

**Subject:** Chobham Manor disposal process update including Community Land Trust update

**Agenda item:** 4

**Report No:** 1

**Meeting date:** 03/07/2012

**Report to:** Investment Committee

**Report of:** Andrew Gaskell – Director of Development

FOR INFORMATION

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**This report will be considered in public**

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## **1. SUMMARY**

1.1. This report is intended to update the Investment Committee on the current progress in respect of the Chobham Manor disposal process, given that final tenders have now been received. The paper also provides an update in respect of the work underway to explore the feasibility of a Community Land Trust (CLT) within the Chobham Manor development.

## **2. RECOMMENDATIONS**

2.1 The Committee members are invited to:

2.2 **NOTE** that the Legacy Corporation has received 3 final tenders from the bidding parties, all of which are of a uniformly high standard,

2.3 **NOTE** that evaluation is currently underway with the intention of recommending a preferred partner to the July Board,

2.4 **NOTE** the approach being taken to explore the possibility of creating a CLT to pilot the delivery of a perpetual affordable housing model in the Park.

2.5 **NOTE** that the Board will be asked to agree future stages of the CLT with the set-up strategy, including the full financial implications, completed for consideration in October 2012.

2.6 **NOTE** that Mayoral approval will be required.

## **3. TIMING**

3.1. The procurement process anticipates selection of the successful development partner in July 2012. To remain on programme a decision needs to be made **BY NEXT BOARD**.

#### **4. BACKGROUND**

##### **4.1. The Site**

4.2. The Legacy Corporation is intending to dispose of approximately 9.3ha (23 acres) in order to promote the development of the first residential neighbourhood on the Olympic Park at Chobham Manor. The site is situated to the North of the Olympic Park, between the Athletes' Village and the VeloPark. A site location plan is included as Appendix 1.

4.3. This neighbourhood was selected as the first to be brought forward because it is located adjacent to the new community at East Village and would not therefore suffer from isolation in the early years. In addition, the majority of the enabling infrastructure will be in place after Transformation, minimising the cost burden on the developer, and the neighbourhood has a high proportion of family housing to deliver on one of the Legacy Corporation's key development objectives.

4.4. In September 2011, and before the process began, the Investment Committee of the Olympic Park Legacy Company, the London Legacy Development Corporation's predecessor body, agreed aims for the development. These are as follows:

- Achieve the highest quality of housing and estate management.
- To achieve long-term viable development that maximises value for money and a return on capital for public sector investment.
- To secure a Development Partner with the organisational and financial capability to deliver a scheme of exemplary design quality and environmental sustainability that will provide a blueprint for the development of the remaining zones to be brought forward in the Park.
- To ensure that the development supports the social, economic and environmental regeneration of the surrounding communities, both during the construction phase, and in the longer term.
- To achieve a start on site as soon as possible following the 2012 Games

These have been emphasised in all of the written information issued, throughout the competitive dialogue and form the basis of the scoring criteria.

##### **4.5. The Process to Date**

4.6. The disposal of Chobham Manor has been carried out under the OJEU "Competitive Dialogue" Procedure. Competitive Dialogue was chosen to enable the Corporation to maintain competitive tension for as long as possible, given the commercial appetite for the scheme. This has also allowed the Corporation to work alongside the developers as their masterplans have evolved and to discuss with them the implications of the progress of the Legacy Communities application. The Corporation has been mindful to minimise the amount of detail required and therefore costs incurred by the bidders as far as possible to reflect the competitive nature of the process.

4.7. The Disposal Process was launched in November 2011 following a period of soft-market testing and awareness raising. The then Legacy Company received almost 65 expressions of interest during the marketing period and this resulted in 12 Pre-Qualifying Questionnaires being formally submitted by interested Companies or Consortia

4.8. From the 12 parties that submitted interest six were subsequently selected to the next stage of the process, to provide Outline Solutions. This was discussed with Investment Committee on 14 Dec 2011.

4.9. The six parties selected for Outline Solutions were:-

- Taylor Wimpey and L&Q
  - St James
  - Barratt/Le Frak
  - Countryside and East Thames Housing Association
  - Notting Hill and United House
  - Swan/Urban Splash/Yoo/Mace
- 4.10 The six successful parties attended a limited number of meetings with the Company as they prepared their Outline Solution submissions. The first meeting in mid January 2012 addressed the Company's aspirations for the site, whilst the second meeting enabled the bidders to present progress on their proposal and to discuss issues of clarification on planning and other topics. In addition each bidder met with the Planning Decisions Team (PDT) so they could familiarise themselves with the process and key planning considerations going forward.
- 4.11 Each of the shortlisted parties submitted their Outline Solutions to the Company at the start of March 2012. These consisted of an outline masterplan, an initial project execution plan and preliminary financial information. These were presented to Investment Committee at a workshop on the 12<sup>th</sup> March 2012.
- 4.12 Following evaluation, the three parties invited to proceed to Competitive Dialogue were:
- Taylor Wimpey and L&Q
  - Barratt/Le Frak
  - Countryside and East Thames Housing Association
- 4.13 Over the past two months, the Corporation has met with each of these parties every week. The dialogue has covered masterplan design and typologies, sales and marketing, project founding, infrastructure delivery and the development of action plans to deliver the Corporation's priority themes aspirations.
- 4.14 At the same time, the Corporation has been able to negotiate Development Agreements with each of the bidders, meaning that once a developer is selected, the Corporation will be in a position to enter into a contract with them without any further negotiation, However, the Corporation is not able to renegotiate any of the agreed terms on which the developers have made their bids.

## **5. EVALUATION PROCESS**

- 5.1. The Corporation received 3 final tenders on the 26<sup>th</sup> June 2012. Given the Competitive Dialogue process undertaken, all 3 of the bids are of a high standard and reflect the strategic objectives for the site. Formal evaluation is underway with a view to have a preferred bidder to recommend to Board on the 17<sup>th</sup> July 2012.
- 5.2. In order to respect the commercial confidentiality of the information submitted by the bidder's whilst the bidding process is still underway, further information in respect of the tenders received will be presented to the Committee in the private session.
- 5.3. The scoring criteria is attached as Appendix 2. In summary, the weighting is balanced with 60% allocated to design and deliver (section 1) and 40% allocated to financial criteria. (section 2)

The scoring for Section 1 is further broken down as follows:-

<b>Section 1</b>	<b>Weighted marks</b>
Scheme proposals and design approach	40%
Delivery and implementation	35%
Funding	10%
Alignment with OPLC priority themes	15%

5.4. The weighting for section 2 is as follows:

<b>Section 2</b>	<b>Weighted marks</b>
Financial Drivers	30%
Financial Offer (Price Percentage)	70%

5.5. The Company received advice from Drivers Jonas Deloitte and Eversheds but they did not formally score the submissions and are not part of the evaluation process.

## **6. STRUCTURE OF THE DEAL**

6.1. The Corporation has negotiated Conditional Development Agreements with each of the bidding parties. Unlike an Option Agreement, this places a range of obligations on the developer to achieve planning permission and start on site within proscribed timescales. Failure to do so will result in the Development Agreement being terminated and the developer losing their deposit

6.2. Delivery under the Development Agreement is on a phased basis, with the Corporation retaining the land until the developer has reached the construction stage of making each block wind and watertight. Failure to perform in terms of programme, quality and payments will result in the developer losing the right to draw down any future phases.

6.3. The Corporation will receive its Land Value as a fixed percentage of the sales value generated by the sale of the private residential units. Unlike in a joint venture, the Corporation is not sharing the development risk, as the developer cannot reclaim any of their development costs. This has been designed to allow the Corporation to capture any value uplift generated by our investment in the wider Olympic Park.

6.4. In summary, the key agreed principles are as follows:

- Deposit payment – released following outline consent and completion of transformation works
- Phased drawdown of land under building licences, with block leases granted at wind/watertight and freehold houses transferred on PC
- Bids to be expressed as a percentage of sales value
- Guaranteed annual payment pa towards site wide park management

- Allowance for interim uses on retained land
- Liability for historic and future on-site contamination passed to developer
- Parent company guarantees in place to secure developer's obligations
- Termination and step-in rights agreed

## 7. COMMUNITY LAND TRUST (CLT)

7.1. CLTs are being championed by Mayor Boris Johnson. The Legacy Company has been exploring the creation of a CLT on the Olympic Park as part of its work to establish innovative affordable housing solutions. Based on this work, at the annual 'London Mayoral Accountability Assembly' run by London Citizens<sup>1</sup> on 26<sup>th</sup> April Boris Johnson publically announced that there will be a CLT established in relation to the Chobham Manor development. At the event Jenny Jones also confirmed that she will push this agenda as an Assembly member

7.2. A CLT is a non-profit community based organisation run by volunteers that develop housing or other assets at permanently affordable rates for long term community benefits. It does this by separating out the value of the building from the land it stands on and in the case of shared equity homes fixing the resale percentage. The CLT holds the asset in trust for long term community benefit. CLTs lock in assets for the express purpose of furthering the social, economic and environmental interests of the local community, defined by a geographical area. In addition to providing affordable housing in the long-term other examples of CLTs have delivered a range of social services and community projects that contribute to building high quality neighbourhoods and sustainable communities.

7.3. CLTs are a legally defined concept but they are not a legal format in themselves. Any prospective CLT will need to choose a legal format that would enable them to meet the legal definition as legislated in the Housing and Regeneration Act 2008. Appropriate legal formats include a Community Interest Corporation (CIC). Key features of a CLT are set-out below:

- **CLTs are non-profit, tax-exempt companies:** their mission is to deliver long-term affordability through different forms of housing (to rent or to buy) and to develop linked facilities including workspace, community facilities, community gardens and amenities.
- **Dual ownership:** CLTs acquire land, remove it from the market and steward this asset by leasing the housing and other buildings developed to residents and tenants in affordable ways.
- **Leased land and housing affordability:** land is leased for a variety of needs including affordable rental units and intermediate market housing for sale. For housing for sale, CLTs utilise variable resale formulas to keep the housing affordable by limiting the equity share on the sale. The CLT exercises this system through a pre-emptive right to buy when housing units are resold.
- **Tripartite governance:** the board of a CLT is composed of multi-stakeholders. Normally a third of board members are elected to represent those who lease land from the CLT, another third to represent residents of the local community who do not lease CLT land and a final third to represent the public interest locally such as public sector officials, local community services providers and local funders.

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<sup>1</sup> London Citizens are an influential lobbying body and the event is expected to attract 2,000 of their member organisations.

- **Open and place-based membership:** CLTs have a community economic development mission and operate within a defined geographical area. The size of this sub-regional area can vary from a rural village, town or county to an urban district or city.

7.4. To develop our understanding of vehicles for community-asset ownership and how they could relate to different assets the Corporation commissioned a study that was undertaken by Community Finance Solutions (CFS) in association with New Economic Foundation and CDS Co-operatives. The report produced in March 2011 recommends that a Community Land Trust (CLT) be created to act as the accountable community-based organisation to hold the housing assets. It also recommends that it could become the 'umbrella body' to hold other Olympic Park legacy land or property subsequently leased to other community-based organisations.

7.5. Should LLDC decide to progress the CLT pilot three stages of work have been identified:-

**Stage 1(July – October 2012): Planning**

To produce a CLT 'set-up' strategy, which will provide a detailed delivery programme for how the CLT will be organised and how it will operate. This work will set the range of affordability the pilot will target, the geographical area, consideration to the needs of diverse communities, and preferences for family status and employment status. This work will also outline legal and governance arrangements covering the composition and appointment of a Board of Trustees, and identify the legal body for the CLT.

**Stage 2 (October 2012 – September 2013): Development**

To establish good stable governance structures that safeguards LLDC interest as freeholder and to develop sound organisational capabilities. This stage of work will appoint a shadow board and agree the memorandum of articles and organisational policies, including all statutory policies, housing allocation policy for rent and part-equity, first lets and re-lets. A 5-year Business Plan will also be developed as part of this stage of work.

**Stage 3 (September 2013 – April 2015): Implementation**

To put in place all the legal and financial structures required to affect the transfer of assets to the CLT.

7.6. The CLT set-up strategy produced as part of the pilot planning stage by October 2012 will provide full details of how the CLT will be established and constituted. The tri-partite governance structure will have a CLT board that is composed of multi-stakeholders. A third of board members will be elected to represent those who lease land from the CLT, another third to represent residents of the local community who do not lease CLT land and a final third to represent the public interest locally such as public sector officials, local community services providers and local funders.

7.7. It is anticipated that a shadow board will be set up by the Corporation and replaced / expanded over time by appointments who are elected tenants. The Corporation will approve the memorandum of articles and organisational policies, including all statutory policies, housing allocation policy for rent and part-equity, first lets and re-lets. The Corporation will retain a place on the board during the build out period of the Park to ensure that its' assets are protected and that the purpose of the CLT genuinely meets its aim.

- 7.8. In order to conclude Stage 1, it is proposed that a full implementation plan is prepared and presented to the Board in October. This will have a detailed assessment of the financial and practical implications of proceeding with the CLT, to enable the Corporation to decide whether to proceed with Stage 2.
- 7.9. Each of the Development Agreements with the three bidders on Chobham Manor contains an option to allow the Corporation to deliver 100 units within a CLT. The principles of the option are attached as Appendix 3. This is only an option and entering into the Development Agreement with the selected developer will not commit the Corporation to the CLT but it would retain the flexibility to do so if that is what the Board decides.
- 7.10. Given the work done to date and to reflect the Mayoral commitment, each of the bidders has been asked to submit their financial offer on the basis of a "with CLT option". Given that the Corporation is not paying for the CLT units, this will result in a lower offer being received. Should the Corporation choose not to trigger the option then there will be an alternative, higher price percentage specified in the Development Agreement.
- 7.11. The Corporation will look to recover the value of the transferred assets from the CLT over an agreed timeframe. It is anticipated that this would be raised by the CLT from the sale of the interim housing and mortgage loan finance funded by the rents. The CLT will also be able to apply for grant funding however grants are discretionary and far from guaranteed. The Board will be asked to agree the full financial implications and an indicative repayment profile as part of the next stage of the project in October 2012.

## **8. FINANCIAL IMPLICATIONS**

- 8.1. The process is within the allocated budget for the current financial year, with spend to date this financial year in accordance with the project's projected cashflow.
- 8.2. Following the appointment of a preferred development partner, the majority of the ongoing liaison will be managed in-house and therefore the amount of spend projected will reduce significantly. At the point that the contract goes unconditional, each of the developers has agreed to make an annual payment to cover any ongoing professional fees.

## **9. LEGAL IMPLICATIONS**

- 9.1. A member of the legal team will provide an update at the meeting.

## **10. PRIORITY THEMES**

- 10.1. All of the proposals submitted are being evaluated with respect to the Corporation's commitments in respect of design quality, inclusive design, community engagement and consultation, sustainability and targeted employment policies. Each of the bidders has engaged with representatives of all the priority themes workstreams and has submitted specific Action Plans setting out how it will deliver its commitments. The scores achieved in those areas will account for 9% of the marks allocated.
- 10.2. The Company is confident that it can work with all of the selected bidders to deliver the targets required under its priority themes.

## 11. Appendices

- Appendix 1 – Site Location Plan
- Appendix 2 – Evaluation Criteria
- Appendix 3 - CLT Option Principles

<b>List of Background Papers:</b>
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None
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