

Report for: Cabinet, 14 February 2017

Item number: 10

Title: Haringey Development Vehicle – Appointment of Preferred Bidder

Report authorised by: Lyn Garner, Director of Regeneration, Planning & Development

Lead Officer: Dan Hawthorn, Assistant Director for Regeneration

Ward(s) affected: All

**Report for Key/
Non Key Decision:** Key

1. Describe the issue under consideration

- 1.1 The purpose of the report is to advise Cabinet of the outcome of the Competitive Dialogue procurement process under the Public Contracts Regulations 2015 authorised by Cabinet on 10 November 2015, to procure an investment and development partner with which to establish the Haringey Development Vehicle ('HDV').
- 1.2 Cabinet is asked to approve the selection of the preferred and reserve bidders; to approve the next stage of work to refine and clarify the preferred bidder's proposal, with a view to establishing the HDV; and to note the emerging arrangements for governance of and management of the relationship with the HDV.

2. Cabinet Member Introduction (Cllr Strickland, Cabinet member for Housing, Regeneration & Planning)

- 2.1 Haringey has a proud track record as well as an ongoing commitment to regeneration, social inclusion and poverty reduction and it is crucial we continue to develop innovative and bold plans that improve housing standards, educational outcomes and life opportunities for everyone in the borough, including the most vulnerable and disadvantaged.
- 2.2 Growth is at the heart of our ambitions for Haringey. Our residents need new homes to tackle the rising cost of housing and increased homelessness, and new jobs to improve their incomes and prospects. And growth in council tax and business rates is essential to a sustainable future for the Council and the services on which its residents depend. As a result of years of funding cuts and the removal of housing subsidy grant, Haringey, like many London boroughs, does not have enough funding to build large numbers of homes. Haringey faces a huge housing funding shortfall, with remaining Housing Revenue Account borrowing of £50m, but a repairs shortfall over 30 years of £250m against the full Decent Homes standard, and regeneration costs of around £900m on Love Lane and more than £1.5bn on Northumberland Park alone for new homes, associated infrastructure and community facilities.

- 2.3 There is of course a need to strike a careful balance between our ambitious plans to see significant and sustainable regeneration, including the building of many more affordable homes across Haringey in general, and in Tottenham and Wood Green in particular, with an equal focus on detailed project planning, risk management and value for money. The purpose of the development vehicle is to deliver on the commitments we have made to Haringey - creating new jobs, new business space, new green space, and ensuring there are schools, GP surgeries and community facilities. The Council will also retain democratic control, and decisions about each site will be made by the Cabinet, in public.
- 2.4 In agreeing this approach, we make clear commitments: to do our utmost to re-house council tenants in the area where they currently live and on similar terms, if that's what they want; that a Resident's charter is adopted, which sets out the expectations of Northumberland Park residents and is written by the residents themselves; that the development vehicle will be bound by our planning policy requiring 40% affordable housing; and that consultation with residents is guaranteed, with a commitment that sites can only be transferred to the vehicle once that has taken place.
- 2.5 This decision – to approve a preferred bidder with which to establish that vehicle – is a critical and exciting step towards delivering our growth ambitions. Crucially, the process which has led to this stage, and the work that lies ahead, have at their core the aims of securing the best possible growth outcomes for Haringey and the best possible financial position for the Council, while minimising and managing the risks to the greatest possible extent. While there remains inevitable risk in any development project, I am clear that the alternative path – of turning our back on growth, investment and opportunity – presents the far greater and graver risk, to the Council and to the people of Haringey.

3. Recommendations

It is recommended that Cabinet:

- 3.1 Notes the outcome of the Competitive Dialogue Procedure under the Public Contracts Regulations 2015 as outlined in this report.
- 3.2 Agrees to the selection of Lendlease as preferred bidder with whom the Council will establish the joint venture HDV.
- 3.3 Agrees to the selection of a reserve bidder as set out in the exempt part of this report.
- 3.4 Agrees to proceed to the Preferred Bidder Stage ('PB Stage') so the preferred bidder's proposal can be refined and optimised, in particular to formalise the structure of the vehicle, finalise legal documents and further develop site and portfolio business plans, as required to establish the HDV; and gives Delegated Authority to the Director of Regeneration, Planning and Development after consultation with the Leader of the Council to agree any further documentation as is required at the PB Stage.

- 3.5 Notes the emerging arrangements for governance of the vehicle and its likely shadow implementation, and emerging issues informing the management of the Council's relationship with the vehicle.
- 3.6 Agrees to receive a further report recommending approval of the final documentation to support the establishment of the HDV and agreement of the relevant business plans, following further refinement at preferred bidder stage.

4. Reasons for decision

The case for growth

- 4.1 The Council's corporate plan makes a strong commitment to growth. Specifically, it identifies the need for new homes to meet significant housing demand which is making decent housing unaffordable for increasing numbers of Haringey residents, and causing more and more families to be homeless. It also identifies the need for more and better jobs, to revitalise Haringey's town centres, increase household income for Haringey residents and give all residents the opportunity to take advantage of London's economic success. This commitment to growth is further reflected and developed in the Council's Housing Strategy and Economic Development & Growth Strategy.
- 4.2 Growth is also essential to the future sustainability of the Council itself. With Government grant dwindling, local authorities are increasingly dependent on income from council tax and – in light of recent reforms – business rates. Without growing the council tax and business rate base, the Council will increasingly struggle to fund the services on which its residents depend. Improvement in the living conditions, incomes, opportunities and wellbeing of Haringey residents will also not only improve their quality of life, but also reduce demand for Council and other public services.
- 4.3 The risks of failing to secure growth in homes and jobs – or of securing growth at low quantities, quality and/or pace – are significant:
- Failure to meet housing demand will lead to more and more families unable to afford a home in the borough, either to rent or buy, deepening the already stark housing crisis.
 - Failure to meet housing demand will also drive up levels of homelessness, not only leading to more households finding themselves in crisis, but also increasing the already significant pressure on the council budget through increased temporary accommodation costs.
 - Failure to increase the number of jobs in the borough will lead to fewer opportunities for Haringey residents to boost their incomes and job prospects, less vibrant and successful town centres with less activity and spending during the working day, and increased risk of 'dormitory borough' status as working residents leave the borough to work elsewhere.
 - Insufficient or poor quality housing, low employment and poor quality urban environments are all linked to poor public health outcomes which in turn place a burden on Council and other public services; improved outcomes for residents also create reductions in demand-driven public sector costs.

- Low levels of development reduce the Council's receipts in s106 funding and Community Infrastructure Levy, in turn reducing the Council's ability to invest in improved facilities and infrastructure (like schools, health centres, open spaces and transport) and in wider social and economic programmes such as those aimed at improving skills and employability.
- Failure to grow the council tax and business rate base will increasingly lead to a major risk of financial instability for the Council, and to further, deeper cuts in council budgets and hence to council services as Government grants dwindle to zero over the coming years.

Options for driving growth on Council land

- 4.4 The Council cannot achieve its growth targets without realising the potential of unused and under-used council-owned land. Accordingly, in autumn 2014 the Council commissioned work from Turnberry Real Estate into the options for delivering these growth objectives, either on its own or in partnership with the private sector. Turnberry also examined the market appetite for partnership with the Council to deliver new housing and economic growth.
- 4.5 In February 2015 Cabinet, on the basis of this work, agreed to commission a more detailed business case to explore options for delivery. At the same time, the member-led Future of Housing Review concluded (as set out in its report to Cabinet in September 2015) that a development vehicle was 'likely to be the most appropriate option' for driving estate renewal and other development on Council land.
- 4.6 The business case developed following Cabinet's February 2015 decision compared a number of options for achieving the Council's objectives, and ultimately recommended that the Council should seek through open procurement a private sector partner with whom to deliver its objectives in an overarching joint venture development vehicle. This business case, and the commencement of a procurement process, was agreed by Cabinet on 10 November 2015.

The joint venture development vehicle model

- 4.7 The joint venture model approved by Cabinet on 10 November 2015 is based on bringing together the Council's land with investment and skills from a private partner, and on the sharing of risk and reward between the Council and partner. The Council accepts a degree of risk in that it will commit its commercial portfolio to the vehicle, and will (subject to the satisfaction of relevant pre-conditions) also commit other property, as its equity stake in the vehicle. It has also to bear the costs of the procurement and establishment of the vehicle, and a share of development risk. However, in return, the contribution to its Corporate Plan objectives, including high quality new jobs, new homes including affordable homes and economic and social benefits, would be at a scale and pace that would otherwise be unachievable. The Council will also receive a financial return, principally through a share of profits, that it can reinvest in the fulfilment of its wider strategic aims as set out in the Corporate Plan.

- 4.8 Under this model, the development partner matches the Council's equity stake, taking a 50% share of the vehicle and hence a 50% share of funding and development risk. In return, and by maintaining strong relationships and delivery momentum, they obtain a long term pipeline of development work in an area of London with rising land values, and with a stable partner.

The preferred bidder decision

- 4.9 As well as approving the business case for establishing the HDV, at its meeting on 10 November 2015 Cabinet also resolved to commence a Competitive Dialogue Procedure under the Public Contracts Regulations 2015 to procure an investment and development partner with which to establish the HDV. Following a compliant procurement process, the preferred bidder is recommended in this report.
- 4.10 By approving the final stage of work with a single preferred bidder, paving the way for a final agreement and establishment of the vehicle later in 2017, Cabinet will be taking the next vital step in unlocking the considerable growth potential of the Council's own land and meeting a number of core Council ambitions.

5. Alternative options considered

- 5.1 In November 2015, Cabinet considered and approved a business case for establishing an overarching joint venture vehicle to drive housing and job growth on council land. That business case identified and assessed a number of alternative options for achieving the Council's objectives, and found that the overarching joint venture vehicle would be the most effective mechanism of achieving those goals.
- 5.2 The Council has reserved its position to not appoint any of the bidders in the event of the bids not being satisfactory, or otherwise not wishing to proceed. The report outlines the benefits and projected outcomes that will arise from the appointment of the proposed preferred bidder, and how they meet the Council's objectives and aspirations as set out in the November 2015 report to Cabinet. If the Cabinet chooses not to appoint any bidder, it will not obtain these likely benefits.
- 5.3 Notwithstanding the above, choosing a preferred bidder does not at this stage commit the Council to enter into an agreement, or indeed to the establishment of the HDV at all. That decision is taken after the close of the preferred bidder stage and will be the subject of a further report to Cabinet.
- 5.4 The Council has within its procurement documentation made clear to bidders that bidders' participation in the process is at their own expense, that the Council will not be responsible for bid costs and that it is not obliged to accept any tender.

6. Background information

The importance of growth

- 6.1 As set out in section 4 above, growth in housing and jobs is key to the Council's long term strategy for the future of the Borough. Growth is needed to meet the needs and expectations of current and future residents, and to help them prosper. Housing and employment will improve the quality of life for residents, reduce demand for Council and other public services. Further, the resulting growth in Council tax and business rate income will help to put the Council's finances on a more sustainable long term footing as grant funding and other revenues decrease.
- 6.2 The Council has made a major commitment to growth in housing and employment through the Council's own Corporate Plan 'Building a Stronger Haringey Together', and through its own contribution to the London Plan, which says that the Borough needs to provide 20,000 new jobs and 19,000 new homes over the next 15 years. The nature and scale of these ambitions are further set out in the Council's Economic Development and Growth Strategy and Housing Strategy. For Tottenham, the Strategic Regeneration Framework sets out the need to deliver at least 10,000 new homes and 5,000 new jobs in Tottenham over the next twenty years. In Wood Green, a draft Area Action Plan – based on a high growth vision for the town centre – was approved by Cabinet in January 2017 and will be the subject of further public consultation later in 2017.

Delivering growth on Council land

- 6.3 To deliver economic growth and provide new housing on the scale required, the Council has to use its own landholdings. Estate renewal on the Council's large and medium sized estates also provides a major opportunity to increase the number of homes, to improve the mix of tenures and sizes and to address the condition of the housing stock.
- 6.4 Strategically there are a number of factors that demonstrate Haringey's readiness for development of new homes and jobs on a scale that such a vehicle could deliver: in planning policy terms, with the development of the Local Plan, site allocations and Area Action Plans for Tottenham and Wood Green; from the Council's work on regeneration with the Strategic Regeneration Framework for Tottenham, and the emerging Wood Green Investment Framework; and with the Housing Strategy and the Housing Investment and Estate Renewal Strategy.
- 6.5 The Council does not have the financial resources to achieve its Corporate Plan objectives on its own land alone. In common with many local authorities and public sector bodies, the Council has a demonstrable shortage of investment capacity and expertise to deliver the schemes required.
- 6.6 The value of seeking a private investment partner is that they will bring both capital resources, and skills and expertise to help achieve the Council's objectives. Financial returns will accrue on a phased basis giving the Council the option to spend these on further development (including affordable housing), on wider social and economic benefits or on other corporate plan objectives. During the Future of Housing Review, the member review group felt that in principle, some kind of development vehicle was needed as the Council has little choice of option to achieve its objectives.

- 6.7 In autumn 2014, the Council commissioned Turnberry Real Estate to carry out a high level feasibility study of the options for driving development, as well as soft market testing to see if there was interest from potential private sector partners in taking forward development in Haringey. Exploratory discussions with a range of developers, investors and development managers – the potential private sector partners – confirmed that this was indeed the case. The market sees Tottenham and Wood Green as areas of high potential, believes in the Council's 'affordable London' message and shares the interest and belief in mixed tenures including private rented housing. The market has a growing confidence in the Council's leadership.
- 6.8 Following the approval of Cabinet on 10 February 2015, the Council appointed commercial advisers (Bilfinger GVA with Turnberry Real Estate) and legal advisers (Pinsent Masons) to examine in detail the feasibility of a joint venture development vehicle for Haringey, alongside other options for driving development, and to work with officers and advise the Council on the procurement of the investment and development partner and the establishment of the HDV.

The Future of Housing Review Group

- 6.9 At the same time as this work was underway, the Council's separate review of the Future of Housing demonstrated forcibly that there is insufficient capital funding available to deliver all the Council's aspirations, and because of that the potential options for maintaining homes, delivering new housing and economic growth are extremely limited. It also concluded that a joint venture development vehicle may be a potential solution.
- 6.10 The report of the independent advisor supporting the review noted that:
- a range of development vehicles has been established country wide. These are predicated on carrying out regeneration and development through use of local authority assets. They can be local authority owned companies which operate outside the Housing Revenue Account, borrowing and ultimately holding assets in the General Fund. Alternatively, they can involve the private sector in a number of forms usually in some form of partnership or joint venture, generally on a 50:50 shared basis. In this case, the Council puts its land or buildings into the vehicle, and the private sector partner brings finance, skills and business acumen.
 - where a development company is established, it is most likely to be developing new housing, frequently through demolition and redevelopment of existing properties. It is unlikely to be established principally as a refurbishment vehicle. The premise of the company is likely to be based on enhancing land values, predominantly by intensification of development. They will not only deliver housing but often employment and retail uses as well. The purpose of this model is to increase the available stock of socially rented and affordable housing, and there is not likely to be a net loss of social housing, at least on a room by room basis, when considered across the area as a whole.

- as far as the housing produced by such a vehicle is concerned, the review noted that tenure will vary from social housing, through ranges of affordable to open market housing. The ultimate ownership of such social and affordable housing can also differ. It may be returned to the Council, or passed to a housing association or indeed held in the company. At present local authority controlled companies can hold property exempt from the right to buy, but the Government has signalled its intention to remove this exemption. This will leave joint venture vehicles, part owned by the private sector, as the only mechanism whereby properties can be protected for social use. The relationship with tenants, where a development vehicle is proposed will be one of rehousing and return, rather than of transfer. Leaseholders will effectively negotiate on an open market sale basis; with of course the ultimate possibility of compulsory purchase.
 - the governance and financial structures will vary from case to case. Subject to the viability of their schemes such vehicles have a significant part to play in increasing new build homes, and of bringing about regeneration. The down side is that Councils taking part in such vehicles do take on some development risk. When such vehicles are successful, they can provide Councils with a long term revenue return, and the opportunity to enhance social and community provision in an area.
 - the overall viability of the proposals will depend significantly on the location of the estate and existing / potential density of the estate. It will also depend on the scope to produce some market sales and market rented properties in order to cross subsidise the replacement social (or affordable) rented dwellings.
- 6.11 The member review group that drove the Future of Housing project concluded that *'To deliver improvements to homes on major estates, the Review Group recommends that a development company is likely to be the most appropriate option. A proposal should be brought forward for a development vehicle, either Council owned or a joint venture. Given the importance of improving major estates, we recommend that a proposal is brought forward swiftly for consideration.'*

- 6.12 At its meeting in September 2015 Cabinet endorsed the recommendation that:
- 'a development vehicle is potentially the best solution to progress major estate renewal, maximise the potential for investment in the Council's housing stock, and the delivery of new social and affordable housing. That the Council should aim to replace the same number of affordable habitable rooms and that the deal for tenants is broadly comparable under the Vehicle. A separate report will be brought to Cabinet on this.'*

The development vehicle concept

- 6.13 At its meeting on 10 November 2015, Cabinet considered a detailed report which outlined the various options for progressing its ambitions, based on the business case it had commissioned in February 2015. It noted that following soft market testing by Turnberry Real Estate Ltd, there was market interest in a

development vehicle, and that the Council's member-led Future of Housing Review group felt that some kind of development vehicle was an option to help the Council achieve its objectives, given the financial constraints and the limited choice of options available.

6.14 Cabinet also approved the objectives that had been developed by officers and Cabinet members, against which the options for driving development were tested in the business case, and which were subsequently incorporated into the procurement documentation. These were:

- To deliver growth through new and improved housing; town centre development; and enhanced use of the Council's property portfolio.
- To achieve and retain a long term stake and control in the development of the Council's land, maintaining a long term financial return which can be reinvested in accordance with the Council's statutory functions, on new housing, on social and economic benefits or on other Corporate Plan objectives.
- In partnership with the private sector, to catalyse the delivery of financially unviable schemes.
- Achieve estate renewal by intensification of land use and establishment of a range of mixed tenures, together with tenure change across the Borough where appropriate.
- To secure wider social and economic benefits in areas affected, including community facilities, skills and training, health improvement or crime reduction for the benefit of existing residents.
- To incorporate land belonging to other stakeholders, both public and private sector, into development.

6.15 The report was clear that as well as the housing and employment outcomes, and the financial returns, the wider social and economic benefits of the vehicle were critical to its success and that these would be central to the evaluation of potential partners.

6.16 The business case considered by Cabinet assessed the pros and cons of six potential options for driving growth on Council land. These were:

Option1: Base Case

The Council continues with its current approach i.e. taking forward and developing out sites, including undertaking the restructuring of the commercial portfolio. The Council continues to provide funding and uses available grant funding to work up sites in conjunction with the relevant stakeholders as appropriate.

Under this option, the Council would continue to take forward assets itself. This could be done through site sales/disposals, the Council developing out sites itself, through development agreements with clawback provisions etc. This option would therefore involve the use of conventional structures to take forward sites, and would to an extent be dependent on the Council's appetite for risk and the availability of funding (including grant funding) to take sites forward.

This option carries limited risk to the Council, but stands no chance of delivering the Council's aspirations particularly given that there appears little likelihood of sufficient funding being available to facilitate this option in any realistic timetable.

Option 2: Disposal of Individual Sites

The Council takes forward sites (subject to available resources, financial resources and grant funding) and then sells the sites into the market. Sites could be sold individually or packaged up and sold as portfolios e.g. the commercial portfolio. Sites could be sold on a phased basis over time through development agreements (with or without overage provisions) to the private sector or other public sector stakeholders, or through straight disposals.

This would involve the Council marketing sites so that they could be disposed of on a straight sale basis e.g. disposal on the open market as freehold or leasehold assets. It is likely that those sites which do not fit the objectives of the Council would be sold on a straight sales basis. However, the large regeneration schemes and town centre sites would be marketed with appointment of a strategic development partner i.e. entering into a development agreement with a development partner in the short/medium term.

Under this structure the Council would enter into a traditional development agreement with a development partner and the site would be drawn down as development pre-conditions are satisfied i.e. the site is drawn down in phases as specific "development criteria" are satisfied. The development partner would need sufficient financial and resource capability to provide the necessary funding for the site development, achieving planning etc.

The Council is able to exercise control through planning powers and is able to insert conditions as to when development should commence, albeit this will impact on sale value. The Council would also receive sale proceeds and overage as the site is developed out.

There are serious questions as to whether the Council's aspirations are deliverable through this route:

- This option would produce considerably less financial benefit for the Council, reducing the amount to be reinvested or used to cross-subsidise the stated socio-economic objectives and Corporate Plan outcomes.
- While there is little development risk to the Council through this approach the private sector will consider these developments more risky without the appeal of a guaranteed pipeline of development, with consequent increased costs and lower returns.
- In the bigger schemes such as Northumberland Park Regeneration Area it is doubtful given the level of initial funding required that the market would be interested in the short term, if at all.
- Without the opportunity for a development vehicle to mitigate borrowing for Compulsory Purchase Order (CPO) costs, it is likely that the impact on the Council's borrowing requirement will be higher, and given the risk issues discussed above, it will be harder to persuade a developer to fully indemnify the Council for these costs.

- Given the support of the Mayor for vehicle-type approaches further Housing Zone funding may be less likely.
- The ultimate result of this will be significantly less delivery, for example in the number of housing units delivered.

Option 3: Outsource Asset Management and Services

The Council outsources the management of its entire development portfolio, including the commercial portfolio (which is currently managed in-house) and the responsibility for development of the large estate renewal sites, to a third party provider who provides services on behalf of the Council. This could include sale and leaseback and services provision, increased asset management and facilities management, refurbishment programmes, undertaking surplus property disposals and development of key sites as part of a full outsourcing service. A key focus would be on maximising returns from the portfolio, usually through 'sweating' the assets i.e. increased asset management of investment generating assets.

This option is relatively low risk but suffers from the same issues with regard to deliverability as the previous two options. While this would bring financial benefits it is impossible to see them being sufficiently significant to deliver the Council's stated socio-economic objectives and Corporate Plan aspirations.

Option 4: Council Wholly-Owned Vehicle

A vehicle is established which is wholly owned by the Council. This vehicle is an independent company (i.e. wholly owned by the Council, albeit as an arm's length organisation) which is not controlled by the borrowing limitations, and therefore funding implications, of the HRA restrictions. It has the potential to offer greater flexibility on tenure and the ability to develop mixed tenure schemes including homes for sale, shared ownership, and most importantly, rented accommodation at social/affordable/market rents. This flexibility can enable cross subsidy between tenures, with market sale or rent homes enabling the provision of more affordable homes which would be the priority for the company. The assets and debts of the company will remain on the public sector balance sheet, with private sector involvement limited to works and services paid for by the company. A local example of this approach is Broadway Living, the local authority company wholly owned by the London Borough of Ealing.

To achieve the Council's aspirations through a wholly-owned company, the Council would need to support all the costs (of compulsory purchase, development, sales and marketing etc) through borrowing. All this money, and all the development risk, would be the Council's responsibility throughout the process, so this is clearly a high risk option. This option is not feasible from the Council's point of view on a financial basis, because of the high levels of borrowing required and consequent costs of servicing the borrowing.

In addition, it is highly unlikely that a wholly-owned company could deliver the scale of outputs required. The wholly owned companies set up by other London authorities are generally delivering significantly fewer homes than we anticipate building through this vehicle, without considering the town centre, economic and growth ambitions that the Council has. The range of delivery varies, but is typically less than 500 homes over a five year period, though the sponsoring Councils will aspire to higher in due course.

It remains unlikely that a wholly-owned vehicle would be able to address the skills and capacity issues more effectively than the Council itself. Further, housing kept in a wholly-owned company would also create potential exposure to the right to buy, as it is understood that the Government is closely monitoring the situation with these types of vehicles and may bring forward legislation in due course to enforce the right to buy and compulsory disposal.

Option 5: Site Specific or Asset Focused Vehicles

Under this option the Council would establish site or asset specific vehicles, predominantly for the estate renewal sites, and the town centre assets, with different private sector delivery partners. Each individual vehicle would take the form of a special purpose vehicle, which would be owned equally by the Council and different private sector partners. Each vehicle would be for a specific asset, for example carrying out estate renewal at Northumberland Park Regeneration Area; or town centre redevelopment in Wood Green; or development of individual medium sites.

Each vehicle would need to be procured separately and would require its own governance structure with associated management resource and costs.

The Council could invest particular sites into specific individual vehicles for example a housing vehicle, which would develop the Council's large housing estates such as Northumberland Park Regeneration Area, and smaller estates across the Borough that have proved uneconomical to invest in. The private sector partner would invest the equity. The vehicle would then work up the site up according to a pre-agreed business plan. The site could revert back to the Council if the vehicle does not progress the site as specified.

A separate vehicle could be bought forward using the council's assets to support Town Centre regeneration, which would seek to reinvigorate Wood Green. A partner would invest equity and the Vehicle would then develop the site according to a pre-agreed business plan. Again, the site(s) could revert back to the Council if the Vehicle does not progress the asset as specified.

Having a number of separate vehicles would make it more difficult for the Council to include receipts from profitable schemes to support more financially challenging opportunities in a State aid compliant manner than would be possible with a single vehicle. Managing a stake in several difficult vehicles may also place a greater governance burden on the council than would a single vehicle.

Option 6: Overarching Vehicle

This option builds on the initial concept set out at Option 4. However, under this option the Council and a strategic partner e.g. a development partner or strategic funding investment partner, create an overarching strategic partnership through an Overarching Vehicle ("OV"). The OV can then take assets forward by way of different delivery mechanisms beneath the overarching level through for example development agreements, joint ventures etc. Assets could be taken forward individually, as portfolios or through sub portfolios of assets. The structure would also allow for the cross funding of

income from the commercial portfolio and quick win projects (i.e. value release properties) to be used to fund projects such as the key estate renewal sites.

The OV could also provide an asset management role to enhance returns from the assets in this portfolio or be established with an investment partner with delivery of sub portfolios beneath this using development partners and local services providers.

This model is already used by a number of local authorities and public agencies in the UK to bring forward major development on their land, where those authorities do not have the investment capacity and skills to achieve the best possible regeneration outcomes for the council without a partnership approach of this kind. A joint venture development vehicle can combine Council land with private investment and expertise while maintaining an appropriate degree of Council control over the pace and quality of development. It can also potentially give the Council a long term income stream as well as capital returns, which may be reinvested in accordance with the Council's statutory functions, on new housing, on social and economic benefits or on other Corporate Plan objectives.

The OV could also act as a development manager, asset manager and fund manager and provide a strategic funding role in taking schemes forward. The model would also allow the Council involvement in those schemes where it has limited land ownership. This is the approach taken by the LB Hammersmith and Fulham, and by Sunderland Council.

The preferred option

- 6.17 Cabinet considered the business case and the strengths and weaknesses of each of these options in detail, and examined the qualitative analysis attaching weightings based on the Council's objectives and scores to each option.
- 6.18 As a result of the analysis, Cabinet accepted the recommendation to proceed with Option 6 (the overarching vehicle), because it is the model that best provides a means by which the Council can achieve its objectives. Specifically:
- This option gives the greatest chance of achieving regeneration and development on a scale consistent with the council's ambitions, in turn encouraging further growth and enabling the wider social and economic benefits to which the Council aspires.
 - The option allows the Council to retain influence and control over the pace and quality of development through its 50% stake in the vehicle, including nominations to the board of the joint venture vehicle.
 - This approach is projected to achieve a considerable financial return which can be invested in accordance with the Council's statutory functions, in the further development of the stated socio-economic objectives or spent on the delivery of wider Corporate Plan objectives. This is significantly as a result of the bringing in of private sector resources to enable and make viable development. The other options project a significantly lower return in the event that they can be made to work at all.

- This approach also provides the flexibility to combine the benefits of the other options, by allowing for the use of different mechanisms such as asset management, development management, fund management, joint venture and services provision under the overarching structure.
- Value can be extracted from the commercial portfolio and the town centre market led opportunities (at Wood Green) to be used to cross fund other projects, such as more financially challenging estate renewal sites. Money can also be retained within the vehicle and used to cross subsidise or fund other projects.
- While the Council will undertake a measure of development risk, it has in return the opportunity for reduced costs, and a share in very likely increased profits which may be reinvested in accordance with the Council's statutory functions in the promotion of the stated socio-economic objectives. This level of risk, which is limited to the extent of land committed to the vehicle, and the commercial portfolio which is proposed to go in at day one, is significantly less than if the Council bears the whole burden of borrowing and cost to finance development. It is however, not a risk free situation and is the price paid for ongoing influence and control together with financial returns.
- The vehicle would also have the ability to adapt and respond, particularly to changes in market conditions, but also to any changes in requirements that the Council itself requires. The report recommended and Cabinet agreed that Option 6, the overarching joint venture Development Vehicle, was the best solution because it is the model that best provides a means by which the Council can achieve its objectives.

6.19 In particular respect of the Council's aspirations to deliver the greatest possible amount of high quality affordable housing, this approach has two key strengths. First, it enables the Council – via its stake in the vehicle – to ensure that the vehicle's development proposals secure not only the greatest possible amount of affordable housing from this land, but that this housing meets the particular housing demand in Haringey as set out in the Council's Housing Strategy. This can always start with the presumption that sites delivered through the vehicle would meet council policy – for example to yield 40% affordable housing overall – with a strong governance position from which to secure those outcomes. Second, the Council will always have the option, on a case by case basis, to reinvest its financial returns from the vehicle in affordable housing, allowing future developments promoted by the vehicle to achieve better outcomes – whether larger overall amounts of affordable homes, a different tenure mix, or lower rents – than would be possible based on those developments' basic viability.

6.20 Similarly, the Council's governance stake in a vehicle of this nature puts it in a stronger position than might be possible through some other delivery methods to deliver other key policies. For example, via a vehicle of this nature the Council would seek to secure and deliver its aims of protecting the rights of existing tenants to return to a new home in an estate renewal scheme, and to do so on similar rents and tenancy terms.

The procurement process

- 6.21 On 10 November 2015, Cabinet approved the Business Case for the establishment of the HDV and agreed to the commencement of a Competitive Dialogue Procedure under the Public Contracts Regulations 2015 and gave delegated authority to the Director of Regeneration, Planning and Development after consultation with the Leader of the Council to agree procurement documentation and deselect bidders in accordance with evaluation criteria throughout the procurement process, and to return to Cabinet for approval of the preferred bidder.
- 6.22 Cabinet also agreed that the procurement process would be conducted on the basis of a first phase of sites – referred to as the ‘Category 1’ sites – proposed for development by the vehicle. These were:
- The Northumberland Park Regeneration Area
 - The Civic Centre, Station Rd office buildings and Library in Wood Green
 - The former Cranwood Care Home

Cabinet also agreed that the Council’s commercial property portfolio would transfer to the vehicle, to improve the performance of the portfolio and to give the vehicle working capital from the start.

- 6.23 A second list of sites – referred to as Category 2 – was agreed as having potential for subsequent development by the vehicle, subject to Cabinet approval at the time. It was also agreed that any other site in the Council’s current or future ownership (‘Category 3’) could be brought forward for development by the vehicle, again subject to Cabinet approval at the time.
- 6.24 A Prior Indicative Notice was published on 30 November 2015, advising the market of the forthcoming procurement. On 7 January 2016 the Director of Regeneration, Planning and Development, after consultation with the Leader, approved the OJEU Notice, Pre Qualification Questionnaire with Guidance Notes and scoring matrix, Memorandum of Information and Draft Invitation to Participate in Dialogue. The OJEU Notice was published on 11 January 2016. To introduce bidders to the Council and the process, a well attended Bidder Day was held on 1 February 2016.
- 6.25 The pre qualification questionnaires were returned on 22 February 2016 and evaluated in accordance with pre-determined criteria. The evaluation panel was formed of the Council’s lead officers, together with internal and external advisers (Bilfinger GVA, Turnberry Real Estate and Pinsent Masons) (the ‘Evaluation Panel’). The evaluation process was moderated by the Council’s Head of Procurement. The top six bidders received an Invitation to Participate in Dialogue (‘ITPD’) and an Invitation to Submit Outline Solutions (‘ISOS’), in accordance with the delegation.
- 6.26 Those bidders proceeding to the ISOS stage were announced and notified on 16 March 2016 and the relevant documents were issued on 21 March 2016, following approval, in accordance with the Delegation, by the Director of Regeneration, Planning and Development, in consultation with the Leader.

- 6.27 Three sessions of dialogue were held with each bidder, and queries and clarifications dealt with through the Council's procurement portal. Bidders then submitted their outline solutions to the Council on 8 June 2016.
- 6.28 Submissions were evaluated by the Evaluation Panel in accordance with the guidance issued at ITPD/ISOS stage. On 4 July 2016, the Director of Regeneration, Planning and Development, following consultation with the Leader, approved three successful bidders to proceed to the Invitation to Submit Detailed Solutions ('ISDS') stage. On 6 July 2016, it was announced that the following three bidders had been invited to proceed to the ISDS stage:
- Lendlease
 - Morgan Sindall with Clarion Group (formerly Affinity Sutton and Circle)
 - Pinnacle with Starwood Capital and Catalyst Capital
- 6.29 Documentation for this stage was approved and issued on 28 July 2016, including updated draft legal documents and a draft Invitation to Submit Final Tenders document, again with the necessary approvals in accordance with the delegation.
- 6.30 The selected bidders then engaged in producing detailed solutions. An introductory dialogue session and four full dialogue sessions were held, together with additional financial and legal dialogues with the three bidders. Queries and clarifications during the ISDS stage were dealt with through the procurement portal.
- 6.31 The Invitation to Submit Final Tender ('ISFT') was updated and finalised to reflect the dialogue sessions and clarifications, and issued on 9 December 2016. The issue of this document brought dialogue to a close, meaning that negotiations and discussions on detailed solutions were at an end.
- 6.32 Final submissions of the detailed solutions were received from the three bidders on 16 December 2016. These were evaluated by the Evaluation Panel on 5, 11 and 13 January 2017, in accordance with the evaluation methodology and criteria as set out below. The Council's Head of Procurement again performed a moderating role, and both internal and external legal advisers were in attendance when required.

Requirements of bidders

- 6.33 The detailed requirements of the final tender documents, including the evaluation methodology and criteria, are set out in the appendices to this report.
- 6.34 To make the final submissions as meaningful as possible, to enable effective evaluation, and to facilitate the preferred bidder and vehicle establishment process, bidders were asked to submit the following:
- Strategic Partnership Business Plan
 - Development Business Plans for all Category 1 sites
 - Investment Business Plan for the commercial property portfolio
 - Financial Model

- Legal Documentation

Bidders were obliged to base the Strategic Partnership Business Plan on the Council's over-arching strategic objectives for the vehicle. All the business plans were to contain sections on delivery, resourcing and key performance indicators. The business plans, between them, were also to articulate the bidders' response to the Council's requirements on wider social and economic outcomes.

- 6.35 In addition each bidder was required to submit a final mark-up of all the draft legal contractual documents that had been initially prepared by the Council and its legal advisers, reflecting each bidder's positions reached during dialogue.

Evaluation Methodology and Criteria

- 6.36 The evaluation criteria are set out in detail in the appendices to this report. In summary the available marks for assessment are split between Outcomes (40%), Deliverability (40%) and Funding (20%). The available marks for Outcomes are split between Place Making (20%) and Social and Economic Benefits (20%) and those for Deliverability are split between Delivery (20%) and Legal Structure and Governance (20%). All bids were required to achieve a minimum (or 'floor score') of 40% for each individual score under the headings of Place Making, Social & Economic Benefits, Delivery, Legal Structure & Governance and Funding.

The preferred bidder

- 6.37 The recommended preferred bidder is Lendlease on the basis that this bidder received the highest overall score across all the criteria from the Evaluation Panel, and satisfied the minimum (or 'floor score') requirement across all five criteria set out above.
- 6.38 The key elements of the preferred bidder's proposal are:
- A single bidding organisation as prospective partner, as opposed to a consortium of organisations.
 - A depth of experience, strong team and track record of delivering similar schemes – including housing estate renewal – in a London context.
 - A clear appreciation of the scale and nature of the Council's ambition, and a clear demonstration of how the Haringey Development Vehicle ('HDV') can manifest and deliver that ambition.
 - Flexibility on the model and provider of housing management services.
 - A commitment to position the HDV's work as an externally accredited exemplar of low-carbon development.
 - Use of the commercial property portfolio to promote and deliver Council objectives on economic development, public health and childcare.
 - A 'social impact vehicle' as a mechanism to secure social impact investment and deliver large parts of the HDV's social and economic programme, with a 'social return on investment' tool to measure outcomes, and a significant investment in the vehicle from the HDV.

- A construction exclusivity agreement, whereby the preferred bidder's construction arm will be guaranteed a proportion of construction contracts, subject to satisfying value for money requirements.
- Willingness to see the HDV take a role in delivering the Council's proposed new office, library, civic and customer services accommodation in Coburg Rd.
- Agreement to the Council's preferred Limited Liability Partnership (LLP) structure for the HDV itself, with subsidiary LLPs created to deliver specific elements of the HDV's work programme.
- The Council forward-funding land acquisition costs, to be repaid (with interest) from development proceeds.

The key commercial elements of the preferred bidder's proposal are set out in the exempt part of this report. The reasons for this information being in the exempt part of the report are set out in section 10 below.

The reserve bidder

6.39 A reserve bidder is also recommended. This bidder came second in the overall scoring, and submitted a viable bid, scoring satisfactorily on all evaluation criteria. Hence, this bid is held in reserve and could be reactivated in the event that it is not possible to reach final agreement with the preferred bidder. The reserve bidder is named in the exempt part of this report. The reasons for this information being in the exempt part of the report are set out in section 10 below.

Scoring of bids

6.40 All bids were scored out of 100 according to the evaluation criteria set out above. The preferred bidder scored 64.92 marks overall.

6.41 The exempt part of this report sets out the detailed scoring of bids, and therefore provides the reasons for choosing the preferred bidder over the other bidders, and for choosing the reserve bidder. The reasons for this information being in the exempt part of the report are set out in section 10 below.

Governance and relationship management

6.42 The arrangements for the governance of the vehicle itself – covering matters such as the constitution of the Board, the decisions reserved to members of the company, the arrangements for resolving deadlocks etc – will be set out in the Members' Agreement and other legal documents which have been negotiated during procurement dialogue and which will be finalised with the preferred bidder before being presented to Cabinet for approval.

6.43 At the same time, the Council will need to make its own internal arrangements, both formal (including nominating members of the HDV board and agreeing any delegation of decision-making for those decisions reserved to members of the HDV) and informal (including the agreement of staffing structures and establishment of working arrangements).

- 6.44 It is intended that shadow board arrangements will be put in place with the preferred bidder ahead of financial close to enable the board to form, establish itself and begin to function in an informal way (though the board cannot take any formal decisions until the HDV is formally incorporated).
- 6.45 The Council is currently putting in place staffing structures and working arrangements in order to best support the engagement that will be necessary with the vehicle and its work. While this work will be co-ordinated from within the Regeneration, Planning & Development directorate, given the scope of the vehicle's anticipated work it is expected that officers from across the Council, and from Homes for Haringey, will be closely involved in the Council's collaborative working relationship with the HDV. This work will be co-ordinated by a Steering Group of Directors and Assistant Directors.
- 6.46 All decisions taken by the Council, and all internal processes associated with the vehicle (especially in relation to risk management) will be subject both to the Council's formal audit procedures, and to the Council's scrutiny arrangements. Any necessary new or changed processes will be put in place prior to the incorporation of the HDV.

Next steps

- 6.47 The next stage of the procurement process is the Preferred Bidder stage ('PB Stage'), to finalise the legal documentation with the Preferred Bidder in preparation for financial close.
- 6.48 The principal activities within this stage will include the finalisation of the contract documents, the completion of preferred bidder due diligence activities, the finalisation of the corporate, development and investment Business Plans, and the preparation and submission of the report and recommendation to Cabinet for approval prior to contractual close and the establishment of the vehicle.
- 6.49 All property due diligence in respect of the commercial portfolio and the Category 1 sites must be completed by the preferred bidder during this stage. All risk in relation to property due diligence will sit with the HDV from financial close and the Council will accept no liability or cost in relation to property issues not raised by the preferred bidder during this stage, other than those liabilities to which the Council is exposed through its 50% membership of the HDV.
- 6.50 At the outset of the PB Stage, the Council intends to seek explicit confirmation on a number of important issues prior to entering into the legal agreements to set up the HDV. This confirmation will be secured by requiring the preferred bidder and, if deemed appropriate by the Council, any principal subcontractors to countersign a detailed letter prepared by the Council and its advisory team (the Preferred Bidder Letter). The Preferred Bidder Letter will seek to confirm that:
- The draft legal documentation as at that date are accepted;
 - The draft Business Plans and underpinning Financial Model as set out in the Final Tender as at that date are fixed and will not vary thereafter, other than in accordance with the provisions of the draft legal documentation; and

- The impact of any errors discovered subsequently in the Financial Model will be borne by the Preferred Bidder.
- 6.51 The key issues on which the Council will need to work with the preferred bidder to refine the proposals during the PB Stage are set out in the exempt part of this report. The reasons for this information being in the exempt part of the report are set out in section 10 below.
- 6.52 There will be a standstill period at the end of the PB Stage, after which, subject to completion of these tasks, it is anticipated that a further report will be brought to Cabinet in summer 2017 seeking authority to close the deal, agree the legal documentation and establish the HDV.

7. Contribution to strategic outcomes

- 7.1 The proposal to establish the HDV contributes to achieving the strategic outcomes set out across the full scope of the Corporate Plan 'Building a Stronger Haringey together', and in particular Priorities 4 (Growth) and 5 (Housing), as well as to the more detailed expression of these ambitions in the Economic Development and Growth Strategy and Housing Strategy.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance

- 8.1 In undertaking evaluation of the bids from a Finance point of view, it is important to understand that although bidders were asked to provide forecasts of the returns to the both the Council and the private sector partner, these projections represent the best estimate at a point of time of returns that could be received and are not a fixed figure.
- 8.2 The actual returns received will be dependent on variables such as construction costs and house prices in the future which cannot be known at this point, along with other factors such as the level of external grant received for areas like affordable housing, where bidders were asked to model on the basis of assumptions given to them by the Council to ensure comparability of bids. In practice the actual level of grant available over the lifetime of the Development Vehicle will vary as Government policy and funding changes and hence the returns to the partners will also change. The Council undertook sensitivity analysis on some of these key variables to analyse how the ultimate returns change as the key variables change over time, as the timing and certainty of the returns are just as important as the indicative figure proposed by the bidder at this point of time.
- 8.3 It is also important to note that the existing financial projections are based on the indicative scheme designs and masterplans that bidders have submitted. These plans will inevitably undergo significant change as consultation with residents commences and the sites move through the planning process and the associated returns will also change as the schemes are redesigned.

8.4 Therefore in addition to reviewing the projected returns from the bidders the financial analysis also focused on the fixed elements of the bids from the prospective development partners, as these would be prime determinants of what returns would actually be received.

8.5 Examples of such variables would include:

- The profit level that the partner would expect from each discreet development or phase of development, as although the Council would share any profit on a 50-50 basis, the profit would help determine the residual land value to the Council and would influence the viability of individual phases and hence the pace of development.
- The share of uplift of land value. Any land that is to pass to the Vehicle will be independently valued at two points. Firstly at the point at which business plans are initially presented and secondly at the point of drawdown on the land once all conditions precedent have been met. Between these times the value of the land may have increased due to the activity of the Development Vehicle, for example in gaining planning permission and bidders were asked what proportion of this increase in land value would be allocated to the Council and what proportion would be shared by the HDV partners.
- The interest rate offered on land assembly and un-matched Council equity. Although the majority of the direct returns from the Development Vehicle are expected to be in the form of a 50% share of profits generated, the Council will also generate income in the form of interest received. This is likely to derive in two main areas, firstly where the Council incurs costs to provide vacant possession of its sites and the Development Vehicle then reimburses those costs plus interest at a later date and secondly where the Council receives interest on any un-matched equity in the form of loan notes.
- The level of fees charged to the Vehicle. The Development Partner will provide certain services where they have specific expertise to the Development Vehicle; an example of such fees would be a development management fee. In this case a higher fee would reduce the profit achieved by the Vehicle and hence the Council's returns.

By assessing these and other similar variables, the Council and its advisors were able to make a judgement of which bids were the most robust and liable to lead to the greatest returns to the Council.

8.6 As well as direct returns in the form of profit share and interest payments, the Council will also receive an indirect financial benefit from the Development Vehicle in the form of increased Council Tax and Business Rates received. As grant funding from Central Government is effectively phased out in coming years, the Council will be entirely dependent on Council Tax and Business Rates receipts to fund its activities. Therefore it is important that the Council also assessed the expected level and timing of income received from these sources. This is a particularly important source of income, as they represent base income that will be received every single year as opposed to one-off income such as profits. Ultimately the Council's long-term financial position will

be heavily dependent on its ability to increase its Council Tax base and thus evaluation considered both the quantum of such receipts the Development Vehicle is expected to deliver and the confidence that the Council had in the bidders being able to deliver to the timescales they had outlined above.

- 8.7 As explained above the Council would expect to receive returns in the form of interest on equity investment and it is important at this stage to consider the funding structure of the vehicle. The Development Vehicle will require significant amounts of funding across its lifetime, far in excess of the level of funding that the Council on its own could secure. The funding solution would be a mixture of Senior Debt (effectively borrowing from a financial institution such as a bank) and Equity (which is effectively investment of cash or land from the Joint Venture partners, and which is made in equal quantities by each partner to constitute their ownership share). Generally Senior Debt funding is 'cheapest' if it is around 65% of the total funding of the project, meaning that the Equity contribution required would be up to 35%. This would be similar to how a mortgage rate gets cheaper as the deposit available increases.
- 8.8 The Council's initial equity investment will be the value of the Commercial Portfolio that transfers to the Development Vehicle at the outset. This would be matched with cash funding by the Development partner, and it would be expected that this will provide sufficient funding to enable the vehicle to undertake all initial planning and consultation work.
- 8.9 As the Vehicle work programme progresses and land is drawn down, after being independently valued, then this will be added to the Council's equity contribution and again will be matched by the development partner.
- 8.10 Where the funding needs of the Vehicle are particularly large, for example on a large phase of Northumberland Park, it is entirely possible that the value of the Council's equity and the partner's match-funding is not sufficient to get to the 35% of development costs required to acquire senior debt at the most efficient rate. In this case the partners will have the option of providing additional funding known as mezzanine funding. There would be no obligation on the Council to provide this funding, but it may well be in the Council's financial interests to do so, as due to its low cost of borrowing it could well borrow the money and lend it on to the vehicle at a rate satisfying State Aid considerations and make an additional return. This would be for the Council to consider at the time such funding is required.
- 8.11 In order to enable development the Council will need to provide vacant possession of the Category 1 sites to the Development Vehicle. The costs of providing vacant possession are significant particularly in the case of Northumberland Park estate. An initial estimate of these costs was included in the Capital Strategy agreed by Cabinet on 14 June 2016. All bidders were asked to provide their own estimate of likely costs of providing vacant possession based on their specific masterplans, along with predicted timescales of when the Development Vehicle would expect to draw the land down, when the Council would be reimbursed these costs and what level of interest the Development Vehicle would pay to the Council on its land acquisition costs. It is expected that these estimates will be further refined at

preferred bidder stage and thus the Capital Strategy should be updated at the point the HDV is established.

- 8.12 As the properties that are required to be acquired on Northumberland Park estate are largely residential in nature, the Council and the Development Vehicle will have the option of using these properties for Temporary Accommodation in the short-term, which would help relieve the pressure on Council budgets due to the high-cost of private sector rented accommodation. As the Development Vehicle progresses the Joint Vehicle structure will enable the Council to control the level of expenditure on land acquisition to ensure it remains affordable within the wider Medium Term Financial Strategy, however as the Council will be refunded by the Development Vehicle with interest, the issue is largely a cash flow management issue.
- 8.13 In addition to the Land Assembly costs, the Capital Strategy report in June 2016 also includes a budget of £35,700,000 for reprovision of schools in North Tottenham to be funded with £18,200,000 of Council monies and £17,500,000 of external grant funding. The design and cost of any new school will evolve during the consultation process and external funding is not guaranteed. Therefore it will be important for the Council to work with the Development Partner to secure external funding for the school as this will impact on the returns that can be achieved.
- 8.14 The Capital Strategy also includes funding for a new Corporate Headquarters in Wood Green and a new Wood Green Library / Customer Services centre totalling £42,000,000, as well as £3,000,000 for the vacant possession of the Civic Centre site. As set out in a report to Cabinet in October 2016 on the Council's Office Accommodation Strategy, new accommodation for the Council is required in order to reduce the Council's running costs and provide fit-for-purpose modern facilities. The move to new facilities would also release the potential of the Wood Green sites currently under-occupied by the Council to drive regeneration in the town centre, provide new homes and employment space, and generate financial returns for the Council. Although the procurement focused on the delivery arrangements for the Council facilities and did not require the bidders to provide designs and costings, these facilities are clearly on the critical path to enable development within the identified Category 1 Wood Green sites. Therefore the Council will need to work closely with the Development Vehicle on these projects to ensure a mutually beneficial outcome is achieved.
- 8.15 The Development Vehicle is expected to provide significant levels of additional funding to the Council in future years, through profit share and increases in the Council Tax base as explained above. However, in the short-term as the Council transfers the Commercial Portfolio to the Development Vehicle there is the potential for the Council to suffer an initial reduction in funding due to the loss of the net income that the portfolio generates. To mitigate this risk, the bidders were all requested to ensure that the vehicle was able to make a return of £3m per annum to the Council in the initial 5 years until development profits are achieved. This will ensure there is no significant impact on the Council's budgets in the short term due to the establishment of the Development Vehicle.

- 8.16 Both the Council's land holdings and Commercial Property portfolio comprise a mixture of general fund and housing revenue account assets. In allocating income received from the Development Vehicle between the General Fund and Housing Revenue Account, the Council will need to ensure it follows the appropriate Accounting regulations which will ensure both the General Fund and Housing Revenue Account are appropriately compensated for the loss of these assets.
- 8.17 The financial benefits of the Vehicle extend beyond the direct income the Council will receive. In the Housing context the report to Cabinet on 15 September 2015 on the Future of Housing Review identified that due to enforced rent cuts within the HRA and the ongoing loss of stock due to Right to Buy legislation that the costs of maintaining the Housing stock in future years would exceed the rental income generated. Northumberland Park Estate is one of the areas where future expenditure would be expected to exceed income received and hence the estate had an existing use valuation of -£14,206,382 in summer 2015. Therefore if this estate is transferred to the Vehicle and out of the HRA, it will reduce the liability due to those properties needing repair and hence benefit the wider HRA.
- 8.18 The Council is also likely to benefit financially due to the socio-economic activities of the Development Vehicle. The interventions proposed by the preferred bidder are dealt with elsewhere in this report, but can be expected to have a beneficial impact across many Council budgets and Corporate Plan objectives due to increases in economic activity, improvements in Education and Health services and wider economic growth benefits.
- 8.19 Finally the creation of the Development Vehicle has also enabled some restructuring of Council Departments particularly in the Property Management area, which has enabled some savings included within the wider budget process to be achieved.
- 8.20 The total cost of undertaking the Development Vehicle process, from initial options appraisal to financial close is expected to be £1,610,179. This has been funded from funding allocated by Cabinet in February 2015 and November 2015, along with Transformation Funding allocated in August 2016. At this point the project is still expected to be delivered within that budget, although this is dependent on the level of legal support required to achieve financial close if the recommendation of preferred bidder is approved by Cabinet.

Procurement

- 8.21 The procurement team has been closely involved throughout the procurement process described in this report, engaging with the project team throughout the procurement. The Head of Procurement has moderated at each selection stage of the procurement process, including the final evaluation of tender returns. The Head of Procurement is satisfied that a fair, transparent and compliant process has been followed and therefore supports the recommendations of this report.

Legal

- 8.22 The Council will be relying upon the General Power of Competence (“general power”) contained in Section 1 of the Localism Act 2011 in conjunction with other powers referred to in the Cabinet Report of 10 November 2015 in order to set up and participate in the HDV.
- 8.23 Section 1 of the Localism Act 2011 is a very broad based power which allows local authorities to do anything that an individual may do. There are some limits on the power set out in section 2 of the Act. If exercise of a pre-commencement power (i.e. power in existence before the general power became law) is subject to restrictions then these restrictions also apply to the exercise of the general power so far as it is overlapped by the pre-commencement power. This general power also does not enable the Council to do anything which the Council is unable to do by virtue of a pre-commencement limitation. It further does not allow the Council to do anything which the Council is unable to do by virtue of a post-commencement power which is expressed to either apply to this general power, to all the Council’s powers or to all the Council’s powers but with exceptions that do not include the general power.
- 8.24 Section 4 of the Localism Act 2011 provides that if an authority is exercising the general power for a commercial purpose then the local authority must do it via a company. In this instance the Council is proposing creating the HDV for the purposes set out in the Cabinet report of 10 November 2016 and the primary purposes of each are non-commercial. In addition the objectives of the project are to comply with the objectives of Corporate Plan. These objectives are non-commercial socio-economic objectives. It has been accepted by all of the bidders following dialogue that the HDV would be a Limited Liability Partnership (“LLP”). The position remains therefore (based on the initial advice provided by Pinsent Masons LLP) that the Council may rely on the general power as legal authority for the setting up of the HDV as an LLP.
- 8.25 On 10 November 2015 Cabinet agreed to the commencement of a Competitive Dialogue Procedure in accordance with the Public Contracts Regulations 2015 and the Assistant Director of Corporate Governance has been consulted throughout the procurement process and during dialogue and the lead legal officer was also on the Evaluation Panel.
- 8.26 The report seeks authority from members to select the preferred bidder and proceed to the PB stage as outlined in section 6 of this report under ‘Next steps’. Members should note the matters referred to in that part of the report, and that the legal documentation will be finalised at the PB Stage provided that this does not materially modify the essential aspects of the tender or the procurement and does not risk distorting competition or causing discrimination.

Equality

- 8.27 An Equalities Impact Assessment was carried out for the purposes of the decision by Cabinet to establish the vehicle in November 2015; this is attached as an appendix to this report. There are no further Equalities Implications as a result of this report, although the company documentation will require the Haringey Development Vehicle to comply in all respects with legislation and good practice in this area.

8.28 Scheme business plans and proposals on a project by project basis will require and will contain appropriate Equalities Impact Assessments. At the establishment of the Haringey Development Vehicle, Business Plans will be approved for the initial sites, and accordingly EqIAs for those sites will be included in the report to Cabinet requesting authority to establish the vehicle.

9. Use of Appendices

Appendix 1: Memorandum of Information & Pre Qualification Questionnaire

Appendix 2: Extract from the Invitation to Submit Final Tenders (ISFT), showing final tender return requirements & evaluation methodology

Appendix 3: EqIA from the November 2015 Cabinet report

10. Local Government (Access to Information) Act 1985

Relevant documents

10.1 The following Cabinet decisions are referred to in this report, and are central to its recommendations:

- February 2015: Development vehicle feasibility study and business case (item 822)
<http://www.minutes.haringey.gov.uk/ieListDocuments.aspx?CId=118&MId=6977&Ver=4>
- September 2015: Report of the Steering Group on the Future Housing Review (item 68)
<http://www.minutes.haringey.gov.uk/ieListDocuments.aspx?CId=118&MId=7299&Ver=4>
- November 2015: Haringey Development Vehicle (item 112)
<http://www.minutes.haringey.gov.uk/ieListDocuments.aspx?CId=118&MId=7301&Ver=4>
- October 2016: Office Accommodation Strategy (item 98)
<http://www.minutes.haringey.gov.uk/ieListDocuments.aspx?CId=118&MId=7846&Ver=4>

Reasons for exemption

10.2 Part B of this report is not for publication by virtue of paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972 as it contains information classified as exempt under Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) and information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.

10.3 Specifically, it contains information about the scores and relative merits of the proposals made by each of the three bidders, including the areas of the

preferred bid which need further refinement and the identity of the reserve bidder, which is considered to relate to their financial and business affairs.