

# Assurance Summary

VERSION 1 24.11.2021



## 1 – SCHEME DETAILS

<b>Project Name</b>	Plot 2 Olive Lane, Waverley	<b>Type of funding</b>	Grant
<b>Grant Recipient</b>	Forge New Homes LLP	<b>Total Scheme Cost</b>	£8,077,640
<b>MCA Executive Board</b>	Housing and Infrastructure	<b>MCA Funding</b>	£885,000
<b>Programme name</b>	Brownfield Housing Fund	<b>% MCA Allocation</b>	11%
<b>Current Gateway Stage</b>	BJC	<b>MCA Development costs</b>	n/a
		<b>% of total MCA allocation</b>	n/a

## 2 – PROJECT DESCRIPTION

### Project Information

Forge New Homes LLP (Forge), a limited liability partnership set up by five housing associations (Great Places, South Yorkshire Housing Association Ltd, The Guinness Partnership Ltd, Together Housing Group Ltd and Yorkshire Housing Limited), is requesting c.£0.885m of SYMCA BHF funding towards an overall investment of £8.078m, to deliver the Plot 2 Olive Lane, Waverley project.

The project looks to deliver 32, 2 / 3-bed properties designed to exceed building regulation requirements, with gardens on a 10-acre brownfield site located adjacent to the Highfield Commercial area of the Waverley Regeneration Scheme. Alongside the delivery of the new properties, Forge New Homes LLP proposed to deliver 52 car parking spaces (32 with EV charging points), dedicated cycle storage and tree planted green street.

The site is currently owned by Harworth Plc and Forge New Homes LLP have signed a conditional contract with Harworth Plc to purchase the land once planning permission has been granted. Planning approval was due by 30<sup>th</sup> June 2023.

## **MCA Funding**

The business case states that the site was presented to Forge as requiring a high-quality housing development which needed to comply with the enhanced design requirements for the Highfield Commercial area of the Waverley site set out by Harwarth Plc in Appendix 7: A Vision for Highfield Commercial. The Vision document outlines the design layout and key principles for the area, which includes a focus on open spaces, outdoor community areas and sustainable living. Specifically, MCA funding will contribute towards:

- ***Façade enhancements***
- ***Fully electric development***
- ***Public open space***

The business case outlines that construction and labour costs have increased significantly since 2021, with the Building Materials and Components Index reporting an 11.2% increase for all work in December 2022 compared to the same time the previous year. **The business case outlines that MCA funding will contribute towards costs associated with dealing with material and labour inflation costs.** The business case also identifies the following cost items MCA funding will contribute to:

- **Site preparation**
- **Acquisition legal costs associated with complex land sale agreement**

## **Justification for MCA Funding**

The business case states that the viability of the scheme is compromised by the high specification/ fully electric development costs, increasing construction and labour costs, anticipated slow build and sales rate and risks of a reduced GDV.

The business case provides robust evidence to demonstrate the need for high specification / fully electric development and increasing construction and labour costs. The business case also states that the anticipated slower build and sales rates are due to difficulties sourcing materials, increased interest costs affecting affordability and a fall in sales and house prices in an area of lower income (RICS Residential Market Survey (February 2023)). It appears positive externalities will be generated by the development, in the form of environmental benefits, brownfield remediation and wider placemaking.

## Evidence of Need

To evidence the need for MCA funding, Forge New Homes LLP have identified a gap of £0.885m through high-level development appraisals prepared by Aspinall Verdi. The development appraisal for the proposed scheme outlines that with the BHF funding, the preferred option will be financially viable for the developer, returning a profit on GDV of 12.92%, meaning finance could be secured on the scheme. Whilst, further narrative/evidence could have been provided to demonstrate a 12.92% profit on GDV is comparable with market averages and sits within an acceptable range.

## Funding

The business case outlines that the remaining finance for the project is currently unconfirmed and presents the two options Forge intends to explore:

- Self-funded by the five Housing Associations
- External finance from Homes England / Lloyds Bank

Whilst the options presented are logical and likely achievable, with finance yet to be fully secured, there is still a small level of risk the project becomes undeliverable.

## 3. STRATEGIC CASE

### *Options assessment*

The business case presents a brief description of three options which have been considered. These are outlined below:

- Do minimum – No scheme.
- Viable alternative 1 – To value engineer the scheme by removing the sustainability features and reducing the quality of fixtures, fittings and the external fabric of the houses, moving away from the vision within the design guide for the area.
- Preferred option – Delivery of proposed 32 homes, fully electric, high-quality design scheme.

The rationale presented in the business case for selecting the preferred option is based on its ability to achieve the SMART objectives and the deliverability of the proposed scheme (potential delays if pursuing

	<p>other options based on finance agreement and additional design works, planning delays). The assessment of the options against these factors to select the preferred option is logical and accurate.</p>
<p><i>FBC stage only – Confirmation of alignment with agreed MCA outcomes (Stronger, Greener, Fairer).</i></p>	<p><b>Stronger:</b> The applicant 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 business density increases 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 the proposed commercial development at the adjacent neighbourhood centre site (cafes, retail and restaurants).</p> <p><b>Greener:</b> The business case outlines that the new housing will be designed to achieve an EPC B rating whilst also utilising low-carbon technologies including PV panels and heat recovery technologies which will reduce the lifetime carbon emissions of the development. Alongside this, the business case outlines the project’s (and wider Waverley regeneration) indirect potential to support improvements to the carbon intensity of the transport network, providing:</p> <ul style="list-style-type: none"> <li>• Pedestrian and cycle access to local everyday amenities proposed at Olive Lane.</li> <li>• Access to bus services that connect Waverley to the wider area.</li> <li>• EV charging infrastructure.</li> </ul> <p><b>Fairer:</b> The primary contribution of the project to the fairer strategic outcome outlined in the business case is the impact of the amenity space provided to the front and rear of the properties, green community street, access to cycle routes and the Trans Pennine trail and quality of the development will have on the personal wellbeing of residents.</p> <p>Alongside this, the business case outlines the project’s alignment with supporting reduced economic inactivity and unemployment by creating construction jobs during delivery.</p> <p>Overall, the Waverley Olive Lane project is well aligned with the aims and ambitions of the SEP.</p>

**4. VALUE FOR MONEY**

**Monetised Benefits:**

<i>VFM Indicator</i>	<i>Value</i>	<i>R/A/G</i>
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<i>Net Present Social Value (£)</i>	£45,248	A/R
<i>Benefit Cost Ratio / GVA per £1 of SYMCA Investment</i>	1.05	A/R

**Value for Money Statement**

The BHF and total public sector BCRs are the same as the BHF funding is the only public sector contribution to the project.

Following the appraisal of the project, the projects Economic Assessment has been revised to take on board recommendations made by the assessor.

The results of this revised assessment are provided below:

Based on SYMCA and Total Public Sector Funding Only		Preferred Option
A	Present value benefits	£1,000,611
B	Present value costs	£949,130
C	Present value other quantified impacts	-£6,233
D	Net present public value [A-B+C]	£45,248
E	Initial Benefit:Cost Ratio [A/B]	1.05
F	<b>Adjusted Benefit:Cost Ratio [(A+C)/B]</b>	1.05
H	<b>Value for money category</b>	Low

Based on the applicant's assessment of the economic benefits, relative to SYMCA BHF and total public sector investment, the level of estimated benefits represents low value for money, with a BCR of 1.05.

**5. RISK**

The business case identifies the following top 5 risks and mitigations:

Risk	Likelihood (High, Med, Low)	Impact (High, Med, Low)	Mitigation	Owner
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Changes within the macro economy / property market which lead to reduced sales prices.	Low	High	Monitoring of the market, through agents and examination of local market activity. Ensuring that the timing of delivery of the development (to completion), a high-quality product and marketing take place to ensure demand.	Forge New Homes
Construction costs inflation continues and thus costs are greater than forecast - assumption here is 5%.	Low-Med	High	Inflation costs are built into construction costs. Ensure where possible that costs at time of commencement of tender process are 'locked-in'.	Forge New Homes
Staff shortage affecting capacity, skills and staff.	Low	Low	Agreement with selected contractor will include penalties for time delays and will ensure at the outset that staffing is available to deliver upon the contract. Contractors invited to tender are selected based on track record and excellent working conditions for staff to ensure safe working practices and encouragement of staff retention.	Forge New Homes / Contractor
Delays in delivery of necessary materials and products for the scheme.	Low-med	Med	Agreement with selected contractor will include penalties for time delays and ensure that where possible materials are sourced locally. Materials will be sourced at the outset to ensure efficient programming of construction.	Forge New Homes / Contractor
Brownfield Funding Decision and completion of agreement delays project.	Med	Med	Effective communication of decision-making processes and timely exchange of information should help to ensure that project decisions are made in alignment with funding timing.	Forge New Homes / Contractor

The business case identifies the top 5 key risks and describes appropriate mitigations for each risk. Whilst the key risks have been identified, other risks such as securing full planning permission, completing the purchase of the site, procurement of contractors and subsidy control have not been assessed.

## 6. DELIVERY

The business case has set out a detailed programme of activities required to deliver the project. Overall, the timetable for the delivery activities appears logical and achievable. In the time since the submission of the SYMCA BHF application, it was anticipated planning approval will have been granted. Based on a search of Rotherham Council's Planning Portal, it is not clear whether this has been

achieved. The only obvious slippage at this moment in time appears to be the submission and approval of SYMCA BHF funding. It is not clear whether this will result in further slippages.

The business case outlines that the procurement of a main contractor will be done so on a competitive basis through a two-stage tender process. Forge intend to approach 4 firms to invite them to tender once reserved matters planning approval is confirmed, which was expected in June 2023. The business case outlines that Stage 1 of the tender process will run through July 2023 and aims to identify the preferred contractor. Stage 2, will negotiate a fixed build price with the preferred contractor and run from the start of August to mid-September 2023 whilst RIBA Stage 4 designs are completed.

The business case clearly outlines the process and timescales for the procurement of a contractor to deliver the project.

### **Cost Certainty**

The business case estimates that cost estimates are of 75% certainty. Based on the SYMCA definition of certainty this appears broadly appropriate as costs are based on designs and have been produced by Edge, an independent cost consultant. However, the cost plan is dated 2021 and therefore should be considered out-of-date due to construction price inflation. The business case states that value engineering has been undertaken which has identified some potential cost savings that would bring the 'all-in' cost of development down. The elements identified are:

- Rationalise the metal standing seam roof
- Stone effect parapet / window times
- Allowances for façade enhancements
- Zinc infill panels
- 1800mm brick screen wall – boundary wall
- More roads, / paving / footpaths per ft2 – driven by car parking

Whilst it appears as though costs have been reviewed and updated, evidence of the level of value engineering achieved and consideration of inflation could be stronger. As such it is unclear whether the level of cost certainty is fully appropriate. The appointment of a construction contractor is due in July / August on a fixed price basis, as such the level of cost certainty is likely to increase significantly shortly.

The business case states that Forge will use their experience to manage the overall project budget and aim to appoint a contractor on a fixed-price basis, limiting the risk of cost overruns once this has been agreed. Should cost overruns occur, Forge will utilise the contingency sum (4% of total cost) and developers' profit. Together, these should provide sufficient funding to cover any cost overruns, however, there

is a risk that if values decrease significantly the combination of an increase in costs and decrease in sales values, the contingency and developers profit isn't sufficient to ensure viability of the project.

In summary, the cost estimate is based on value engineering an independent cost plan (Edge) for the project from 2021. As such, there is a level of uncertainty associated with the revised cost estimates due to construction price inflation since 2021. Whilst there is a level of uncertainty, based on the procurement timelines set out, Forge is close to procuring a contractor (August) on a fixed price basis which will reduce uncertainty.

The business case identifies Andy Beattie the Managing Director of Forge New Homes as the SRO for the scheme who has signed off the business case. Appendix 5 sets out the investment and governance structure for Forge Homes, detailing the roles and responsibilities of the partner organisations within Forge New Homes covering business strategy, operations and customer experience as well as reporting structure of the organisation.

Through the business case and Appendix 5, the submission identifies the SRO for the project and sets out the governance structure for Forge Homes. The business case could have been strengthened by outlining the Forge New Homes project team for the Olive Lane project and the individual's decision-making responsibilities.

The business case proposes two phases of evaluation:

- Interim Evaluation: March 2024
- Final Evaluation: January 2025

The Interim Report will report on spending to date and assess the outputs delivered to date and forecast delivery of remaining outputs. The outputs and outcomes proposed for the evaluation are outlined below:

Outputs:	
Remediation of brownfield land	0.47
Housing Units	32
Car parking spaces	52 (32 EV chargers)
Cycle parking spaces	32 - All plots have dedicated cycle storage within the curtilage



Bird Boxes incorporated into dwellings	7
Central green street – & public space	0.03ha
All electric scheme	All plots gas free heating
<b>Outcomes:</b>	
Construction jobs (years)	157

The outputs and outcomes selected are appropriate and will provide a good overall indication of the success of the project.

## 7. LEGAL

The applicant has provided a 7-principles subsidy control assessment (A-G). This provides some assurance that the project can be Subsidy Control compliant. This should be reviewed and confirmed by the SYMCA legal team.

## 8. RECOMMENDATION AND CONDITIONS

<b>Recommendation</b>	Full award subject to conditions
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<b>Payment Basis</b>	Payment on defrayal
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### Conditions of Award (including clawback clauses)

***The following conditions must be satisfied before contract execution.***

1. Confirmation that all other funding is secured
2. Confirmation of acquisition of the freehold and leasehold titles for the site
3. Procurement of main contractor and evidence of cost certainty e.g. return of contractor tenders and confirmation of material costs
4. Submission of a detailed project plan and risk register including sufficient contingency provision for all activities and related mitigation costs.
5. Submission of acceptable Subsidy Control opinion

The conditions above should be fully satisfied by 31<sup>st</sup> October 2023. Failure to do so could lead to the withdrawal of approval.

***The following conditions must be satisfied before drawdown of funding.***

6. All required statutory consents including all planning conditions must be satisfied.

**The following conditions must be included in the contract**

7. Clawback on outputs and outcomes at SYMCA discretion.

8. Scheme promoter to address any cost overruns without unduly compromising project outputs and outcomes.

9. Scheme promoter to return SYMCA funds in excess of expected developer profits