

EDGAR STREET GRID DEVELOPMENT – SELECTION OF PREFERRED URBAN VILLAGE STRATEGIC PARTNER

PORTFOLIO RESPONSIBILITY: ECONOMIC DEVELOPMENT AND COMMUNITY SERVICES

CABINET

10 JULY 2008

Wards Affected

County-wide

Purpose

To approve the selection of the preferred strategic partner for the Edgar Street Grid Urban Village and authorise detailed negotiations with that supplier prior to consideration of a full Development Agreement.

Key Decision

This is a key decision as it is likely to be significant in terms of their effect on communities living or working in Herefordshire in an area comprising one or more wards. It was included in the Forward Plan.

Recommendation

THAT:

- a) **Cabinet agrees the recommendation of the ESG Board as to the preferred Urban Village Strategic Partner and;**
- b) **authorises officers to agree a Heads of Terms agreement with the preferred partner and commence negotiations on a development agreement which will be subject to a further report to cabinet.**

Reasons

The Urban Village will be the next phase of the Edgar Street Grid (ESG) redevelopment to come forward after the initial Retail Quarter redevelopment. A strategic partner is required to assist ESG Herefordshire Ltd secure the necessary land and property acquisitions throughout the designated Urban Village area.

The preferred partner selection process requires Herefordshire Council to approve the selection of the preferred strategic partner for the Urban Village. The ESG Herefordshire Ltd Board and Advantage West Midlands (AWM) have been involved in the selection process supported by external specialist consultants.

This report sets out the process that has been followed in the procurement of a strategic partner for the Urban Village. The process demonstrates that it has been robust and independent; and that the preferred strategic partner has been selected on technical and financial merits that justify preferred status. Once selected, negotiations must be undertaken with the preferred partner to establish the detail of the future scheme to be

incorporated in a Development Agreement. This will be the subject of a future report to Cabinet.

Considerations

1. ESG Herefordshire Ltd is a joint venture company set up, following Cabinet approval on 15th July 2004, by Herefordshire Council and Advantage West Midlands (AWM) to coordinate the redevelopment of the 100-acre (40.7 hectares) Edgar Street Grid site in Hereford. The Company is managed by a Board of fourteen Directors and a company secretary, overseeing the work of a small executive team. The Council is represented on the Board by the Leader and Chief Executive.
2. The Unitary Development Plan (UDP) and the subsequent Supplementary Planning Document (SPD) for the ESG development, informed by the ESG Masterplan provide a robust planning policy and design framework for the overall redevelopment of the site.
3. The Urban Village covers an area of approx 30 acres primarily within the northern element of the ESG site, please see appendix 1 for a map of the Urban Village site within the ESG boundary. The Urban Village is not one site but rather an allocation of a number of correlating sites that together will be developed for residential purposes. The site currently includes the Merton Meadow car park, the Essex Arms training ground, and numerous private commercial properties including the large Jewsons builder's merchants.
4. ESG Herefordshire Ltd, with advice from AWM, Herefordshire Council and commercial and residential property consultants DBK Back, determined that the appropriate method of procurement for a strategic partner should be on the basis of formal submissions and additional competitive dialogue from prospective strategic partners.
5. The primary principle behind the decision to appoint a strategic partner was to attract the external funding necessary to deliver residential development plots to the market, a project that would ordinarily be outside the scope and finances of the public sector. This brings to the process the added benefits of the strategic partner's expertise and experience of delivering other residential schemes; their ability to provide an element of branding and marketing for the scheme, their ability to attract top quality architects, urban designers, and other expert consultants; and their proven ability to negotiate with house builders in order to attract the best value to the site.

Role of the Strategic Partner

6. The preferred strategic partner will be a Registered Social Landlord (RSL) and as strategic partner for ESG Herefordshire Ltd their role will be to secure site and land assembly for the development plots within the Urban Village, and to deliver appropriate supporting site infrastructure i.e. utilities. A contractual Joint Venture agreement will be entered into with ESG, Herefordshire Council, and AWM to bring forward and deliver residential development plots, including affordable housing, to the market place.
7. To achieve this goal the strategic partner will negotiate and purchase the necessary land and property assets to assemble development plots, they will make an outline planning application, together with the necessary supporting studies, for the overall Urban Village site, and appoint and fund a dedicated Project Manager for the delivery of the Urban Village. This will involve a considerable long term capital investment to

enable the site and land assembly to take place.

8. It is the intention that the Council land and property assets within the Urban Village will need to be ring-fenced for inclusion within the Joint Venture agreement to be negotiated with the strategic partner. Additionally alternative car parking provision will be required to replace the spaces lost within the Merton Meadow car park. These projects will be the subject of a further Cabinet Report setting out the detailed implications from a financial and service delivery perspective.

Community Benefits

9. The proposed residential mix will bring significant amounts of new residential units to the centre of Hereford city, in a very sustainable location, and construction will be on a brownfield site reducing the pressure for new residential development on Greenfield land. The Council's current policy of 35% affordable units within developments will be applied, the strategic partner will take ownership and management of these properties once constructed. It is calculated that approximately 20 new jobs will be created by the development of the Urban Village. Additionally there will be numerous construction jobs created during the physical construction phase.
10. An important aim of the Herefordshire Unitary Development Plan (UDP) is to protect and enhance the sub-regional employment and service role of Hereford City centre. The redevelopment of the site will support this aim by providing a strategic housing site, including an affordable element, and attracting significant private sector investment into the City. There will be a significant up front investment within the city, both from a financial point of view and from the strategic partner on an organisational perspective, this will continue into the long term and will involve full engagement with the local community.

Procurement Process

11. At its meeting on 12th July, 2007 Cabinet approved the marketing of the Council's assets within the ESG Urban Village site, and were advised that ESG Herefordshire Ltd would commence the procurement process to select a preferred strategic partner for the Urban Village.
12. All procurement in the public sector over a specified limit (currently £3.5 million) is subject to the EU Treaty principles of non-discrimination, equal treatment and transparency. The EU Public Procurement directives require contracting authorities such as Herefordshire Council to provide details of procurement in a prescribed format, which are then published in the Official Journal of the European Union (OJEU).
14. All companies replying to an OJEU advertisement must have an equal opportunity to express interest in being considered for tendering and those companies selected to tender receive the same information on which to make their bid.
15. A four-stage process has been followed to select the preferred strategic partner for the Urban Village development. Legal advice on the process to be followed was secured from both the council's legal services and ESG Herefordshire Ltd's legal advisors Pinsent Masons. This has been compiled to comply with OJEU standards. The table below sets out the procurement process followed:

Launch.	Marketing Launch – 25 th July 2007 Submission of Pre Qualification Questionnaire (PQQ). 27 th August 2007
Stage 1.	Long list. Selection from 10 PQQ submissions down to 5 developers. 17 th September 2007
Stage 2.	Short list. Selection from long list of 5 down to 3 developers. 26 th November 2007
Stage 3.	Selection of 2 parties from short list. 21 st April 2008.
Stage 4.	Preferred developer selection from 2 parties. July 2008

16. The site was launched to the market in July 2007. Potential strategic partners were invited to submit PQQ's to register interest in the development opportunity, ten of which were received by ESG Herefordshire Ltd within the deadline set.
17. Five potential strategic partners were selected from the initial PQQ stage to go through to the Long List. This selection was made by a panel comprising officers from ESG Herefordshire Ltd, AWM and the Council on the basis of previously agreed selection criteria, which included the developer's track record of similar schemes; their skills and technical ability to complete the project; and their general methodology and approach to the project.
18. The five long listed strategic partners were provided with a "Topic Area" based around an area within the site identified for the Urban Village. The purpose of the exercise was for the parties to prepare an indicative development proposal which would outline their strategic thought process and overall ability to create an exciting and attractive place to live and visit.
19. In April 2008 the strategic partners attended interviews undertaken by officers from Herefordshire Council, AWM and ESG Herefordshire Ltd. Two strategic partners were then invited to go forward to the Short List stage, Bromford Housing Group, and Sanctury Housing Association. A third strategic partner (Taylor Wimpey Major Projects) was held in reserve in case of default by either of the remaining two.
20. The short listed parties were invited to firm up their suggested approach to the whole Urban Village, taking into account issues such as phasing, housing mix, design and respond to draft legal heads of terms. This was to clarify methodology and approach rather than seek a scheme design.
21. To co-ordinate and assist the decision-making process a "Technical Panel" was commissioned by ESG Herefordshire Ltd, to oversee scrutiny of the legal selection process and provide an expert analysis of the merits of each bid on different technical aspects.
22. The panel consisted of a core of public sector officers who had involvement from the Long List stage, and expert consultancy advice provided by DBK Back, commercial and residential property consultants. Panel membership is set out below:

Urban Village Preferred Strategic Partner Technical Panel

Permanent Members	
Jonathan Bretherton	ESG Chief Executive and Chair of ESG Urban Village Sub Group.
Gerrard Williams	Development Director – ESG Herefordshire Ltd
Malcolm MacAskill	Head of Asset Management & Property Services - Herefordshire Council
Richard Gabb	Head of Strategic Housing
Nigel Hudson	Development Team Leader - Advantage West Midlands
Expert Consultancy	
Kevin Foreman	DBK Back Associates

23. Prior to the commencement of the procurement process, the Board of ESG Herefordshire Ltd agreed the criteria against which each of the bids must be judged. As required by the OJEU process, the basis of assessment was notified to both short listed strategic partners. The assessment used a scoring matrix to evaluate various criteria within the bids; a copy of the scoring matrix used to assess the Short List bids is at Appendix 2.

24. There are four criteria within the assessment matrix:

- Overall approach of the proposal and vision;
- Planning, design and development content;
- Project deliverability;
- Financial proposal.

Detailed descriptions of the criteria and the weighting attached to each are included within the scoring matrix and can be viewed at Appendix 2.

25. The benefit of the matrix assessment process is that it has enabled the technical panel to determine the ranking of the bids through a robust and tested methodology and provides an auditable means of recommending a preferred developer to the Board of ESG Herefordshire Ltd and to Cabinet.

26. The permanent members of the technical panel assessed each strategic partner's submission against the matrix. Assisting in this assessment, and adding to the individual expertise and experience of individual members, was the independent consultancy element of the panel.

ESG Herefordshire Ltd Board Recommendation

27. The Board of ESG Herefordshire Ltd will consider the outcome of the evaluation process at its meeting on 7th July 2008 and will make a recommendation at this meeting as to the preferred strategic partner for the Urban Village. Cabinet will be informed of the preferred partner via the ESG Chief Executive giving a verbal notification at the Cabinet meeting.

Next steps

28. Following confirmation of the preferred strategic partner Heads of Terms will be negotiated and signed between the Council and the preferred strategic partner. They will set out the basis on which the detailed negotiations regarding a Development Agreement will be undertaken.
29. Detailed negotiations regarding the treatment of the Council's assets will be held within this period to inform the development agreement. The agreement will also set out the financial considerations, contractual obligations of all parties, scheme details, and include a refreshed Masterplan.
30. A further report will be brought to Cabinet to advise of the outcome of these negotiations and seek agreement to enter into a formal development agreement.

Financial Considerations

31. Herefordshire Council owns approximately 8 acres within the Urban Village site, including the significant landownership of the Merton Meadow car park. Herefordshire Council has recently acquired additional land within the site, on behalf of ESG Herefordshire Ltd, utilising AWM funding. Herefordshire Council land ownerships within the Urban Village are shown in Appendix 3.
32. As mentioned above the strategic partner will be responsible for the acquisition of the land and property necessary to bring forward development plots to the open market. This will involve significant up front financial investment from the strategic partner and the inclusion of the Herefordshire Council assets within the Urban Village to assist in the formation of residential plots or the essential infrastructure required to service them.
33. The detailed financial implications, including asset transfer, will be negotiated through the Development Agreement process, and will be included within a further report to Cabinet before any agreement is finalised.
34. The negotiation of the Heads of Terms, Development Agreement, and CPO Indemnity Agreement may require the Council/ESG to incur costs of up to £100,000 in respect of professional fees. This sum will be at risk until the Heads of Terms are finalised. On finalisation of the agreement these costs will be reimbursed by the strategic partner.
35. A detailed financial model for the regeneration of the Urban Village of the ESG project will be prepared as the Development Agreement is negotiated. Cabinet will receive a further report on the Development Agreement prior to its final determination and this report will include the detailed financial model for the project and an assessment on the implications for the Council's Medium Term Financial Strategy. The financial strategy Council endorsed on 7th March 2008 aims to ensure that the Council's cash resources are allocated in line with corporate priorities such as the ESG project. It therefore highlights the fact that the ESG Project may have implications on both revenue and capital budgets as the project unfolds and more detail becomes available. Cabinet's financial strategy recognises this potential pressure by leaving capacity within both the revenue and capital budgets in the event that it is needed for this and other key corporate priorities.

Risk Management

The technical panel comprised of representatives from the three organisations with vested interests in the ESG development - Herefordshire Council, Advantage West Midlands, and

ESG Herefordshire Ltd. The expertise of these representatives was backed up by specialist knowledge in specific areas by consultants appointed by ESG Herefordshire Ltd.

Independent advice has been sought throughout regarding the procurement process to be followed.

Alternative Options

To appoint an alternative strategic partner; or not appoint either of the two short listed partners.

Either would have implications for the role and integrity of the ESG Herefordshire Ltd Board and would go against a procurement process which has already been assessed as technically robust and that follows an approved OJEU methodology.

Additionally, a decision not to progress the proposal would result both in damage to the reputation of the authority and loss of significant resources to support the regeneration of the city.

Consultees

As this process is aimed at selecting a strategic partner for ESG Herefordshire Ltd and at this stage is not concerned with the actual physical regeneration of the Urban Village no public or stakeholder consultation has taken place in either the selection process or as a part of the development of strategic partners bids.

Appendices

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| Appendix 1 | Map of proposed ESG Urban Village. |
| Appendix 2 | ESG Scoring Matrix for final Urban Village Strategic Partner Bids. |
| Appendix 3 | Herefordshire Council land and property ownerships within the Urban Village. |

Background Papers

None.