



**Not for Publication: Appendix 1 and 2 Exempt/Confidential - Access to Information Procedure Rules 10.4 (8) and 10.4 (9)**

**Report of the THE DIRECTOR OF DEVELOPMENT/  
THE DIRECTOR OF NEIGHBOURHOODS AND HOUSING**

**Report to: EXECUTIVE BOARD**

**Date: 5<sup>th</sup> JULY 2006**

**Subject: EASEL: Outcome of the Phase 1 Strategic Development Agreement negotiations with Bellway PLC.**

**Electoral Wards Affected:**

Killingbeck & Seacroft

Burmantofts & Richmond Hill

Gipton & Harehills

Temple Newsam

City & Holbeck

**Specific Implications For:**

Ethnic minorities  N

Women  N

Disabled people  N

Narrowing the Gap  Y

Eligible for Call In  Yes

Not Eligible for Call In  
(Details contained in the report)

## EXECUTIVE SUMMARY

1. The purpose of this report is to inform Executive Board of the outcome of the negotiations with Bellway PLC in relation to the Phase 1 Strategic Development Agreement (SDA) and to set out the next steps in the EASEL procurement process.
2. The negotiation period with Bellway on the Phase 1 SDA has focused on a key set of technical and commercial matters to ensure the Council received an equitable return.
3. There has been considerable progress made during the first 13 weeks of the 32 week negotiation period. Bellway have made a number of important modifications to their proposal, in line with the requirements of the Preferred Bidder letter, which improve the Council's returns. The detailed revised commercial terms are set out in the appendices to the report.
4. On the basis of the position now set out by Bellway, it is recommended that the Phase 1 SDA commercial terms (land receipt and overage as set out in Appendix 2) be agreed with Bellway plc, and officers be given delegated authority to finalise the contract terms and formally award the contract, subject to progress being made on the proposed Joint Venture arrangements that are in accordance with the requirements of the Preferred Bidder letter.

## **1.0 Purpose Of This Report**

- 1.1 The purpose of this report is to inform Executive Board of the results of the negotiation period with Bellway PLC, with particular reference to the Phase 1 Strategic Development Agreement and recommend the next steps in the EASEL procurement process.

## **2.0 Background Information**

- 2.1 The EASEL project is a proposed regeneration programme for the East and South East of Leeds. The project has been designed in two inter-connected phases. In the delivery of the project, Phase 1 of the project would be contracted through a Strategic Development Agreement, for the disposal of 8 sites, which is a direct transaction with the private sector consortium. (i.e. a 'land deal'). Executive Board has previously agreed that receipts from the first phase will be reinvested in the EASEL area to stimulate regeneration and investment. Subsequent Phases (85% of the project) will be subject to a commercial agreement formed through a Joint Venture between the Council and the private sector consortium. The initial agreement for the first 8 sites, does not bind the Council to conclude the longer term Joint Venture with Bellway PLC at this time. The Stage 2 Regeneration Brief and subsequent Preferred Bidder letter require the prospective JV partner to have satisfactorily concluded negotiations, before additional sites in Phase 1 are released. By this mechanism developer performance, both in terms of bringing about early development and in resolving the detail of the Joint Venture to the timetable required by the Preferred bidder letter, is linked to the supply of land from the Council.

- 2.2 The competitive procurement process resulted in a three month period of exclusive clarification with Bellway, and the conclusion of that period was reported to Executive Board in December 2005, who approved the following:

- That Bellway PLC be selected as Preferred Bidder and that officers be authorised to issue a Preferred Bidder letter on the basis of the position set out in the report.
- To bring back reports on key matters to Executive Board as required.
- To delegate authority to the EASEL Project Board, through the Deputy Chief Executive, and the Directors for Neighbourhoods & Housing and Development:
- To issue a reserve bidder letter to Lend Lease Europe;
- To negotiate with Bellway on the terms of the Strategic Development Agreement (Phase 1) and the Joint Venture Agreement (Subsequent Phases).

- 2.3 This report focuses on the results of the Phase 1 commercial negotiations with Bellway PLC, undertaken by officers under the delegations approved by Executive Board. It should be noted that in reply to the offer of reserve bidder status, Lend Lease Europe have indicated that they have not withdrawn at this stage, and await the outcome of the negotiations with Bellway.

### **3.0 Main Issues**

- 3.1 The issues to be negotiated for the Phase 1 Strategic Development Agreement and the Joint Venture Agreement were described in the Executive Board report of December 2005 and included in the Preferred Bidder letter to Bellway PLC issued on 19<sup>th</sup> December 2005.
- 3.2 Bellway PLC accepted the requirements of the Preferred Bidder letter on 20th January 2006, and a period of negotiation has been underway since that date. Acceptance of the terms and conditions of the Preferred Bidder letter by Bellway PLC, without qualification, indicates their commitment to the initiative.
- 3.3 Negotiations have primarily concentrated on resolving the commercial issues relating to the Phase 1 sites and progress to date is set out in the commercially confidential appendices to this report. Officers are satisfied that the process for achieving best consideration has been applied.
- 3.4 The public interest in maintaining the exemption of the appendices on this subject outweighs the public interest in disclosing the information because Neighbourhoods and Housing have a duty in terms of commercially confidential information entered into with the Preferred Bidder. This would be adversely affected by disclosure of this information. This disclosure of financial negotiations could jeopardise the Council obtaining the best consideration for the sites and the successful conclusion of the procurement process..
- 3.5 Following detailed feedback on both the overall Strategic Vision and also the Phase 1 sites, Bellway assisted by their urban design consultants and Council officers, are coming forward with new house types for the EASEL regeneration area and adopting "best practice" in their approach to the development of the individual sites but at the same time seeking to reflect an overall consistency in terms of quality. Although still at a relatively early stage in their formulation what is being produced is encouraging
- 3.6 Good progress has been made on the construction related employment & training initiatives aspect of what is proposed by Bellway An indicative workforce plan has been provided which shows the construction personnel required to build 100 units annually (both direct employees and sub-contractors). Bellway have agreed to have local labour and training targets and clauses based on national good practice included in the Strategic Development Agreement, and that they will apply the same principles to the Joint venture Agreement. A list of suppliers and sub-contractors has already been provided and the scope for linking this to the ALMOs framework contract is being explored.
- 3.7 Meetings with Bellway and their advisors are taking place on an increasingly regular basis to help ensure that all the matters in the Preferred Bidder letter that remain outstanding are

capable of being brought to a satisfactory resolution within the allotted timescales. The outcome of these negotiations will be presented to Executive Board in October.

#### **4.0 Legal And Resource Implications**

4.1 Agreement has been reached on the Strategic Development Agreement legal heads of terms, and drafting has commenced on the detailed contract documentation. There are no resource implications as a result of this report.

#### **5.0 Conclusions: Next steps in the EASEL procurement process.**

5.1 In the view of officers, Bellway have negotiated a sufficiently improved offer for the Council for the Phase 1 sites. Officers recommend Executive Board agree the commercial terms for Phase 1 described in the confidential appendices to this report as acceptable, and delegate the contract award to officers.

5.2 A number of potential cost changes resulting from the improved site redesigns, ongoing site investigations and Section 106 contributions need to be confirmed before a final return to the Council can be guaranteed. In particular Bellway wish to have the surety of full planning permission before confirming guaranteed returns to the Council. The SDA award would be confirmed once the returns are guaranteed and the commercial terms and the requirements in the Preferred Bidder letter in connection with the Joint Venture had been complied with and approved by Executive Board.

5.3 The formal procurement process would end at the time of that decision, with Bellway confirmed as Joint Venture Partner and awarded the Phase 1 SDA.

5.4 There are still many inherent risks to the project as all proposals from the Council's side and all offers from the private sector consortia are still subject to, first, negotiation and, second, to contract. Until such time as the Council has signed a contractual agreement with a partner all proposals and monetary values that have been quoted are indicative of the potential of the project.

5.5 The specific risks associated with the Phase 1 sites and how these risks are being managed/mitigated are set out in Appendix 2.

#### **6.0 Recommendations**

It is recommended:

- To delegate authority to the EASEL Project Board, through the Deputy Chief Executive, and the Directors for Neighbourhoods & Housing and Development:

- To accept, subject to contract and the resolution of the outstanding cost items, the commercial terms offered by Bellway PLC for the EASEL Phase 1 sites as described in this report.
  - To delegate the award of the contract to Bellway PLC for the Phase 1 sites, only when progress had been made on the Joint Venture arrangements, as specified in the Preferred Bidder letter.
- To bring a further report on progress on negotiations on the Joint Venture arrangements to September Executive Board.
- In the event of any significant change in the commercial offer from Bellway to the detriment of the Council, then a further report on the options for the next steps in the procurement process would be brought back for Executive Board for further consideration.