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DELIVERING REGENERATION

IN A CHANGING
FINANCIAL CLIMATE

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IAN BUTT as Development Project Director for the regeneration of Basildon town centre is responsible for the procurement of the strategic development partner and the delivery of the £1 billion regeneration of Basildon town centre. The plans will create a new town centre, incorporating not only the commercial and residential elements expected, but a developer's master plan prepared through extensive public consultation and engagement.

Basildon has the biggest economy in the Thames Gateway after its western suburb of London. As such effective engagement with the commercial sectors is crucial. Being a former New Town, residents have been used to growth and change, but as the town has matured resistance to development has grown. Constant consultation and engagement forms a major element of Ian's work to minimise the surprise.

A Chartered Town Planner, Ian Butt has worked at Basildon District Council since November 1988. Prior to his appointment as the Development Project Director in August 2007, Ian was the Manager of Strategic Development Coordination responsible for a diverse regeneration programme in Basildon District for the Basildon Renaissance Partnership.

Ian has considerable experience developing and delivering regeneration and economic development projects, and contributed towards securing Basildon's position within the Thames Gateway. He co-wrote the Vision for Thames Gateway South Essex and helped to establish the Basildon Renaissance Partnership in 2003.

Married with two children, Ian enjoys music, travel, and fine wine, and is a keen armchair Birmingham City fan despite their unenviable historical record!

TIM JOHNSON is Director, Development Consulting, London & SE for DTZ and has been a driving force from the consultant side on the Basildon town centre regeneration project. He specialises in urban regeneration, development strategy & delivery vehicles, master planning and town centre development.

He is a Member of the Royal Town and Planning Institute, and runs DTZ's Development & Planning team in London. He has worked on a variety of projects, including the Crawley town centre business plan, delivery vehicles for Southampton, the economic vision for Milton Keynes, and an SME accommodation strategy for the London Borough of Lambeth.

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DELIVERING REGENERATION

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INTRODUCTION

The future is all about public/private partnerships; we must all work together. Partnering is a complex way of working and it is getting more complicated all the time. Economically we have had over the last twelve/fifteen months a lot of doom and gloom and it is steadily getting worse with major banks and insurance groups going down. At times the daily news is beginning to sound like an epic Hollywood story along the lines of, say,



In fact the real title of our paper could well be The Perfect Storm for your regeneration project.

The Perfect Storm, as presented by Hollywood, was the coming together, in 1991, of a number of different forces off the North East Coast of the United States. Three major weather fronts collided to create what was the most vicious storm ever seen on this planet since records began. To a certain extent the downturn that we are currently experiencing is similar.

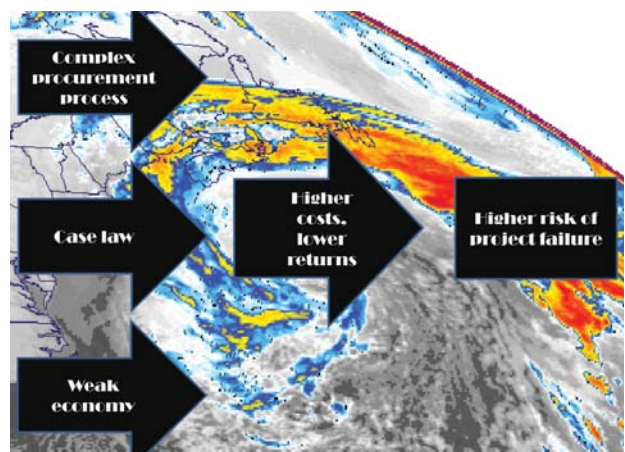
We are involved in the regeneration of Basildon Town Centre. Basildon is a New Town and the town centre was built in the 1960s as a complete pedestrianised area surrounded by a big ring road. It is a town centre that needs more than tinkering; it needs a substantial and comprehensive redevelopment – a £1 to £1.25 BILLION redevelopment.

The Council commissioned DTZ to put together

development framework, we have been through the public consultation process and soft market tested so we knew there was real interest before we took it to the market. The outputs are big, 3,650 new homes for example, which is a new community. As there are already about 180 homes in the town centre we are creating a new community of about 10,000 people, and about 5,000 jobs with a new college and the usual public car parking and so on. This ambitious project will take 20 years to deliver. If the predicted cost of £1 billion is spread over 20 years it is only a realistic £50 million per annum in a good market.

We now want to procure a strategic development partner, that is a single partner to take the lead role in the regeneration under contract to the Council, and we are already into confidential competitive dialogue. As this is a confidential process we must not reveal anything about the terms we have been discussing but we are able to share with you some of the experiences that we have had going through the process. We are confident that this project will transcend this downturn. The big projects, the viable projects will transcend this downturn and will probably still be around when the next one comes.

THE PERFECT STORM



These are the forces that are coming together to make for a difficult time for all regeneration projects.

The Complex Procurement Process We are being recommended to go down increasingly complex and lengthy procurement processes in order to marry the resources and skills of the public and private sectors. For the Basildon Town Centre project we are going through the Competitive Dialogue Process. It is too early to say how helpful this is but there are advantages. It is refreshing to be able to discuss with tenderers key elements of the project and exchange ideas. We have learnt that there is no monopoly on where the best ideas come from and it is useful to be able to talk and possibly incorporate new ideas from the bidders as part of the dialogue process. However it is certain that Competitive Dialogue lengthens the process and adds to the expense

for both public and private sector partners. This could be because the process is new.

Case Law More and more “Regeneration” cases are being reported including such major decisions as Roanne and all these are impacting on the process.

Weak Economy The turbulent environment surrounding the economy is an obviously more significant factor than anything else at the moment.

Higher Costs, Lower Returns This huge uncertainty and increasing costs mean lower returns for the development partners on your project. There is now less money available and in any event the cost of credit is much more expensive so developers have less available cash to pitch competitively for projects. The lack of cash means that there are fewer mortgage approvals so house prices are being affected. Consumer expenditure is going down and beginning to affect retail rents. All property market indicators are pointing in the wrong direction at the moment.

Higher Risk of Project Failure Even if some local indicators for your project look good the economy and national and international property market indicators may still overshadow them. This affects the ability of developers to bid for projects and see them in a positive light. Lower returns, higher development costs, and a more riskier environment are not a good combination for a development manager seeking board approval to spend money on bid costs and proving projects are viable. This means that there is a higher risk of your regeneration project failing.

Bearing all this in mind it is essential in promoting your project to keep two principles in mind. First do what you can do to make your development project more viable and second be smart about the procurement process. Remember developers look at your project in two senses. They need to be convinced that the project can be delivered and is viable. And developers will be comparing the cost of bidding for and winning your project, against other projects elsewhere in the country, or Europe, or internationally. Observe the following six point plan to get you home and dry through the perfect storm.

THE SIX POINT PLAN

1. Do your due diligence

Do your homework! It is important to know all there is to know about the project, the local market place and values. Even if values within your area are holding up well this may not be so elsewhere and potential tenderers may be being affected and squeezed on other projects so it is equally important to understand their position and to know the overall market. Schemes may look good locally but a critical factor is the ability of developers to raise finance at national and international level. Ultimately it does not matter how notionally profitable your scheme is if it is costing a developer 8%

to fund them, for a lot of developers, it is unpalatable. Understand what your opportunity is and where it sits in the market place.

A project needs a unique selling point. In the Basildon project the Council has a lot of land ownership. There is a second landowner, a non-profit organisation, which owns the car parks and the public realm. The Council and the second landowner are in partnership. The Council is also adopting a comprehensive approach and as Basildon is in the Thames Gateway we have the leverage to bring in other public sector funding too.

You need to de-risk your project as far as possible before going to the market. Make sure you do your market testing too. Through the development framework process DTZ talked to a number of companies some of who expressed interest and ended up being short-listed. Two years ago we invited the property industry to a presentation at the Royal Commonwealth Club with Andrew Neal as guest speaker, and he did a good job summarising how Basildon fitted in within the Thames Gateway, nationally, and globally. The event cost a lot of money, and was risky, and a brave thing to do in the market but since then there has been a lot of talk about Basildon where things are happening. It is well worth planning for such an event when beginning to engage with your bidders. So entertain them and show them that you mean business and that you want them as much as they want your project.

Do your research and share it. We have six lever arch files of town centre land registry information and land ownership appraisal. We have full details of all covenants. Share this information with your bidders by way of an open book process. You know your project better than they do. Share all your knowledge with your bidders and this will strengthen future relationships. We have set up an electronic data room containing about 150 documents. It is a huge data resource about this project that all bidders can access. Also use your knowledge of your local area to best effect. Part of Basildon town centre was a flood plain. We know it was a flood plain because in 1958 it flooded, despite being about ten miles away from the nearest estuary. Since then the National Rivers Authority and the Environment Agency have undertaken a number of improvements and have put flood alleviation measures in place. This seriously questioned the flood plain designation. Accordingly we challenged it and as a result the flood plain designation of the town centre was removed. That avoided the need for flood mitigation measures costing about £5 to £10 million.

2. Flexibility

You have got to be flexible. This is one of the most critical factors. Flexibility is all about promoters being able to respond to, for example, the changing economic realities that we are now facing. Clearly it is necessary to do a lot of work up front and get agreement at member and officer level and with partners on what fundamental

objectives are to be delivered and to be clear and transparent about things like scoring, weightings and so on. Also it is important to recognise that there are a number of ways to deliver projects and achieve the same outcomes.

Work with tenderers to think creatively about different ways of delivery in a climate where revenues have gone down, costs have gone up and risks are increasing. Focus on the important things and what control the authority has over things that have maximum beneficial impact on the project. Consider phasing as developers are finding cash hard to find at the moment. Think about the viability of the project from the developer's point of view and their cash flow. Can expensive items be back end loaded? Can we get some early revenue generation?

An authority can de-risk planning through clarifying Section 101 and infrastructure requirements. It is possible to be clear about those, and what exactly is fixed, what might be up for negotiation. This makes life easier for a development partner. Share with potential partners expected levels of returns from assets used and remember outcomes versus financial returns is a potential trade. This is all about value engineering and working how to control things to assist developers and make projects more viable. As an example in Basildon we opted for a town centre development framework, not a blue print, not a master plan. The framework had clear principles but included much flexibility in terms of delivery and we established an early important principle that the Council was prepared to be entrepreneurial and think creatively about alternative solutions.

But beware of the issue of flexibility in the context of the procurement process. If you have gone to the market with a certain set of particulars and defined framework then if there are any changes you make during the competitive dialogue process it is best always to do the legal check to ensure the Council is still procuring in accordance with the regulations and has not veered away from what was originally put to the market to such an extent that the Council is at risk. A procurement expert is an essential addition to the team.

3. Minimise Bidder Workloads

These are tough times and to create an advantage as a promoter you must aim to minimise your bidders' workloads. Even the most cash rich, or seemingly cash rich, developer is looking to save every penny. If you go out to the market with a long and expensive procurement process at the end of which you are going to want them to write a lengthy submission then either they will not be interested in your project or, after an expensive competitive dialogue process, and prior to the tender stage, the bidder sees the size of your tender documents and tells you he cannot afford to carry on as his Board will not give approval.

For example when you put out the contract notice be aware that if the Chief Executive of a potential bidding

company expresses an interest your notice and supporting material will land on his desk. He will not want to see voluminous information or cheap pieces of paper with a staple in the corner. He will want to see a well-presented, authoritative and brief summary that gives him all the information that he needs to decide if he wants to investigate further. The way to help bidders through the process is to give them something that leads to something else and make sure that bidders are aware that all the information they need is available.

And remember too that if you aim to minimise bidder workloads then it minimises the promoter's workload too. If you have three or four bidders for your competition, they do everything once whilst you may end up having to do everything three or four times.

4. Resource

One of the key lessons from the Basildon experience is not to underestimate the amount of resource that both the promoter and the development partner need to put in. As the procurement process gets ever more complex it takes longer and costs more money. And before the bidding process gets under way lots of resources are used up in bidding for growth area funding, local transport plan funding, and the like and in trying to bring in potential public sector partners such as PCTs and Schools/Colleges that might help to make the scheme more viable. Whether to fund the bidding costs of tenderers, and how, is a difficult problem but this option is another way to make your project more attractive than any other schemes your bidder could instead spend their resources on.

The authority's staffing requirement should not be underestimated. The scheme needs the right amount of staff resource at the right level of seniority as part of the team through preparation and procurement. This is a resource intensive, work intensive process and the staffing resource must be dedicated to the project and hence available at all times. Seniority is important because potential development partners pitching for work with you need to know that they are talking with people who matter at the authority and who have the power to make and implement decisions. During dialogue sessions bidders also need to receive expert opinion across a range of topics.

In Basildon the Council formed a dedicated regeneration team with the responsibility of leading, championing and coordinating regeneration projects. There is the project director, senior representatives from finance, legal, planning and from property. This is fundamental for project delivery and for gaining the respect of the future development partners.

5. Manage the Process

The two key points in managing this complicated process are good leadership and dedication. The project director must have good leadership qualities. The team involved in the procurement of Basildon town centre is a

dedicated team of both in-house experts and external consultants. Leadership is important in managing the team, in managing the process, and in managing elected members whose input to the process is vital. We have built up exceptional relationships between the project leader, the project team and elected members so much so that members are seen to be part of “the team” and not just on stand by to make the tough decisions. We have been through difficult times together and I have found that involved members have been very supportive in helping to find solutions.

We have also brought in our other partners as part of the Basildon Town Centre team. Essex County Council sit at the table with us, as do English Partnerships and the other major landowner. This also helps in the continuous enhancement of the scheme. There is going to be a brand new FE college included which will change the scheme and make it more viable.

In addition to managing the whole process we also manage the risk and every month the risk team meets to do further risk assessments incorporating every single change to the project that has occurred. The message is “If you fail to prepare then you are preparing for failure.” The other message is that you are selling yourself to your bidders as much as they are selling themselves to you and they will be looking to you and how you manage and conduct the process and thinking is this somebody I can do business with? Is this an authority I can commit my company to spend a very long time with?

Basildon Council is creative and proactive in the way it has approached its regeneration projects and has encouraged open and constructive discussion as an essential part of the process. Constructive criticism of ideas with development partners, within the Council and with advisors is one of most fundamental parts of the process and ensures the best ideas come forward.

Developers need to respect local authority processes and that respect needs to go both ways. Developers considering these projects have the objective of making a profit. That is what makes the world go around. Show that you are listening when the development partner tries to tell you something. If you can then discuss and analyse it and, may be, end up dismissing it for perfectly sensible reasons, that should not be a problem but you are looking for a long-term relationship with a partner and they are looking for is a partner who listens and takes heed of what is being said.

6. Work at the Relationship

Confidence is a key aspect in building the relationship. If the promoter does not champion the schemes why should the private sector? The promoter must be confident that the scheme on offer is the right thing to do and is being done at the right time. In Basildon we have built up a good relationship with our bidders in three major projects going through competitive dialogue process. That says as much about the bidders as it does

about us. The bidders have put good teams on these projects and that is good news from the outset as one day one of those bidders is going to be Basildon’s long-term partner so it is best to get off on the right foot. Also unsuccessful bidders may one day try to invest in your area and if the original relationship was not good they may think twice and decide not to get involved or worse still tell others not to go to Basildon. Similarly bidders will bring along with them consultancy teams who may also represent other investors and if they do not see you as willing, proactive and pragmatic partners they may advise their other clients to keep away. So it is absolutely imperative that you get the relationship right from the start as that relationship will carry through the procurement process, to delivery stage and after you hand over the project to the community.

SUMMARY



These are the six points you must remember and work hard to achieve even though they may seem unremarkable and simplistic; they are not easy. But we firmly believe that if you follow these six points from doing your homework to working on the relationship then you will see calm waters when you come out at the other end.

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