

1 – SCHEME DETAILS

Project Name	Parcel 4D, Waverley – Affordable Housing-Led Scheme	Type of funding	Grant
Grant Recipient	Harworth Estates Ltd	Total Scheme Cost	£39.93m
MCA Executive Board	Housing and Infrastructure	MCA Funding	£3.104m
Programme name	Brownfield Housing Fund	% MCA Allocation	7.8%
Current Gateway Stage	SBC	MCA Development costs	n/a
		% of total MCA allocation	n/a

2 – PROJECT DESCRIPTION

Located at Junction 33 of the M1 Motorway, the Waverley Regeneration Scheme provides a sustainable, mixed-use development on a 740-acre brownfield site formerly occupied by the Orgreave Colliery and Coking Works. Acquired by the Harworth Group, the site has been divided into a number of smaller development sites which are being brought forward on a site-by-site basis.

Site 4D refers to an 11-acre area which has been earmarked for the delivery of a 185-unit affordable housing-led residential scheme comprising 12 one-bed homes, 101 two-bed homes, 54 three-bed homes and 18 four-bed homes, with 89% of these (165 units) being affordable. The total scheme cost is estimated to be £39.93m with the MCA BHF ask set at £3.104m.

The business case outlines that site 4D presents several abnormal development costs, associated with its industrial heritage that has impacted the viability of the proposed scheme. Specifically, costs are associated with the unstable ground conditions and topological challenges on the site. As a result, there are additional costs involved in creating a level development platform. The situation is further compounded by a steep gradient change (4.4m) necessitating the creation of retaining walls as well as the need for the clearance of vegetation from the site which is now extensive in coverage.

The Harworth Group commissioned consultants EDGE to produce an itemised list of abnormal and BHF-eligible costs. In addition to these costs, Harworth has identified a further £462,500 of additional site utility works. Including a 7.5% contingency allowance, this brings the total abnormal costs to £3.16m, marginally above the £3.104m BHF ask.

BHF funding has been requested to make the proposed project financially viable for the developer. The business case outlines that abnormal costs specifically associated with the Waverley 4D site including its brownfield status and topography impact the viability of the proposed scheme.

Without BHF funding, Cushman and Wakefield forecast a developers profit of £0.279m (0.76% of GDV). For Harworth, who usually targets a profit of 10.25% of GDV for mixed tenure schemes (i.e. affordable and market rate), this is not an acceptable level of profit. With BHF funding a minimum profit level of 10.07% of GDV is forecast (£4.7m), which Harworth would accept.

Harworth claims that the expected target profit on GDV for any large-scale developer / housebuilder working on a complex brownfield site of the nature and scale of site 4D would be 20% for market units and 8-10% on affordable. On a mixed development site, the expectation would be for a blended profit level of 10.25%. Without BHF funding, Cushman and Wakefield forecast a developers profit of £0.279m (0.76% of GDV). For Harworth, who usually targets a profit of 10.25% of GDV for mixed tenure schemes, this is not an acceptable level of profit. With BHF funding a minimum profit level of 10.07% of GDV is forecast (£4.7m), which Harworth would accept.

Reference is made to an application for Affordable Housing Grant (AHG) (amount not stated) which, if awarded, could reduce the viability gap presented in the Cushman and Wakefield development appraisal, increasing the % profit on GDV. However, as stated in the SBC, the inclusion of additional funding via the AHG source has not been assumed and cannot, therefore, be included in the current viability assessment. Should this funding be secured, the GDV may increase to above the blended rate expectation of 10.25% and as a result, the applicant may not require the full £3.104m BHF requested.

3. STRATEGIC CASE

Project rationale

The most recent Strategic Housing Market Assessment (SHMA) for the Sheffield and Rotherham region (2019) points to an increased pressure on existing affordable housing stock coupled with a continued undersupply of affordable housing projects across this defined housing market area. Within the Rotherham local authority area alone the projected annual shortfall in affordable housing is 716 units. The planned affordable housing-led development at site 4D has the potential to make up nearly a quarter (23%) of this annual shortfall through its provision of 165 new affordable homes.

Overall, the rationale for the project is based on bringing a brownfield site on a major strategic site, whilst also addressing a need for affordable housing in Rotherham. The challenges are well-evidenced and provide a robust rationale for the project.

The SBC's justification for public sector intervention is centred on the fact that delivery of the scheme is not viable due to the extent of the abnormal costs associated with developing the site. The business case identifies 3 market failures associated with the state of the existing site (negative externalities), affordable housing (quasi-public good)

and infrastructure, remediation and blight removal (quasi-public good) linked to the abnormal costs and estimated values. Overall, the business case presents a robust justification for public sector investment.

Strategic fit

Stronger - Harworth makes the case that the increase in housing provision on this site (both affordable and market rate) will contribute towards productivity improvements, enterprise growth, and employment growth by attracting and retaining new higher-skilled workers to work at the nearby Advanced Manufacturing Park. In addition to this, whilst the scheme will not directly provide new employment floorspace on site, it will directly support construction employment during the construction period.

Fairer – The business case outlines the proximity of the new development to the Advanced Manufacturing Research Centre training facility, which is partnered with the University of Sheffield to deliver training programmes from apprenticeships through to degrees, which will help to drive up the number of highly skilled workers in the area.

The business case also outlines that the increase in affordable homes of a superior quality, located close to new improved public space, will allow those currently living in poorer quality accommodation to relocate, potentially delivering benefits to their health and wellbeing.

Alongside this, the business case describes Harworth’s corporate commitment to paying above the National Living Wage to its staff and ensuring that all procured contractors and consultants are also paid at this standard, highlighting the project's contribution to ensuring employees are lifted out of low earnings.

Greener – The projects alignment against this ambition is strong in that Harworth have committed to the proposed housing exceeding those required under current building regulations with homes either at or close to net zero in operation. This deliberate choice will yield direct benefits in the shape of better air quality, supporting the transition to low carbon or net zero, and maximising the development of housing provision in low flood-risk areas.

Overall, the Waverley 4C project is well aligned with the aims and ambitions of the SEP.

4. VALUE FOR MONEY

The BHF and total public sector BCRs are the same as BHF funding is the only public sector contribution to the project. A summary of the economic case BCR position for the project is presented below:

Based on SYMCA and Total Public Sector Funding Only		Preferred Option	
A	Present value benefits	£	3,883,408
B	Present value costs	£	3,216,355

C	Present value other quantified impacts	£	600,447
D	Net present public value [A-B+C]	£	1,267,500
E	Initial Benefit:Cost Ratio [A/B]		1.21
F	Adjusted Benefit:Cost Ratio [(A+C)/B]		1.43
H	Value for money category		Low

The methodology used to calculate the gross economic benefits is sound and the additionality assumptions across the benefits streams all appear reasonable.

As a result, there is confidence in the initial (1.21) and adjusted (1.39) BCR calculations for SYMCA and the total public sector cost presented in the economic case. However, it should be noted that both the initial and adjusted BCR are close to 1, and therefore value for position of the projects could be sensitive to changes in either the costs or benefits of the scheme.

Alongside the above, SYMCA should be aware that the initial and adjusted BCRs calculated by the applicant for Viable Alternative Option 1 and Option 2 are equal to or higher than the preferred option. The preferred option has therefore been taken forward by Haworth based on its strategic and financial strength.

5. RISK

Harworth has provided the following table indicating their identified risks and proposed mitigations:

No.	Risk	Likelihood (High, Med, Low)	Impact (High, Med, Low)	Mitigation
1	Planning – the risk that the site fails to secure the necessary planning consents	Low	High	Outline planning consent already secured for the wider Waverley development. Reserved Matters consent required. Risk of non-approval of this consent is low due to the current outline consent. Mitigation through early dialogue and pre-app discussions with the Council.
2	Inflation – risk that costs are greater than currently identified	Medium	Medium	Tendered prices will be obtained through a competitive procurement process once the scheme is further on in the development process. Throughout the design process if costs did increase, Harworth will seek to address these through value engineering. Budgets include 7.5% contingency on abnormal costs and a 5% contingency on construction costs.

3	Market demand risk – Risk of units not selling	Low	Medium	Market demand at Waverley has been healthy and there is strong evidence to support take-up of units. At Waverley, there is an average of 160 units sold per year therefore low take-up is considered to be a low risk. The scheme is affordable housing led which is considered very low risk in terms of market demand due to the high demand for affordable housing and the units being forward sold directly to a Registered Provider (engagement with the RP market to be undertaken at the next stage).
4	Lack of certainty around site-specific environmental issues	Medium	Medium	Further environmental issues could be identified once the scheme is being developed, leading to higher costs. This is being mitigated through extensive ground/environmental surveys.
5	Legal (Procurement/Subsidy Control)	Low	Medium	All works will be competitively tendered or have costs independently validated. A formal Subsidy Control opinion will be provided to support an FBC in due course.

The risks identified and their relative likelihood/impact stand up well to scrutiny. The mitigation plans provided are adequate at SBC but would hopefully be further progressed as an FBC (i.e. ground condition surveys, subsidy control opinion and planning discussions furthered). It should also be noted that whilst contingencies have been incorporated into the project cost estimates, there continues to be significant uncertainty regarding build cost inflation.

6. DELIVERY

Set out below is the indicative delivery timetable for the site 4D scheme:

Key Milestone	Completion Date
Complete outline design	Q1 2023
Issue Outline Case to MCA	Q1 2023
Complete full design	Q1 2023
Satisfy all statutory requirements (e.g. planning permission)	Q3 2023
Procurement complete	Q3 2023

Issue Full Business Case to MCA	Q2 2023 (aim for July 2023)
Works commence	Q1 2024
Works complete / Project opening	Q1 2027

Development at site 4D will take an alternative delivery approach to that usually pursued by Harworth in that they will have a direct involvement in the build-out (rather than as master developer only) and in it being an affordable-led scheme. The potential impact of this approach on the delivery profile is somewhat mitigated by Harworth's well-established corporate experience as master developers working on large complex brownfield sites and its over two-decade involvement in the Waverley site development area.

Having regard to the experience of the promoter as a developer and of its specific understanding of both the scheme and its position within the wider Waverley development area, this delivery timetable can be assessed as reasonable and achievable.

8. RECOMMENDATION AND CONDITIONS

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