Appendix A3 - Assurance Summary

VERSION 1 24.11.2021

SOUTH YORKSHIRE SYMCA MAYORAL COMBINED AUTHORITY

1 – SCHEME DETAILS			
Project Name	Attercliffe Waterside	**Type of funding**	Grant
Grant Recipient	Sheffield City Council	**Total Scheme Cost**	£205,225,986 (£137.7m at OBC)
MCA Executive Board	Housing and Infrastructure	**MCA Funding**	£4,080,000 (£1.87m at OBC)
Programme name	Brownfield Housing Fund	**% MCA Allocation**	2% (1.4% at OBC)
Current Gateway Stage	FBC	**MCA Development costs**	n/a
		% of total MCA allocation	n/a

2 – PROJECT DESCRIPTION

Attercliffe Waterside lies within the Advanced Manufacturing Innovation District between Sheffield City Centre and the M1 motorway. The vision for the site is to create a new neighbourhood of low-carbon new homes aimed at skilled young workers and families. This development builds on the success and momentum of the Sheffield Olympic Legacy Park, AMID and growth of investment and employment in the wider Lower Don Valley and changes perceptions to drive regeneration of Attercliffe and surrounding communities. Development of this large site will:

- Connect disparate land ownerships to bring forward a site of sufficient scale to drive regeneration and to create a ‘neighbourhood’ identity and sense of place.
- Deliver 902 (448 units in Phase 1) innovative, high quality, ultra-low carbon and energy efficient ‘eco homes’ within a high-quality environment with landscaped and communal areas using Modern Methods of Construction (MMC) with homes constructed off site.
- Refurbish character buildings on the canalside.
- Create or refurbish 40,000sqft of employment floorspace.
- Create 26,200sqm of new and improved public realm/open space together with 14,750sqm of amenity space in the retention of existing wooded areas.
- Improve pedestrian connectivity and permeability through what is currently a largely vacant site to and from Attercliffe high street and Supertram and the Darnall neighbourhood.

- Build on investment in SOLP, AMID and proposed investment through TFC and other regeneration investment in Attercliffe High Street.
- Provide massive support to the complementary £17m investment to be delivered through the Levelling Up Fund bid which has recently been approved for Attercliffe High Street.

Since the submission of the OBC, there has been a significant increase in the level of MCA funding requested, from £1,870,000 to £4,080,000 at FBC. Reasons for this are set out below:

The project will fund the acquisition by Sheffield City Council of the land required for Phase 1 of a proposed development scheme to unlock development of a wider scheme which will deliver the full range of benefits set out in the application. The land is to be acquired at its existing use value of £2.37m (including SDLT and fee), which is evidenced by an independent valuation report prepared by SMC – this report has now been provided as part of the FBC submission. This phase comprises a group of existing industrial buildings of 'considerable character' which are to be refurbished as part of the first phase of the scheme, but which have a value greater than the development value of the site. This has resulted in the scheme having stalled with the development scheme not coming forward due to market failure. The application argues that MCA funding is required to allow Sheffield City Council to intervene by acquiring the land and disposing of it to the Council's development partner, Citu, at a price that is commercially viable. This will allow the private sector to acquire the site on commercially acceptable terms and develop out the site, contributing to place-making and raising residential values in a challenging location for residential viability and make the remaining phases commercially viable for the private sector to deliver. Sheffield City Council proposes to recycle the revenue from the disposal of the land to the private sector into the scheme to fund the delivery of upfront infrastructure works including the construction of a footbridge to aid place-making, link Phase 1 to Phase 2 and improve permeability through the site.

The above reasons were provided by the Applicant as part of their OBC submission, but there is additional justification provided for the additional funds requested at FBC stage. The Applicant states that approximately £950k is required for the cost of abnormal foundations and £760k is required to contribute to the cost of refurbishing 'character buildings' on the high street.

In addition to the above the Applicant has reduced the amount of money they will receive from the sale of the Phase 1 from £1.5m to a nominal value of £1 with viability issues cited as the reason for this.

In addition to the above, the residential density of the project has increased through the number of units and will now deliver 902 homes (448 in Phase 1), up from 750 (345 in Phase 1) at OBC.

3. STRATEGIC CASE	
Options assessment	The FBC sets out four main options: - Do minimum – no public funding is available and SCC does not intervene resulting in delay in the site being brought back into productive use. - Viable alternative option 1 – MCA funding would be used to develop the site with the same number and layout of units as set out in the preferred option; however, none of the carbon reducing measures would be delivered. - Viable alternative option 2 – part of the site is brought forward for lower value residential development with fewer dwellings delivered overall. Note, this is not considered to be a viable alternative by the assessors. - Preferred option – for SCC to acquire the land for Phase 1 at the existing industrial use value and sell to the developer at a commercially attractive price to facilitate development of the proposed scheme.

	The assessors agree that the preferred option is articulated with sufficient clarity and with a strong rationale. Overall, the rationale for the selection of short-listed options appears to be adequate. The Applicant has demonstrated that the preferred option best delivers the desired outcomes for the project; however, viable alternative options could be more robust.
Statutory requirements and adverse consequences	The site is the subject of an Informal Planning Advisory Notice prepared by the LPA in 2019 which accepts potential uses as residential, shops, small-scale offices, R&D, Light industrial, residential institutions and hotels. The IPAN highlights the need for a bat survey, further archaeological survey work, a heritage statement addressing the listed structures on the site, a land contamination study, noise survey, further consultation with the Canal and River Trust with regard to mitigation to the canal infrastructure, along with a number of other requirements. It is assumed that these have been progressed. It is understood that there have been three positive pre-application meetings between the appointed development partner and the LPA and that a planning application will be submitted once the development agreement between SCC and the development partner is exchanged. It is understood that a hybrid application in outline for the whole site will be submitted with Phase 1 in detail in time for the anticipated start on site in Q2 2022. The FBC states that there are likely no adverse economic or social disbenefits in delivering the project but that there is potentially an issue with disruption to the existing businesses that occupy a small part of the site, affecting not more than 20 jobs at businesses in Phase 1 and a further 10 jobs on Phase 2. The applicant has said this adverse consequence will be mitigated through seeking to relocate the existing businesses to minimise disruption though it is recognised this cannot be fully guaranteed.
FBC stage only – Confirmation of alignment with agreed MCA outcomes (Stronger, Greener, Fairer).	The project aligns well with the objectives and desired outcomes of the SEP and RAP and contributes across all three Strategic Outcomes: Stronger, Greener, Fairer.

4. VALUE FOR MONEY

Monetised Benefits:

VFM Indicator	***Value***	***R/A/G***
Net Present Social Value (£)	£10,673,741	G
Benefit Cost Ratio / GVA per £1 of SYMCA Investment	2.38	G

Value for Money Statement

The economic dimension includes a series of monetised benefits to determine BCRs alongside non-monetised outcomes. The Applicant has undertaken BCR calculations for both Phase 1 independently and all phases. In calculating the BCR for the preferred option the following have been considered:

1. An initial BCR – including direct Land Value Uplift (LVU), indirect spillover LVU, amenity benefits and carbon savings. This BCR has been calculated against the MCA BHF funding which we understand is the only public sector funds in the prefered scenario
2. An adjusted BCR – in addition to the initial BCR health benefits and societal fuel benefits have been added

The results of the BCR calculations for the preferred option is as follows:

1. **An initial BCR <u>phase 1 only</u> – 1.64**
2. **An adjusted BCR <u>phase 1 only</u> – 2.38**
3. An initial BCR all phases – 3.15
4. An adjusted BCR all phases – 4.63

All BCR calculations have included an optimism bias allowance of 15%, which is considered reasonable allowance.

Based on all scenarios, value for money is acceptable; however, BCR's for Phase 1 only are considered to best represent this project and the MCA's investment.

5. RISK

There are a series of risks identified in the FBC in section 6.6 with a full matrix included as part of A.3. The major risks identified include MCA funding not being approved, achieved sales values being lower in phases 2 and 3 than being anticipated challenging commercial viability, Covid 19 impacts, higher than expected abnormal costs, landowners not agreeing to sell the land, relocation of existing businesses leading to delays in start on site, supply chain difficulties resulting from Brexit, cost overruns, planning and governance delays. All risks have been scored identifying the highest risk in terms of likelihood and impact, risk owner and proposed mitigation and are considered reasonable. However, challenges to commercial viability and achieved sales values being lower, could have been mitigated further by providing a more in depth cashflow development appraisal and providing evidence of sales values**.**

The delivery of the scheme by the private sector is dependent on the continued commercial viability of the proposed scheme. All development funding beyond the initial MCA grant to unlock the land and contribute towards the high street and abnormal costs, is to be provided by the developer on a commercial basis with no further public sector funding anticipated. A contingency of 5% has been included in the appraisals which seems reasonable for a project of this scale with most surveys complete.

The Applicant has not provided a sufficiently in depth cashflowed development appraisal which could mean the viability gap has not been accurately calculated. In addition no evidence has been provided to support proposed sale values. Both these could be considered risks to the viability of the scheme.

There is some risk surrounding the current absence of a finalised development agreement which it is understood will be completed simultaneously with all parties once the FBC has been approved. It is understood that this risk is being mitigated through continuous communication between the parties and agreement in principle has been achieved.

There is also a risk to delivery arising out of the proposed intervention, which is its dependence on improved sales values and real costs matching cost assumptions in the existing appraisals to ensure the viability of the scheme. The assessors have had sight of a high level development appraisal that generally looks reasonable, but is not considered to provide sufficient cash flow detail.

6. DELIVERY

Overall, the timetable for delivery is considered reasonable, with adjustments made following time slippage between OBC and FBC stage. More information should be provided however on when phase 1 is likely to be complete and when the council can expect interim and final evaluations of their funding.

A developer, Citu, has been appointed following a marketing campaign and two-stage bidding process carried out by CBRE in 2019. The developer has agreed in principle to a draft development agreement and a tripartite agreement between existing landowners that covers how they will deal with the selected developer and distribute the proceeds from the phased land sale. Detailed comments on the development agreement from Citu are still outstanding.

The FBC confirms that financial due diligence was undertaken by CBRE when the contractor was procured. Citu the contractor will be responsible for the due diligence around any sub contractor.

The assessors have no concerns surrounding the procurement strategy, though it should be noted that there is some risk around the current absence of full acceptance by the preferred bidder of a finalised development agreement. It is understood that the landowner agreement will be completed simultaneously with the development agreement being entered into with Citu, but that this will be in advance of final sign off and contracting with the MCA for the funding agreement.

The FBC states a level of certainty of 95% which is the minimum level of certainty in relation to costs that is required at this stage. We have now been provided with a development appraisal by Citu which includes a breakdown of build costs, abnormal costs and professional fees, which look reasonable. The Applicant has confirmed through clarification questions that inflation has been included in the development appraisal and that they will be offset by the inclusion of increase in sale values. The Applicant states that any inflationary increases to costs will be absorbed by the developer.

The applicant states that there is no expectation that MCA will be responsible for cost overruns and it is understood that risk of cost overruns would be borne by the developer rather than SCC.

The FBC states that strategic and political responsibility for the development and delivery rests with Sheffield City Council's Interim Executive Director of Place who will be required to approve acceptance of the MCA funding, the purchase and subsequent sale of the site and the development agreement with Citu.

Operational delivery of the development is to be delegated to Sheffield's Head of Property and Regeneration, reporting to SCC's Housing Delivery Group. The Senior Responsible Officer for the project is named as Alan Seasman, Service Manager for City Regeneration and Major Projects.

The FBC states that public consultation will take place as part of the planning application process which will be in April 2022, but that the scheme is consistent with local planning policies which have been subject to public consultation.

Monitoring and evaluation is to be led by the SRO who will report to SCC's Housing Delivery Group and Capital Delivery Group and meet monthly with the private sector developer's Project Manager to monitor progress of the development, review and update the risk register and take necessary coercive actions to ensure the scheme will be delivered on time, on budget and to the required quality standards. The OBC states that Citu will be responsible for reporting social value results with social value outcomes monitored through the Council's Social Value Portal. The costs of M&E are to be met by Sheffield City Council.

7. LEGAL

The FBC states that SCCs legal advisors have considered the subsidy control issues in relation to the site. In short the SCC is receiving the funds to regenerate an underutilised site in Sheffield City Centre in a capacity where they are not acting commercially. The funds will be used to fill a viability gap and will not be used to make profit and best value has been achieved through consider BCRs.

8. RECOMMENDATION AND CONDITIONS

Recommendation	Full grant award subject to conditions
Payment Basis	Payment on defrayal

Conditions of Award (including clawback clauses)

The following conditions must be satisfied before contract execution.

1. Applicant to provide finalised development agreement
2. Submission of acceptable Subsidy Control opinion (subject to MCA legal opinion)

The conditions above should be fully satisfied by 30/04/2022. Failure to do so could lead to the withdrawal of approval.

The following conditions must be satisfied before drawdown of funding.

3. Formal confirmation of all other funding approvals required to deliver the project.
4. Confirmation of procurement and evidence of cost certainty
5. All required statutory consents including all planning conditions must be satisfied.
6. Submission of evidence of Sheffield City Council's approval for the scheme.

The following conditions must be included in the contract

7. Provision of development appraisal and evidence of residential sale values
8. Clawback will be applied on outputs at MCA discretion