

Assurance Summary

VERSION 1 24.11.2021



1 – SCHEME DETAILS

Project Name	Phase 4 Park Hill, Sheffield	Type of funding	Grant
Grant Recipient	Urban Splash (Park Hill) Limited	Total Scheme Cost	£26,511,904
MCA Executive Board	Housing and Infrastructure	MCA Funding	£5,610,155
Programme name	Brownfield Housing Fund	% MCA Allocation	21.2%
Current Gateway Stage	FBC	MCA Development costs	n/a
		% of total MCA allocation	n/a

2 – PROJECT DESCRIPTION

Phase 4 Park Hill is a residential led mixed-use re-development of a Grade II* listed structure. Phase 4 is part of a wider long-term regeneration of the Park Hill flats estate transforming 5 iconic buildings that have suffered decay and dereliction into high quality and sustainable homes and vibrant workspaces for people to live, work and play.

By the end of March 2022 phases 1 to 3 will be complete including 455 mixed tenure homes (including 93 social rent, 114 open market rent and 248 open market sales), circa 55,000 sq ft of active commercial workspace and 356 student bedrooms. Phases 1 to 3 will attract an active community of 1,500 people living and working within Park Hill.

For Phase 4 (the subject of this application), the total funding required from the MCA is £5,610,155 to refurbish the structure. The project will deliver an additional 95 homes including 19 affordable, a further eleven shell units to be fitted out as live/work units, and c29,000 sq ft of shell space to fit out as artists' studios, workspace and community / learning space, 80 car parking spaces and external landscaping. MCA funding is to unlock the proposed scheme by addressing a funding gap created by the high costs of renovating a Grade II* listed building and make the proposed scheme financially viable.

3. STRATEGIC CASE

<p><i>Options assessment</i></p>	<p>The FBC sets out four main options:</p> <ul style="list-style-type: none"> - Do minimum – nothing is done and Phase 4 of Park Hill is left undeveloped, resulting in benefits of the scheme not being delivered and objectives not being achieved, with a continued obligation on the applicant to spend £80,000 per annum for health and safety inspections, building insurance and maintenance. - Viable alternative option 1 – no affordable housing is provided and the refurbishment goes ahead with 100% open market housing. This option sees the viability gap reduced but is not policy compliant and the benefits realised by this option are reduced in comparison to the preferred way forward. - Viable alternative option 2 – a smaller scheme comprising 68 homes and 17,000 sq ft of commercial shell space is delivered omitting Flank T. This option reduces the gap funding requirement but delivers fewer homes, which would suffer from the blight of the unrefurbished Flank T and reduce the viability of refurbishing Flank T separately. - Preferred option – the whole of the Phase 4 scheme is refurbished delivering 95 homes including 19 affordable and shell space for the S1 Artspace cultural hub. <p>It is evident from the options assessment that the preferred option is the best fit with the applicant’s strategic objectives and the other options have been discounted for legitimate reasons.</p>
<p><i>Statutory requirements and adverse consequences</i></p>	<p>Planning approval was granted in August 2019 for Phase 4. The application included 95 residential units, education space, artists’ studios, flexible workspaces, live/work and heritage flats and an extension to form a new art gallery with ancillary facilities. The planning approval is subject to a set of outline and reserve matters planning conditions which will be discharged. The applicant has submitted a design and access statement along with other documents required for the statutory consultation process, including a transport statement</p>
<p><i>FBC stage only – Confirmation of alignment with agreed MCA outcomes (Stronger, Greener, Fairer).</i></p>	<p>Overall, the project aligns well with the objectives and desired outcomes of the SEP and REP, and contributes across all three Strategic Outcomes; Stronger, Greener, Fairer as set out below:</p> <ul style="list-style-type: none"> - Enterprise: creating 2,694 sqm of commercial shell space for artist’s studios, creative sector businesses and education space to help businesses grow and contribute significant spend in the local supply chain. This aligns with SEP and RAP objectives of growing a more successful business base underpinned by more productive growth and higher growth businesses. - Employment: creating 120-140 construction jobs by 2022 including 10 apprenticeships, 74 long term jobs by 2024 in the cultural and creative sectors, and an additional 14 FTE jobs within the S1 Artspace accommodation, which aligns with the objective of getting more working-age people into employment. - Education: training 1,040+ people annually within the new cultural hub by 2024/25 and providing potential partnerships with local universities, as well as providing training for staff at the centre, aligning with objectives of increasing the proportion of the working age population having higher qualifications. - Health: providing 95 good quality homes including 19 affordable leading to improved health outcomes for residents, and providing crime cost savings, which align with objectives to promote health and life expectancy.

- **Net zero:** redeveloping existing structures such as the concrete frame and brickwork reducing embodied carbon, leading to a highly sustainable scheme and delivering substantial carbon savings, aligning with the SEP and RAP objectives of contributing to net zero carbon targets.

4. VALUE FOR MONEY

Monetised Benefits:

<i>VFM Indicator</i>	<i>Value</i>	<i>R/A/G</i>
<i>Net Present Social Value (£)</i>	£6.4m	G
<i>Benefit Cost Ratio</i>	2	G
<i>Carbon Savings (£)</i>	£161,616	G

Value for Money Statement

The economic dimension includes a series of monetised benefits to determine BCRs alongside non-monetised outcomes. For the preferred option the following have been considered:

1. An initial BCR – including Land Value Uplift (LVU), wider Land Value Uplift, health benefits of affordable housing, crime cost savings, amenity benefits and distributional benefits.
2. An adjusted BCR – including active mode transport benefits, labour supply benefits, productivity benefits, wellbeing from attending arts and cultural events and volunteering benefits and heritage benefits

The 'adjusted BCR' (5.6) which refers to additional benefits arising from the delivery of the S1 Artspace, is likely to be an overestimate as the fit-out, staffing and other costs of the S1 Artspace are not factored in and are to be funded separately. The initial BCR (2.0) therefore more appropriate to consider when assessing the project's value for money.

The project therefore represents good value for money.

5. RISK

Risks identified include cost increases, not securing debt funding, not agreeing legals with the S1 Artspace operator, commercial risk of slow sales and declining values, great places unable to proceed as purchaser of Affordable Homes and risk of delays to the construction programme. All risks are owned by the developer and the assessors are satisfied that appropriate and proportionate mitigation measures are in place and that risks are being managed.

As at OBC stage, the assessors note that a major delivery risk is the current absence of secured debt funding. It is recognised, however, that private sector lenders are unlikely to agree to an unviable scheme and that therefore the award of the requested grant from the MCA is crucial to rendering the scheme viable and able to

attract debt funding. It is also noted that the applicant has an existing relationship with a potential funder, which is currently providing a loan for Phase 2 of the same project and that the applicant is confident finance can be agreed on similar terms once the viability of the scheme can be demonstrated.

The applicant's intention is to secure debt funding from Lloyds Bank. This is the funder that has been used to for the earlier stages of the project. The current timeline is that funding terms and conditions would be progressed in parallel to the MCA process. It is anticipated that a full funding arrangement with Lloyds will be agreed around the same time as the building contract is signed – currently set on the 5th December 2022.

This is a significant risk to the project, but the assessors note that the applicant, Urban Splash is a developer with significant experience and a strong track record in delivering successful schemes and securing funding. The FBC notes that Urban Splash is delivering Phase 2 with 65% debt funding from Lloyds and that this existing relationship with a lender on the same scheme leads them to be confident in securing finance to deliver the project with the viability gap addressed through the requested grant from the MCA.

The Financial Dimension refers to an application for funding from Historic England through their Heritage at Risk grant scheme. However, it is not clear to the assessors how this funding relates to the project as it is not referenced anywhere else in the application. Elsewhere, the FBC states that no additional public sector funding is required to deliver the scheme.

The FBC identifies that there is a risk with the use of a design & build contract that the client may have to pay more if the contractor takes on an unreasonably high level of risk due to a lack of design clarity, that the contractor may exploit specification that is open to interpretation to choose the cheapest route leading to quality being compromised, but indicates that these risks are to be mitigated. The assessors are satisfied that the developer and professional team are experienced in their approach to procurement, having successfully delivered phases 1-3.

6. DELIVERY

The delivery timetable has been updated between OBC and FBC stage, but overall is still considered reasonable.

The applicant, Urban Splash is the developer of the scheme and will procure subcontractors through a 2 stage design & build contract. The main contractor is to be evaluated during Pre-Contract Service Agreement (PCSA) stage.

The cost certainty level of 85% is because the price has not been tendered yet. This is slightly less than what normally required at FBC. . Though this is a risk the approach taken by the Applicant appears reasonable. They have used costs from the similar phase 2 of the development and have applied this to the scheme alongside inflation and contingency allowances.

The FBC sets out clear project governance, outlining the governance structure for the project, stating that the developer is Urban Splash (Park Hill) Ltd which is a 50/50 joint venture partnership between Urban Splash and Places for People. The Development Manager is Urban Splash Developments.

The Senior Responsible Owner and key contact for the contract with the MCA is named as Simon Gawthorpe and day to day contact is Mark Latham, Regeneration Director for Urban Splash Developments. Urban Splash Developments has appointed an external professional design team comprising Broadfield as Project Manager and Cost Consultant, Mikhail Riches as Architect, Civic Engineers as Structural and Civil Engineers, Beechfield as MEP consultant, and Austin Smith Lord as Landscape architect.

The FBC sets out the applicant's approach to monitoring and evaluation, stating that a key set of principles for the professional team to adhere to in ensuring the scheme captures the benefits, outcomes and outputs of the projects will be set out, and that these principles will be set out within the Employers Requirements for the construction contract. All benefits, outcomes and outputs will be set out in a tracker which will be used to monitor progress through the delivery of the scheme and this will be reviewed and updated with project meetings.

7. LEGAL

The applicant has received advice from lawyers DWF on subsidy control with their advice letter appended to the FBC (Appendix 6). The advice note has been updated at FBC stage at the request of SYMCA. This advice indicates that the requested grant is likely to be compliant with emerging Subsidy Control regulations.

8. RECOMMENDATION AND CONDITIONS

Recommendation	Full grant award subject to conditions
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Payment Basis	Payment on defrayal
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Conditions of Award (including clawback clauses)

The following conditions must be satisfied before contract execution.

1. Details on the application for funding from Historic England through their Heritage at Risk grant scheme.
2. Applicant to provide letter from Lloyds bank outlining their funding intentions
3. Applicant to provide a breakdown of social value metrics (Appendix B)
4. Applicant to provide a quantitative breakdown of exactly what MCA funding will cover to allow monitoring that it has been delivered
5. Submission of acceptable Subsidy Control opinion
6. Funding confirmation received for grant recipient's contribution to pre-construction costs

The conditions above should be fully satisfied by 30th April 2022. Failure to do so could lead to the withdrawal of approval.

The following conditions must be included in the contract

7. Clawback will be applied on outputs at MCA discretion
8. Release of initial funding up to £1,023,000 to fund further design and feasibility work. Further funding release will be subject to:-
 - a. Formal confirmation of all other funding approvals required to deliver the project.
 - b. Confirmation of procurement and evidence of cost certainty
 - c. All required statutory consents including all planning conditions must be satisfied.
 - d. The applicant will be solely responsible for meeting cost overruns