the opportunity to a pre-approved list of developers. The council is keen to maximise interest from the widest range of developers possible, particularly given the requirements for accelerated delivery, good value and the use of modern methods of construction.

The duration of the Development Agreement is to be confirmed as part of the procurement process but it is anticipated that the contract will be awarded in Sept 2020.

6. Procurement stages and programme

The procurement process will comprise several stages through which proposals will be refined and the number of bidders will be reduced.

- **Selection Questionnaire:** this focuses on the ability of the bidders to comply with basic legal and financial requirements and to provide evidence of experience of delivering similar projects. At the end of this stage a maximum of six bidders will be invited to prepare and submit Outline Solutions.
 - **Outline Solutions:** the remaining bidders will be asked to provide their outline proposals for the site. Meetings with the bidders may be held if needed to clarify any elements of the submissions that are unclear. Bids will be scored and a maximum of three bidders taken through to the Detailed stage.
-

- Detailed Stage and Dialogue: at the start of this stage, remaining bidders will be invited to dialogue meetings to discuss their proposals to date. They will then submit more detailed proposals for the site. A further period of dialogue will take place after submission, seeking to ensure that the bids offer the best possible outcomes against the specified criteria.
- Final Tenders: at the end of the dialogue process, bidders will submit their final detailed proposals. These will be scored and the preferred bidder selected.

The suggested timescales for the procurement are:

Action	Completion Date
Issue OJEU Notice	Nov 2019
Return of Selection Questionnaire (SQ)	Dec 2019
Evaluation of SQs and selection of bidders to continue to next stage (max 6)	Dec 2019
Issue Invitation to Submit Outline Solutions (ISOS)	Jan 2019
ISOS submissions	Feb 2020
Clarification, Moderation and Scoring of Outline Solutions. Selection of bidders to continue to next stage (max 3)	Feb/March 2020
Issue Invitations to Submit Detailed Solutions (ISDS); initial dialogue meetings	March/Apr 2020
ISDS submissions	May/June 2020
Further dialogue meetings	June 2020
Invitation to Submit Final Tenders (ISFT)	June 2020
Submission of Final Tenders	June 2020
Evaluation and moderation; drafting of Executive report	July/Aug 2020
Executive Contract Award Decision	Sept 2020
Issue Alcatel letters	Sept 2020
Standstill ends	Sept/Oct 2020

These are target dates and may be subject to change.

7. Evaluation

The evaluation panel will consist of at least three representatives from the Project Team including the Property Estates and Regeneration Manager. JLL will provide an advisory role. Additional internal or external specialists with expertise in design, MMC, sustainability and/or any other elements required may be accessed to provide advice on relevant criteria and be used to evaluate the submissions.

There will be clarification meetings at the Outline Solutions stage and dialogue meetings at the Detailed Solution stage.

Other than where stated, the following matrix will be used for scoring quality criteria:

Score	Criteria
9 - 10	Excellent
7 - 8	Very good
5 - 6	Good
3 - 4	Satisfactory
1 - 2	Poor
0	Unacceptable

The evaluation team anticipates that a response to a question would not score as Excellent unless meeting and exceeding the guidance on requirements provided to bidders.

Evaluation of bidders' legal submissions will be on a pass/fail basis at the Outline Solutions Stage. Bidders will be asked to confirm that they accept the terms of the contract as set out in the tender documents and that their Submissions (including the Financial Model) are made on this basis. Bidders who are invited to participate in the Detailed Stage will have the opportunity to discuss the contract terms with the council during the dialogue sessions. Bidders will be invited to submit a mark-up of the contract documents with their Final Tender. The Legal scoring matrix will be 0 – 10; those bidders who propose no amendments to the contract will score a high mark, and those who propose amendments which are highly significant will score a low mark, with a range in between.

a) Selection Questionnaire (SQ)

The Selection Questionnaire (SQ) document will be available to all developers who are interested in this opportunity. The questions raised in this document will be focused around eligibility to tender, structure of the bidding party and proven track record in delivering similar schemes. In addition to the mandatory pass/fail questions and discretionary questions, the following evaluation criteria will be used to decide which bidders will be invited to submit Outline Solutions:

Experience of similar development proposals	20%
Placemaking and design quality	25%
Sustainability (including carbon reduction) and climate change readiness	20%
Modern Methods of Construction (MMC)	20%
Delivering at pace	15%

A maximum of six of the top scoring bidders will be invited to the Outline Solutions stage.

b) Outline Solutions:

At this stage, bidders will be required to provide their outline proposals for the site. These will be evaluated against a 10% weighting for price and a 90% weighting for quality. The quality criteria will be sub-divided as follows:

Factor	Weighting within quality criteria
Design, placemaking and community	25%
Sustainability and climate-change readiness	20%
Project and risk management, programme and team	15%
Modern Methods of Construction (MMC)	20%
Financial model	10%
Social value	10%
Legal	Pass/Fail
Total	100%

Invitation to Submit Outline Solutions (ISOS) documentation will provide more detailed guidance on these criteria.

The criteria will be scored from 1 – 10 according to the matrix set out at the start of this section, with the exception of price. This will be scored according to the amount offered for the land, either as a capital sum or as long-term revenue suitably capitalised. The highest price bid will score 100%; other bids will be scored proportionately. For example, if the highest bid is £10m and the next is £8m, then the top bid will score 100%, which equates to 10% after weighting is applied. The £8m bid would score 80%, equating to 8%.

At this stage any financial offer would not be contractually binding and could change. Consequently, there is a low weighting placed on price at this stage. Additionally, 10% is allocated to consideration of the financial model sitting behind the price offered. This will look at whether the financial assumptions made in calculating the price are robust and reasonable, so will mitigate against any risk of unrealistic pricing.

The “legal” element invites bidders to indicate full compliance with proposed contract documents.

c) Detailed Submissions and Dialogue:

This stage will commence with a period of dialogue with the remaining bidders. The dialogue will provide feedback on proposals to date to guide the bidders as to what needs to be done to clarify or improve their proposals.

Bidders will then submit Detailed Proposals, following which there will be further dialogue. This seeks to ensure the bids offer maximum benefits in relation to the requirements.

The bids will not be scored at this stage but feedback will be provided to the bidders to enable them to improve on their proposals in their Final Tenders.

d) Submission of Final Tenders

Following on from the closing of dialogue, the bidders will submit their Final Tenders. These will be scored and ranked to select the final preferred developer.

The Final Tenders will be evaluated against a weighting of 30% price and 70% quality.

The project team believe quality is very important on this development to ensure the right design, sustainability standards and ability to meet the LAAC requirements, hence the high weighting.

Quality criteria and weightings are proposed as follows:

Factor	% weighting within quality criteria
Design, placemaking and community	25%
Sustainability and climate-change readiness	20%
Project and risk management, programme and team	20%
Modern Methods of Construction (MMC)	20%
Social value	10%
Legal	5%
Total	100%

Price will be scored as per the Outline Solution stage, but with an increased weighting of 30%. Financial models are not proposed to be scored at this stage, but any price offered will only be accepted if supported by sufficiently robust financial modelling, financial security arrangements and evidence of board support. Bids that fail to provide these may be disqualified from the process.

A minimum land price is not proposed, as market feedback suggests it could influence (and potentially reduce) the price offered by prospective bidders.

8. Social Value

10% of the quality weighting will be for additional social value offered by bidders (over and above their S106 requirements), in accordance with the council's social value policy. The bidders will be expected to propose tangible specific commitments relating to the social value outcomes below:

- Increased employment to local people
- Increased employment to those most removed from the labour market
- Increased employment to young people
- Increased use of local supply chain
- Reducing negative and promoting positive environmental impacts
- Increased health and wellbeing for all
- Supporting schools and life-long learning
- Developing cultural heritage
- Stronger local voluntary/community sector

9. Governance

The Commissioning Plan for this Phase 1 project was approved at Full Council on 14th May 2019: please see Background Papers.

JLL have been appointed to lead the procurement, with legal support from Bevan Brittan. A project team of officers from across NSC is providing the client function, led by the Property Estates and Regeneration Manager with representatives from procurement, legal services, finance, major projects and other members of the Development Team. This project team reports to the Assistant Director for Placemaking and Growth and to the council's Driving Growth and Investment and Infrastructure Boards.

The appointment of a developer will follow a process similar to the Competitive Dialogue procedure and will be compliant with the Concession Contracts Regulations 2016 (CCR). The process is expected to take approximately nine months.

The contract award report recommending the appointment of the selected developer will be an Executive Committee decision, scheduled to be made in Sept 2020.

10. Contract Management

The contract will include provisions for the selected developer to fund the cost of contract management over the term of the contract which will provide the Council with the resources necessary to undertake contract management either in-house or via external consultancy.

Following the contract award a detailed Contract Management Plan will be produced jointly by the Procurement Manager and the assigned Contract Manager. It is proposed that initially formal monthly performance meetings will be held at which the developer will provide reports in formats specified by the Council.

The developer will provide all necessary information to enable a clear, robust understanding of the outcomes achieved against the programme. The contract will form part of the Council's quarterly contract performance monitor presented at CMT.

OPTIONS CONSIDERED:

Phase 1 Parklands Village will be disposed of using a process similar to the Competitive Dialogue procedure. The Concession Contracts Regulations 2016 ("CCR") apply to this scheme. JLL have produced a Briefing Note that assesses the potential disposal methods, appended to this report.

The council is proposing to offer this opportunity on a Building Licence only to reflect the nature of the market interest; furthermore, it is an established disposal route utilised by Homes England. Other options have been considered in conjunction with JLL. A summary sheet outlining the advantages and risks is appended to this report.

FINANCIAL IMPLICATIONS:

Costs

The cost to procure a developer for phase 1 of the Council's development land is estimated to be in the region of £200,000.

Other costs to de-risk the site for development have been reported separately.

Funding

The approved LAAC grant references above includes an allowance of £200,000 toward fees/costs incurred by the Council to bring the phase one land forward for development. The cost of the procurement will be funded from that element of the LAAC grant.

Income

NSC's capital programme assumes a £6.8m land receipt from NSC land at Parklands over 2021/22 – 2025/26. This figure relates to the full 700 units.

The terms of the Homes England LA-AC grant are that if the Phase 1 land receipt exceeds £6m there may be a clawback of part of the surplus.

LEGAL POWERS AND IMPLICATIONS

The council will ensure the procurement is compliant with the Concession Contracts Regulations 2016.

The council has, under the Local Government Acts, powers to dispose of its property assets.

The council has appointed Bevan Brittan to prepare the procurement documentation and the relevant contract documents.

The council is compliant with the Public Services (Social Value Act) 2012 by ensuring it is seeking additional social value during the tender process.

CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

North Somerset Council declared a climate emergency in February 2019. As part of this, active steps are needed to make North Somerset carbon neutral by 2030, taking into account both production and consumption emissions.

Criteria have been included within the quality scoring to assess the sustainability and climate-change readiness of the development, both during the construction phase and through the lifetime of the development and seeking to maximise what can be achieved. Documents encourage make clear that bidders are encouraged to exceed

minimum criteria and will score more highly if they do so. It is suggested that the highest scoring bids will include at least one phase of zero carbon housing.

CONSULTATION

The Outline Planning Consent approved for both phase 1 and phase 2 of the Council's development land in January 2018 followed full consultation with statutory consultees, Members and the public. Further consultation on Reserved Matters proposals will follow.

JLL have undertaken soft market testing with a number of developers, details of which are provided earlier in this report. The aim of this was to understand the market appetite for the scheme as well as to stimulate initial interest. This took place between August and September 2019.

Evaluation criteria have been shared and commented on by a range of colleagues including from Planning and Major Projects Teams.

RISK MANAGEMENT

The following risks and their mitigation are identified:

Risk	Mitigation
The procurement timeframes (outlined above) are delayed which impacts the ability to meet the LAAC Grant Funding Agreement requirements.	The programme is tight and will need to be monitored closely. Any potential for delay should be communicated to Homes England.
No, or insufficient, interest from developers for the opportunity.	Soft market testing has been undertaken that does identify demand. The use of an open tender process will also maximise the ability for any interested parties to submit an offer.
The offers received do not reflect the terms required by the LAAC Grant Funding Agreement, including delivery timeframes.	A draft of the Development Agreement will be made available as part of the marketing exercise, which will include the conditions of the LAAC grant agreement including the delivery timeframes. If the feedback from the development market is that these conditions are likely to be very challenging, then the Council will engage with Homes England to discuss options available.
The offers received do not achieve the council's land value aspirations for Parklands Village.	The procurement process will competitively test the market. The likely financial return will be assessed and monitored. Should the values offered be excessively low, the council can choose not to award a contract.

Risk	Mitigation
A decision on the reserved matters planning application is delayed, which could impact the ability to meet the LAAC Grant Funding Agreement.	The Development Agreement would be drafted to include contract management/ monitoring to avoid any slippage. The appointed developer will be encouraged to consider a Planning Performance Agreement that agrees key deadlines with the Local Planning Authority to further minimise the risk of delays.
The reserved matters planning application is refused, which could delay the start on site and therefore ability to meet the timeframes outlined within the LAAC Grant Funding Agreement.	The Development Agreement will include clear milestones associated with obtaining an implementable planning consent. Furthermore, the planning risk for any scheme will be considered as part of the evaluation criteria.
The start of development not being achieved within the agreed timelines.	The Development Agreement will include clear milestones and include contract management/ monitoring once the developer is appointed to ensure key deadlines are not missed.
The appointed developer defaults on the scheme.	In the first instance the Council will run a robust SQ process to select a suitable pool of bidders. In addition, through the selected disposal route the council will retain the freehold of the site.

EQUALITY IMPLICATIONS

Have you undertaken an Equality Impact Assessment? No

The Outline Planning Consent complies with the requirements of the Local Plan and other planning policies, which have been subject to EIA assessments.

Further equalities implications will be considered through Reserved Matters Planning Applications, but an EIA is not considered necessary for the Procurement Plan itself.

CORPORATE IMPLICATIONS

The delivery of the Council's development land is a key target of the Council's and is essential to the delivery of the Council's five-year housing target numbers. It will also support the Council's corporate aims to deliver quality places and support prosperity and opportunity.

A capital receipt of £6.8m is assumed from Parklands within the capital programme from 2021/22 – 2025/26.

APPENDICES

- 1. JLL Soft Market Testing Report
- 2. JLL Potential Disposal Methods Briefing Note
- 3. JLL Summary of Suitability of Disposal Methods

BACKGROUND PAPERS

Commissioning plan:
<http://apps.n-somerset.gov.uk/cairo/docs/doc29601.pdf>

Outline Planning Application:
[16/P/2758/RG4](#)

SIGNATORIES:

DECISION MAKER(S):

Signed: *Approved by email* Executive Member for Finance and Performance

Date: *3/12/19*

WITH ADVICE FROM:

Signed: *Shay Shamali* Director of Development and Environment

Date: *20/11/19*

Signed: *[Signature]* Head of Strategic Performance

Date: *20/11/19*





Phase 1, Parklands Village, Weston-Super-Mare Soft Market Testing Summary

Redacted for Public Release

September 2019

Introduction



JLL are instructed on behalf of North Somerset Council (NSC) to support them with the disposal of Phase 1 Parklands Village, which is located in Weston-Super-Mare (hereinafter referred to as the opportunity).

Phase 1 Parklands Village comprises 425 residential dwellings on approximately 14 ha of consented land. The Developer will be selected using the OJEU competitive Dialogue process. It is anticipated that the Developer will be appointed to deliver the scheme via a Development Agreement under a building lease.

The opportunity forms part of a larger residential development comprising 700 residential dwellings, 14,500 sqm (gross) office space, 300 sqm (gross) retail space, a 420 place primary school and associated playing fields and open space. The Council, who are landowner, secured outline planning permission for the overall scheme under reference: 16/P/2758/RG4.

To support the delivery of the site the Council has been awarded a grant of £9.861m from Homes England under the Local Authority Accelerated Construction (LAAC) Programme. The LAAC Grant Funding Agreement was signed by Homes England and the Council on 15th August 2019. It includes a number of requirements that need to be satisfied, including:

- Delivery of 425 residential units
- Delivery of 30% affordable housing.
- Not less than 75 dwellings will be delivered by volumetric construction.
- 350 dwellings will be panellised construction.
- Delivery of the housing in line with specific deadlines.

Due to the requirements imposed through the LAAC Grant Funding Agreement soft market testing has been undertaken. The aim of this being to understand the likely market appetite for the opportunity and any actions the Council could undertake to proactively encourage delivery. This report summarises the key findings of the soft market testing.

Methodology



JLL undertook the soft market testing between August and September 2019.

We targeted 15 developers who are active in the local market. These developers included small to medium enterprises (SMEs) who typically deliver schemes of less than 100 dwellings, MMC specialists, housing associations and PLC housebuilders who have experience delivering major developments across the country. It was important to ensure diversity in the housebuilders approached to provide a thorough understanding of the appetite from various sectors in the market.

The list of housebuilder was discussed and agreed with North Somerset Council.

A list of questions were raised with the developers, which are summarised below. These questions were all discussed and agreed with North Somerset Council prior to engaging with the developers. The question raised were:

Question	Reasoning
Interest in the site.	To understand whether they would be interested in this opportunity.
Likely structure of a bidding team, specifically whether they would partner in a consortium.	To understand the likely structure of any future bidding teams, including the representation from different types of organisation for example housing associations and SMEs.
Whether they have participated in an OJEU process previously and if so, whether they would in future.	To understand whether an OJEU process would restrict the appetite for the scheme – either wholly or for a specific type of housebuilder.
Ability to deliver the quality and price achieved at Locking Parklands.	To understand the likely quality of the scheme that could be achieved onsite given the schemes being brought forward in close proximity.
Comment around the terms of the LAAC Grant Funding Agreement.	To understand whether these are achievable or whether further dialogue may be required with Homes England to amend certain terms.
Experience and approach to achieving the required delivery rate of 7.2 dwellings a month.	To understand whether this is achievable and possible solutions to achieve this requirement as per the LAAC Grant Funding Agreement.
Experience and approach to modern methods of construction – both panellised and volumetric.	To understand the market appetite for these forms of construction.
Acceptability of a Development Agreement, specifically under a building lease.	To understand the appetite from this disposal route from a range of housebuilders.

Soft Market Testing Results



The table below outlines the results of the soft market testing exercise. Please note that the table does not include an comments on design or LAAC Grant Funding Agreement due to the nature of the feedback – comments are instead provided on the summary page.

Key for table: Red – Poor/limited, Amber – Medium and Green – Good/strong

Developer	Response Received?	Appetite to OJEU	Appetite for MMC	Achieve Delivery Rate?	Appetite for Build Lease	Interest?	Comment
Regional Housing Association	Yes			No comment	No comment		Interest in the section 106 and additionality units. They would look to enter into a consortium with a house builder. Have not used MMC but are keen to embrace in future.
Regional SME House Builder	Yes			No comment	No comment		They are not interested in the scheme due to its scales coupled with the OJEU procurement process and requirement to provide MMC.
National PLC House Builder	Yes						Would work in partnership with a housing association. They have the ability to dual-brand the housing product to boost housing delivery rates. Have used panellised MMC but not volumetric.
National House Builder	Yes						Would only be interested if a conventional build. They also have concerns as to delivery rate due to the nearby competing schemes. Suggest that quality needs to reflect demand.
Norwegian House Builder	No						Previously reviewed the site on the basis of 100% volumetric product. This resulted in a negative land value. They will be very interested in looking at a revised scheme including panellised MMC; most likely in conjunction with a partner.

Soft Market Testing Results (continued)



Developer	Response Received?	Appetite to OJEU	Appetite for MMC	Achieve Delivery Rate?	Appetite for Build Lease	Interest?	Comment
National PLC House Builder and Contractor	Yes						Would work with a national house builder and Housing Associations. Have used panelised construction and would look at volumetric but concern over supply chain and mortgageability.
Housing Association	Yes		No comment		No comment		Appetite for section 106 units and additionality. Would recommend additional affordable housing to achieve delivery rates.
National House Builder and Contractor	Yes	No comment	No comment	No comment	No comment		They expressed an interest in the opportunity but provided limited comments on the detail of the scheme.
Pension Fund	No	-	-	-	-	-	No response received.
National House Builder	No	-	-	-	-	-	No response received.
Regional Housing Association	Yes		No comment		No comment		Appetite for an element of the scheme working in partnership with a National PLC House Builder.
Regional House Builder	Yes	No comment	No comment	No comment	No comment		The proposed criteria does not align with their operational model; therefore, not of interest at this time.

Soft Market Testing Results (continued)



Developer	Response Received?	Appetite to OJEU	Appetite for MMC	Achieve Delivery Rate?	Appetite for Build Lease	Interest?	Comment
Mixed Use Developer	Yes	-	-	-	-	-	Could not bid due to conflict.
Regional House Builder	Yes						Interest for an element of the scheme; however, would not enter into a consortium with a PLC House Builder.
National House Builder	Yes						Interested in the scheme. Have signed up to higher delivery rates previously – their concern is the rate of sale. Would consider partnering with a developer.

Summary of Results



JLL are supporting North Somerset Council to appoint a developer to deliver Phase 1, Parklands Village, Weston-Super-Mare. As part of this process we undertook soft market testing between August and September 2019 to understand the likely market appetite for the scheme and any actions the Council could undertake to further incentivise delivery.

To summarise:

- **Interest and Bidding Structure** – There was a good level of interest for the scheme from a mix of national house builders, contractors, MMC providers and housing associations. A number of parties suggested that they would work in consortium to deliver the scheme. In contrast there was limited interest from SME/regional house builder market partially due to the scale of the opportunity, MMC and that they do not typically not like acting in consortia with PLC house builders as they find it difficult to respond to price reductions.
- **OJEU Competitive Dialogue Process** – No concerns were raised from parties as to the attractiveness of the Council as a customer. Approximately half of the developers canvassed had previous experience with OJEU procurement exercises and would consider any future opportunities tendered via the OJEU route.
- **Modern Methods of Construction** – This is an important requirement for this opportunity. There was some concern over the Volumetric requirement and how commercially viable this would be. However, there was generally a good level of interest from national developers/contractors who had previous experience using MMC forms of construction.
- **Delivery Rate** – The general feedback from the market was that the delivery rate could be challenging. Options were suggested to encourage delivery, specifically vary the mix of units, for example increase the quantum of affordable housing (via grant funding or shared ownership) – subject to viability. Rate may be best satisfied by a 'dual brand' scheme.
- **Disposal Via Build Lease** – Feedback from the national housebuilders confirmed that a building lease would be acceptable. However, a SME suggested it would prevent them bidding due to the funding implications. A building lease limits the ability for a developer to secure development funding as they never own the freehold of the site.
- **Design** – There was very limited feedback on design however a comment received outlined that the quality of a scheme should be in line with market requirements.
- **LAAC Grant Funding** – The general feedback was that the Grant Funding was beneficial to the scheme subject to concerns raised in respect of delivery rate and MMC (discussed above).

JLL

*Achieve
Ambitions*

For further information please contact:

David Roberts

Director – Development Consultancy
31 Great George Street, Bristol BS1 5QD
T: +44(0)117 9305674
M: +44(0)7815 940868
E: David.Roberts@eu.jll.com

James Petherick

Director – Residential Development
31 Great George Street, Bristol BS1 5QD
T: +44(0)117 9305690
M: +44(0)7710 049085
E: James.Petherick@eu.jll.com

Parklands Village – Summary of Suitability of Disposal Methods

- *Control over design* – to ensure the scheme accords with the outline planning permission, LAAC Grant Funding Agreement and general aspirations for a good quality sustainable scheme.
- *Control over delivery* – to ensure the delivery of the scheme accords with the accelerated delivery timeframes and construction methods required in the LAAC Grant Funding Agreement.
- *Maximise market interest* – to ensure that a range of developers can tender for the opportunity if this wish to.

Key: Red = poor/not suitable, Amber = medium/potentially suitable and Green = good/suitable

Ref.	Control over Design	Control over Delivery	Limit Market Interest?	Comment on suitability
1.	Medium	Low	No	Not suitable – it would provide very limited control over delivery therefore is likely to conflict with the contractual obligations outline in the LAAC Grant Funding Agreement.
2.	High	High	Yes *	Not suitable – whilst in principle it would accord with the funding obligations it limits the potential developer market to only those pre-approved.
3.	High	High	In part	Not suitable – it is unlikely the market would consider a JV given the scale of scheme. Furthermore, it can be an expensive route and challenging if the Directors are not aligned.

4.	High	High	No	Suitable – the council have control over delivery through the Development Agreement and are protected against default as they retain the freehold ownership until the units are complete.
5.	High	High	No	Suitable – as stated above the council have control over delivery through the Development Agreement.

*Only pre-approved developers on the Homes England DPP 3 Panel would be able to tender for the opportunity.

Based on the above the most suitable options are Development Agreement via Phase Land Release or a Building License.



Parklands Village – Advice on disposal method

JLL is instructed by North Somerset Council (NSC) to act as property advisor in the disposal of Phase 1 of Parklands Village (the site).

The site will be disposed of using the OJEU competitive Dialogue process. The OJEU process allows for the transfer of the land to be made using different methods. NSC has asked JLL to provide advice on the forms of sale available and which is best suited to this disposal process.

The key aims for NSC are to procure a development partner that will:

- Create a sustainable and high quality housing development
- Provide 30% of the homes as affordable housing
- Adhere to the requirements of the LAAC Grant, being
 - o A build out rate of 7.2 units per calendar month
 - o 350 units to be build using a panellised form of Modern Methods of Construction (MMC)
 - o 75 units to be build using a volumetric form of MMC

These requirements will need to be secured through contractual obligations and mechanisms placed upon the development partner. It is therefore necessary that NSC maintains a degree of control over the development of the site, whilst not effecting market demand for the opportunity through the imposition of onerous obligations. We have considered various forms of disposal method in reaching a recommendation.

1. **Conditional sale of the site to a developer.** In this scenario, the site would be marketed through an OJEU process seeking best consideration for the opportunity, with offers made subject to planning permission. A preferred purchaser would be selected and a conditional contract would be exchanged. The purchaser would submit a planning application, with NSC (as land owner) being able to make reasonable comments on the details only. Upon grant of planning (reserved matters) and subsequently legal completion, the freehold of the site would be transferred to the purchaser to commence development.

This is not a viable option. Whilst this is entirely suitable for a private land owner seeking best value it does not provide NSC with the control over delivery, quality and MMC and is therefore likely to breach the contractual obligations the Council has in respect of the LAAC Grant.

2. **Procure a developer using the Homes England DPP3 Panel.** Homes England has pre-qualified a panel of developers in the south west region. This list of 38 panellists comprises a mixture of house builders, housing associations and contractors. An opportunity would be tendered to this list only if the DPP 3 route was
-

chosen. Homes England's standard legal documentation would be used to transfer the site, either freehold or via a development agreement.

We have considered this approach as the procurement method would satisfy H.E's grant conditions. The downside is the site can only be marketed to panel members. This would not satisfy NSC's objective in respect of quality as the panel does not include a substantial number of local and national developers who produce high quality product.

Panel members will not be put off bidding for the site outside of the DPP3 process and therefore we envisage there being little risk to not using DPP3.

- 3. Corporate Joint Venture (JV).** Generally used for larger or more complicated sites/ownerships, in this scenario the parties would enter into a 50/50 (or share to be decided) off-balance sheet joint venture with absolute equality of risk and returns. In the first instance the JV would legal mechanism by which land interests are pooled (with the developer partner 'buying' 50% of the land interest from NSC) and agreed plans for comprehensive development jointly promoted and progressed.

It is unlikely that NSC would wish to contribute funds to the development of the site and therefore this would not be a 50/50 JV as site value will be far eclipsed by construction costs. The developer would therefore need to take a priority return of the profit share.

Each party would nominate a number of Directors to the JV Board, which would meet monthly with the parties having equal voting rights.

A corporate JV is a complicated mechanism that is costly and time consuming to set up and run. The ultimate reward is a profit share in the eventual development. JV's of this type are principally used where there is a significant regeneration scheme involving public land or a large urban extension (say, 2,000 plus units). They are rarely used for smaller sites.

We believe that the market would not consider a JV of this type appropriate for the scale of scheme proposed. A JV is expensive to run and can be slow to respond to challenges or opportunities if the Directors are not aligned. We would not recommend that this type of disposal method is used.

- 4. Development agreement via a building lease.** A Development Agreement is a contractual arrangement that binds the purchaser into certain obligations around delivery and quality, amongst other matters. In this scenario the freehold of the site is not passed to the development partner, instead it is retained by the land owner (NSC) until such time as the partner has fulfilled their obligations in respect of the Development Agreement.

A conditional Development Agreement would be exchanged and upon satisfaction of conditions (i.e grant of reserved matters) the Agreement will go unconditional and a Building Licence entered in to with the developer. This allows the developer access to the site to construct the scheme. The developer does not take freehold ownership; rather, the freehold of each plot will be disposed of to the eventual plot purchaser upon satisfactory completion of the unit.

This form of Development Agreement is frequently used by Homes England and larger house builders who develop/build out sites using their balance sheet rather than debt borrowing have few concerns about a Building Lease.

The Council is well protected against default by the developer as they retain the freehold of the site. The Development Agreement should contain adequate step-in provisions to allow completion by the Council or 3rd party developer should the original partner fall away.

NSC can use this mechanism to ensure that the scheme is delivered to the quality and at the rate required by the LAAC Grant.

The potential downside of this form of disposal is that the developer never has ownership of the land in order to borrow against it for, say, development funding. There are few lenders in the current climate able to lend development finance against a building lease. This may narrow the field of potential developers, however we believe that the size of opportunity here restricts the number of developers capable of building the scheme out at the rate required to the larger house builders only. Therefore we do not consider this a large risk.

5. **Development Agreement via phased land release.** This form of Development Agreement can be used on a similar basis to that outlined above, but instead of releasing the freehold of plots on their completion, the freehold of land parcels is released to the developer upon the satisfaction of obligations. These may include the completion of a previous phase of developer or the payment of monies.

The benefit of this form of land release is that it allows the developer to borrow against their freehold plot for debt funding. The funder can take adequate security over the plot. This therefore suits smaller house builders. For the reasons outlined above in respect of the quantum of development, we do not believe that this is suitable for the subject site.

Conclusion

The scenarios above represent the most common ways of disposing of development land for housing. We have not discussed the opportunity for forward funding or forward commitment as the subject site does not sit in a location where there is investor demand for build to rent or student accommodation.

In selecting a disposal route there is a need to balance control for NSC and procuring a route that is understood by the development community. There are numerous obligations being placed on the developer/scheme through the LAAC Grant and adding an onerous procurement method on top of this will adversely effect market demand.

We recommend that NSC consider the Development Agreement / Building Lease route as it provides a good level of control over the development and is recognised by Homes England and by leading house builders as an established route.

NSC should seek legal advice in order to make sure they are comfortable with the risks and rewards associated with this process.

James Petherick MRICS
Director – Residential Development
JLL