

Appendix 3: Consideration of delivery options within a Wholly Owned Company

Activities Required	
Pre-Planning Application Activities	<ul style="list-style-type: none"> • Utilise existing site information - surveys / site constraints / pre-app advice etc.
Obtain Planning Permission	<ul style="list-style-type: none"> • Dev Co to obtain planning permission / discharge pre-development conditions / seek reserved matters approvals • CBC to obtain planning permission prior to transfer of land into Dev Co using Dev Co on a consultancy basis
Infrastructure Provision	<ul style="list-style-type: none"> • On site by site basis • Or on strategic partnership basis for all or selected sites – giving certainty of work programme and delivery timetables.
Mixed Use Sites	<ul style="list-style-type: none"> • Development and retention of commercial properties on disposal of mixed-use, housing-led sites. • Mixed-use elements to include community facilities, retail or commercial development, open space ancillary to and in support of housing • Construction of housing above commercial units / health hubs / community facilities • Construction of infrastructure to support residential and mixed-use development
Design	<ul style="list-style-type: none"> • Market intelligence on traditional build and modern methods of construction • Achieve designs that provide attractive homes that can be adapted easily to meet occupier’s needs • Market intelligence ensure that attractive saleable properties are developed • Design to achieve affordable housing standards as a minimum • Develop design attractive to market – addressing need to reflect different site locations – urban and rural – can be achieved by standard design but range of finishes • Develop standard property design to enable certainty of product design and replicability
Construction	<ul style="list-style-type: none"> • Market intelligence on traditional build and modern methods of construction • Market intelligence to recognise the need for attractive saleable properties to be developed • Develop standard property design to enable certainty of product design and replicability • Establish capacity and ability to build out according to Dev Co timetable • Demolition, site remediation and enabling works to prepare sites for residential or mixed-use development • Construction of infrastructure and residential units
Post Construction	<ul style="list-style-type: none"> • Allocation into Affordable / Market Rental units • Sales and marketing of homes • Aftercare and maintenance of Affordable / Market units • Attract occupiers for commercial space developed on mixed use sites. • Management of completed units and open space / community facilities

<p>Option 1. Delivery on individual / groups of sites through OJEU procurement processes – direct procurement</p>	
<p>Contract for construction on individual / groups of sites through OJEU procurement processes using a design / build contracts or a joint design and build contract.</p> <p>This is a familiar route leaving control with Dev Co to develop a standard specification across several sites (potentially grouped either by size, location or building type). The contractual arrangements would reflect the planning stage of the site and could include the requirement for the contractor to achieve outline planning or submission of reserved matters. Dependent upon the number of sites within the contract it may be possible to achieve some economies of scale and establish a risk / reward share with the contractor. Alternately awarding work to several contractors could spread the risk of contractor failure and would make an attractive proposition for small / medium builders.</p> <p>Design and Build is a relatively low risk procurement option for the employer, in terms of cost and time. There can be a risk related to design and quality, particularly if the employer’s requirements were not properly gathered and if insufficient time went into examining the contractor’s proposal.</p>	
<p>Advantages</p> <ul style="list-style-type: none"> • Low risk in terms of time and cost • Control – direct client / contractor relationship • Scale – ability to procure building across several sites at the same time • One procurement – potentially use DPP3 • Control specification, design and levels of AH • Ability to split contracts across several contractors -mitigate risk and speed up delivery • Economies of scale - may be possible given the low risk profile for the contractor – planning permission secured and a pipeline of sites giving certainty of work • Ability to incentivise speed of delivery if contract of sufficient scale. • Attractive to the contractors as there are indications that the residential market is softening – a secure pipeline of work would attract competitive bids as it ‘de-risks’ the sites 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Individual contracts may not offer the opportunity to build a strategic relationship with contractors as they would have no ‘buy in’ beyond the specific contract. • Contract management - time consuming if not procured on a sufficiently large scale • No economies of scale if split across several contracts • Risk to design and quality if employer’s requirements we not understood or changed during the term of the contract.
<p>Financial Profile</p> <p>Assumption of provision of 30% Affordable housing on a 70% affordable Rent / 30% Shared ownership basis plus 20% Market Rent.</p> <p>The borrowing requirements to achieve the above using this route would be significant – modelling is under way to demonstrate the ‘upfront’ borrowing required and an analysis of the net position once the 50% market units have been sold.</p> <p>This is the potentially most financially efficient option as Dev Co would borrow/ build and sell the market units on completion and pay down debt at that point.</p>	

Delivery Options
Option 2 - Delivery via a strategic partnership / development manager arrangement

Procurement through strategic partnership / development manager arrangement where services are secured from a development management company to manage the property development process. Development managers do not take an interest in the land and do not fund or pay for any development expenditure but make the principal professional appointments with the building contractor and professional team respectively. An overarching contractual arrangement is entered into and the partner then engages with the market to procure arrangements for delivery.

This model would lend itself to two variations

- the procurement of infrastructure where the partner would be commissioned to take a strategic overview of the infrastructure requirements across all or several sites and then procure the provision of infrastructure.
- the procurement of infrastructure and construction of residential and commercial / community facilities

The DM could be paid in a variety of ways; fixed fee payable on completion of key milestones, a percentage of development costs, a percentage of income (sale proceeds or income), success fee paid on the profitability of the development over a certain threshold or a combination of these methods. An EU compliant procurement process would be needed to procure the development manager and any subsequent construction services unless the value of the contract did not reach the EU limits (if the smaller sites or fewer sites were dealt with)

Advantages

- Scale – the arrangement could cover all sites and would lend itself to large scale procurement
- Speed of provision of infrastructure and residential units.
- Useful on large portfolio or large sites but unnecessary on smaller sites
- Expertise (obtained without burdening Dev Co with high levels of staff dealing with fluctuating demands and portfolio)
- Ability to incentivise delivery
- Attractive to the contractors as there are indications of the residential market is softening – a secure pipeline of work would attract competitive bids as it ‘de-risks’ the contractors’ margins

Disadvantages

- Loss of day to day control – can be mitigated by a clear line of authorities and close working relationship.
- Cost – further ‘client’ layer of management – mitigated as lower levels of staff costs within Dev Co / lower levels of consultancy support

Financial Profile

Assumption of provision of 30% Affordable housing on a 70% affordable Rent / 30% Shared ownership basis plus 20% Market Rent.

The borrowing requirements to achieve the above using this route would be significant – modelling is under way to demonstrate the ‘upfront’ borrowing required and an analysis of the net position once the 50% market units have been sold.

This model may offer a reduced return compared to option 1 – as the Development Manager would be paid a fee which would be factored into the model, however the arrangement would reduce the number of staff required within Dev Co and costs could be saved. This option follows a similar profile to option 1 as Dev Co would borrow/ build and sell the market units on completion and the DM fee would be treated as part of the development

costs.

Option 3. Developer led – build 100% then CBC forgo capital receipt to purchase the affordable housing and market rental housing.

Delivery through a housebuilder led arrangement where contractual arrangements are entered into through a competitive process and where the housebuilder builds out 100% of the development and then buys the land on which the market housing is provided whilst Dev Co retains the affordable and market rental units.

This arrangement is potentially attractive as it reduces the level of borrowing needed to build the affordable and any market rental units. The housebuilder would benefit from a secure pipeline of sites with the benefit of planning permission and this would reduce their risk and consequently should reduce the margin at which they are content to operate.

Contractual arrangements would set out the value of the land, the development programme, the timing of delivery and the development costs, this would then enable a calculation to be undertaken to determine the balance payable to the housebuilder for the affordable and market rental units.

Advantages

- Lower borrowing.
- Speed of delivery – arrangements to deliver Dev Co units first
- Market sale risks borne by the housebuilder

Disadvantages

- Loss of control over design – housebuilders would have a template style
- Loss of control of site design
- Financially less favourable – developer’s margin on top of construction costs and higher cost of capital for housebuilder than for Dev Co.
- Complex procurement
- Housebuilder may seek to load the development costs into the affordable and market rental properties to increase the value of the market units.
- Unlikely that Dev Co would be able to invest in infrastructure and consequent uplift in value.

Financial Profile

Assumption of provision of 30% Affordable housing on a 70% affordable Rent / 30% Shared ownership basis plus 20% Market Rent.

This model requires a lower level of borrowing – the housebuilder would construct the AH and MR properties on behalf of Dev Co and would then receive the proceeds of sale of the market units. The cost of the AH and MR properties would be in part