

Assurance Summary



Scheme Details

Project Name	Sheffield Heart of the City 2 – Block A (Radisson Hotel and former Gaumont Building)	Type of funding	Grant
Grant Recipient	Sheffield City Council	Total Scheme Cost	£51.5m
MCA Executive Board	Housing and Infrastructure	MCA Funding	£3m
Programme name	Gainshare	% MCA Allocation	5.8%

Project Description

Project Definition

Sheffield City Council are seeking a £3m grant towards an investment of £51.5m to plug the viability gap for the development of 'Block A' (Radisson Hotel and former Gaumont Building) as part of the Sheffield Heart of the City 2 scheme. Block A comprises of two elements, the first fronting onto Pinstone Street, formerly comprising of retail units at the ground floor and offices above; and the second, the Gaumont building in Barkers Pool formerly ground floor retail and nightclub/cinema above.

HoC2 seeks to transform the city centre with an improved retail, working, leisure and living environment. The first phase is complete (Grosvenor House) and the applicant indicates that this investment has attracted major international firms/brands as tenants.

Within the OBC, the applicant has stated that the project is 'delivery ready' with an approved planning application in place and an anchor tenant (Radisson Hotels Group). The viability gap (to be bridged by the Gainshare funding £3m grant) for the scheme is primarily caused by the speculative commercial elements, and therefore the assumptions that have had to be included with respect to tenant incentives and weaker investment yields. In addition, there have been construction cost increases above expectation due to Covid-19.

The OBC states the scheme has the potential to deliver:

- Commercial floor space of 51,000sq.ft (including a high end hotel with 154 beds)
- 567 gross jobs (including the construction phase)
- Increase in GVA of £197m (including the construction phase)
- Generate income for the Council of £2.5m p.a.

The application is clear about the purpose of the funds being requested; these being to assist the construction of Block A, which particularly will include:

- Demolition
- Façade retention and strengthening
- Construction of Hotel and ground floor retail units
- Strip out and refurbishment of the Gaumont building

Block A is being delivered under a single building contract and the applicant states that; "MCA funding will particularly be used to secure the completion of the speculative property development in respect of the Gaumont element".

Strategic Case

<p><i>Options assessment</i></p>	<p>The short-listed options as presented would appear credible with lower MCA funding ask options incorporated. Given the Council's commitment to the project, the reference case is best represented by Option 4. That is, without MCA support, the Council would stop the Gaumont building element and pursue the Hotel only option albeit it sub-optimal. The benefit of MCA support would be to bring forward the Gaumont refurbishment and de-risk the Council's investment into the hotel development.</p> <p>Furthermore, the analysis presented in the economic case is clear in demonstrating that the preferred option will deliver the best value for money.</p>
<p><i>Statutory requirements and adverse consequences</i></p>	<p>The project has submitted its planning application and received approval. The applicant notes that the development does not generate any significant transport issues and did not require the submission of an EIA. Public consultation has been completed as part of the planning application process. A Social Value plan is in place with the main contractor and an agreement with the Hotel operator to maximise social value.</p> <p>The wider implications for the project where a unique offering is achieved will generally be positive.</p>
<p><i>FBC stage only – Confirmation of alignment with agreed MCA outcomes (Stronger, Greener, Fairer).</i></p>	<p>The applicant has set out the contribution of the investment across the three MCA strategic outcomes. Specifically:</p> <ul style="list-style-type: none"> • Stronger economy: the project will deliver a new standard of hotel for the City thus enhancing the visitor economy and the profile of the City. The project strongly aligns with the SYMCA objective “to have vibrant city centres with rich sporting, cultural and leisure offers attracting people from across the country”. • Fairer economy: the City has outlined its commitment to ensuring best social value is achieved from the significant level of construction expenditure. Moreover, the Council has indicated that it views HoC2 as an opportunity to work towards designating the area as a “Real Living Wage Zone”. To this end, the applicant notes that the Hotel management agreement with Radisson includes an obligation to recognise the Real Living Wage for each person hired or retained for work at the Hotel. • Greener economy: the construction of the hotel and redevelopment of the Gaumont will meet exemplar low carbon standards as set out by the applicant. This includes a photovoltaic array at rooftop level and connecting the hotel to Sheffield's Energy from Waste district heating network (alongside targeting a BREEAM target rating of Excellent). <p>Overall, the proposed project is therefore well aligned with SYMCA's growth plan, supporting the ambition for a Stronger, Fairer and Greener economy.</p>

Value for Money

Monetised Benefits:

<i>VFM Indicator</i>	<i>Value</i>	<i>R/A/G</i>
<i>Net Present Social Value (£)</i>	£50.7m	G
<i>Benefit Cost Ratio / GVA per £1 of SYMCA Investment</i>	2.7	G
<i>Cost per Job</i>	£11,100	G

Non-Monetised Benefits:

Non-Quantified Benefits

- The applicant has outlined that the building structures will be built and designed to achieve a high level of carbon performance.
- The applicant notes that contractor McLaughlin & Harvey's Employment & Skills Plan is a contractual requirement. For the operational phase, the applicant notes that the aim is to develop the Real Living Wage concept around the wider regeneration programme. This is exemplified by the contractual approach being adopted with the Hotel operator to ensure fair pay. The Council also notes that it will undertake to promote employment opportunities widely (working with contractors, schools and colleges).

Value for Money Statement

Based on total public sector investment, the project is estimated to have a net present social value of £50.7m and a benefit cost ratio of 2.7. Based on SYMCA investment alone, NPV and BCR would be very high.

Based on SYMCA investment, the project is estimated to create 326 net additional jobs. This equates to a cost per net additional job to the MCA of £11,100.

Overall, the project provides acceptable value for money.

Risk

The risk register provided by the applicant focuses primarily on the construction phase of the project. The most significant risks relate to potential unknown conditions that will be examined through building survey work (i.e. asbestos, facade and foundation issues). For this phase of the project a risk contingency of £462k has been incorporated based on identified mitigations.

There is limited examination of operational risks, in particular financial risks (from delays, lower than expected take-up and lower than expected rentals achieved). Net annual running estimates have been provided and the applicant has indicated that the Council will be responsible for any capital overruns and also revenue shortfalls.

The majority of funding for the project has been secured by way of prudential borrowing by Sheffield City Council. The OBC indicates that Council funding approvals were secured in March 2021. This approved level of funding is only sufficient to enable the hotel project to proceed. More detail of the confirmed funding envelope should ideally be provided.

The Gaumont building is the less developed project where some areas of design have been included as assumptions or provisional sums under the design and build contract. These provisional sums represent 16% of the total contract sum. The applicant highlights that fixing the price any more extensively would have resulted in significant risk provisions being included which would not have provided value for money. In order to mitigate that risk then a contingency (2.2%) provision has been included in the overall project costs.

Delivery

The timetable shows completion of the hotel by June 2023 and the Gaumont Building by November 2023. At least in principle, this appears to be a sufficient time for the type of development (although the Council have noted that they will need to assess the Gaumont refurbishment once they have access to the building).

The timetable could be more detailed. A full project GANTT chart to underpin the development timeline and highlight critical milestones should be provided at FBC stage.

The applicant has completed the procurement process and has let the construction contract. The contract has been let on an industry standard JCT Design & Build Contract 2016 with amendments. The Council has also completed the exercise to identify a hotel operator with a hotel management agreement in place.

The project is at post tender stage and therefore at a high level of cost certainty (95%). The remaining cost contingency being held is 2.2% of the overall £51m programme (£1.2m). There is some risk attached to the refurbishment costs of the Gaumont building given its age. However, the applicant has indicated that the Council will fund any cost overrun on the project.

The applicant has outlined that the project will be managed as part of the existing arrangements for the HoC2 programme. This provides for an overall governance structure with a HOC2 Management Operations Board (MOB) with a nominated SRO for this project, Nalin Senevirante.

Day-to-day management of the project delivery will be carried out by Turner & Townsend with oversight from Queensberry Development Manager. There will be regular progress and design review meetings with the main contractor Mclaughlin & Harvey and including representatives from the Council's project team.

The applicant has outlined the stakeholder engagement as part of the public pre-application process that ran from 24 June until 21 July 2020. This led to a total of 101 responses being received in the pre-application consultation, with feedback overwhelmingly positive.

The applicant has indicated that all stakeholder management issues will be reported and managed through the Management Operations Board and escalated where necessary to the Strategic Partnership Board. The applicant has indicated that Counter Context will lead stakeholder management - supported by Turner & Townsend.

The applicant has indicated that Council officers along with its contractor T&T will undertake monitoring during the implementation phase and post completion. This will also include monitoring of the main contractor's M&H social value targets and compliance with the environmental targets.

The applicant has noted that no agreement has been reached on the overall approach to the Monitoring and Evaluation Plan with the MCA. This M&E approach and plan will need to be developed in progressing the FBC.

Legal

The applicant has outlined the main principles that would indicate the project would not be counter to the Subsidy Control Rules six principles. The statement made on this however, does not specifically mention whether this is based upon the City's legal counsel. However, it is noted that in the Business Case checklist, the applicant has indicated that legal advice has been sought. Confirmation of a formal legal opinion against the six principles of the UK Subsidy Control rules should be provided at FBC stage.

Recommendation and Conditions

Recommendation	Proceed to FBC
Payment Basis	
Conditions of Award (including clawback clauses)	

Recommendations at next stage of business case development:

- **Commercial case:** the applicant has not provided a supporting report for the market testing or outlined how the analysis has informed the setting of rental rates and yields in the development appraisal. The applicant should provide further supporting evidence around take-up, rentals and potential risks (being carried by the City Council). The applicant should also provide a signed copy of the hotel management agreement.
- **Financial case:** The applicant should provide copies of the relevant Council Papers relating to funding support and willingness to support any cost overrun (including March 2021 and July 2020 in relation to the actual funding envelope limit);
- **Management case:** The applicant should provide a formal legal opinion against the six principles of the UK Subsidy Control Rules and a Stakeholder Management Plan; and
- **Strategic Case:** As part of the development of the M&E framework it is recommended that a logic framework (theory of change) for the scheme be established. The applicant should also set out specific actions as part of a Benefits Realisation Plan (BRP).
- **Appendix B (Social Value Outcomes):** Commitments to environmental and social outcomes must be agreed with the MCA in advance of submitting an FBC. These must then be fully set out Appendix B as part of the FBC submission.

