Appendix A

Assurance Summary

VERSION 1 24.11.2021

1 – SCHEME DETAILS			
Project Name	Laurel Works Build to Rent (BTR) Scheme	**Type of funding**	Grant
Grant Recipient	Brickland Limited	**Total Scheme Cost**	£52,340,093
MCA Executive Board	Housing	**MCA Funding**	£4,340,000
Programme name	Brownfield Housing Fund	**% MCA Allocation**	8.3%
Current Gateway Stage	OBC	**MCA Development costs**	n/a
		% of total MCA allocation	n/a

2 – PROJECT DESCRIPTION

Brickland Limited is seeking a total of £4.34m of SYMCA BHF funding towards an overall investment of £52.34m to deliver 268 residential apartments for private rent with the addition of 308 square metres (GIA) of ground floor commercial floorspace. This planned development is located at Wicker Island, just north of Sheffield City Centre. Brickland Limited has owned the 0.33-ha Wicker Island site since 2019. It is a large riverside site located within the northern gateway area of the city, one of Sheffield's key strategic regeneration areas. A former, but now derelict, industrial area, the site has been of little economic/productive use for some time.

Having obtained planning permission for this purpose built BTR (buy to rent) scheme shortly after the acquisition of the site in 2019, Brickland Limited moved swiftly to implement this planning consent through site demolition and initial site facilitation works. Brickland Limited's intention is for the development to be acquired by an institutional investor on a forward funded basis. Such an arrangement is common practice for the type of BTR scheme envisioned at this location.

The scheme is described as being "shovel ready" with ground/enabling works complete, full planning consent in place, land under developer control and a developer willing to proceed with a preferred funding partner and construction contractor.

The business case states that £4.34m SYMCA BHF funding is to be used to make a contribution towards the total scheme cost £52.34m. Those elements of the project work which fall within the eligibility criteria of the BHF are set out below:

- Facilitating works / abnormal development costs (majority of these already undertaken)
- Substructure works (includes piling and ground floor slab)
- External Works and Incoming Services

- Frame works
- Other general eligible construction costs as per the appended cost plan.

The business case argues that the need to address abnormal site issues and the compounded impacts of build cost inflation (those associated with a vertical build design being higher to begin with) have opened up a significant viability gap relating to the planned development. They make the case that without BHF funding, delivery of the planned scheme will remain stalled. To evidence this, Brickland Limited commissioned Cushman & Wakefield to prepare a development appraisal which forecasts an 8% development profit on GDV, but only on the basis of the inclusion of the requested £4.34m of BHF grant funding (representing 8.3% of total investment). The business case indicates that BHF funding is needed to bring the profit on GDV to an acceptable level for the developer (8%). Based on the Assessor's experience of similar schemes, the level of profit sits within an acceptable range.

Brickland Limited makes reference to the sources from which the cost assumptions relating to the GDV, land cost and construction costs have been drawn. The GDV has been informed by the provisional investor offer from NREP (£48m). JLL's One Riverside Sheffield Marketing & Pricing Overview set a rounded net price per sqft2 for BTR developments in the city which confirmed the robustness of the provisional investor offer.

The assessment of the land value reflects the applicant's own view of the current market value of the site, equating to £14,900 per plot for consented (brownfield) residential land in this location. A formal Red Book valuation report has been commissioned to confirm that this represents the market value of the site, but this was still outstanding at the time of the appraisal. It is noted that the construction costs are based on an independent Dalbergia RIBA Stage 3 cost plan and informed by preferred contractor discussions (inclusive of a 5% contingency). Whilst further detail could have been provided to outline the key assumptions behind the cost estimates / comparable evidence from similar schemes, the cost estimate for the project appears reasonable.

3. STRATEGIC CASE

Options assessment	The OBC outlines a set of three short-listed options. These are set out below: **Do Minimum -** In a 'no BHF scenario' alternative public funding would be required or Brickland Limited would not be able to bridge the current viability gap and the project will remain stalled for the foreseeable future. Based on the evidence set out in the appended viability appraisal and the length of time that the site has remained undeveloped, the reference case described appears to represent the likely outcome if no BHF funding is secured. **Viable Alternative Option 1 -** It is clear that the applicant has endeavoured to present a logical 'do less option' in this OBC. However, they have also presented a fairly robust case as to why pursuing such an option would encounter significant difficulties in terms of the exacerbation of existing viability issues relating to alternative tenure profiles and the risk of non-compliance with the Sheffield's spatial planning policies. Taking such issues into account has led the applicant to the reasonable conclusion that although presented as an alternative option, it cannot really be considered as a viable option. **Preferred Option -** As per the project description: £4.34m BHF funding to enable the development of a high quality and comprehensive 268-unit BTR residential scheme including 308 square metres (GIA) of ancillary commercial floorspace on the ground floor, as per the existing consented scheme. The primary justification for taking forward the 'preferred option' is its deliverability, something which cannot be achieved under the 'Do Minimum' or the 'Viable Alternative 1' options. On the basis of the viability difficulties demonstrated, it is clear why the

	applicant has selected the preferred option. However, it could have been more robust in its options analysis with the inclusion of an assessment on the potential for a higher density development. It is recommended that it is further strengthened at FBC stage.
Statutory requirements and adverse consequences	The business case states that the Laurel Works scheme has been designed to be fully compliant with the Sheffield City Council's statutory planning policies and its housing delivery and economic growth strategies. It is stated that the scheme has already secured full planning consent, part of which has already been implemented through the initial enabling works on site, and there are no s106 obligations. The project is therefore deemed to be compliant with the relevant planning authority, with no outstanding risks. As part of the planning application process, Brickland Limited commissioned a suite of technical work in support of the Laurel Works project. This included a transport assessment which concluded that the impact of the Laurel Works scheme on the local highway network was considered to be negligible. Further to this, they concluded that the development was ideally located to encourage trips by foot and bicycle, supported by wider city infrastructure. It was also determined that the proposed scheme offered a high degree of accessibility to tram, train and bus services serving the local area. The business case outlines that an Environmental Scoping Study was not undertaken as it was not required by the local planning authority. Brickland Limited did however commission a Phase 1 desk top study report by Clancy Consulting in support of the planning application. This report pointed to a number of potential risks around hazardous ground gas and asbestos from the presence of made ground, for which appropriate mitigation measures will be required during the scheme delivery. Brickland Limited have also noted that specific mitigation measures have also been put in place to address the risks associated with the site being designated a Flood Risk Zone 3 area (which is defined as an area that has a 1% or greater chance of flooding from rivers in a year). This includes specific design considerations, such as raising the ground floor levels by 150mm, external walls being locally ramped upwards and the inclusion of threshold drains.

4. VALUE FOR MONEY

Monetised Benefits:

VFM Indicator	*Value*	*R/A/G*
Net Present Social Value (£)	£2.6m	G
Benefit Cost Ratio / GVA per £1 of SYMCA Investment	1.56	G

Value for Money Statement

A summary of the economic case BCR position for the Laurel Works project is presented below:

Based on SYMCA and Total Public Sector Funding Only	Preferred Option

A	Present value benefits	£ 5,556,827
B	Present value costs	£ 4,654,493
C	Present value other quantified impacts	£ 1,692,075
D	Net present public value [A-B+C]	£ 2,594,409
E	Initial Benefit:Cost Ratio [A/B]	1.19
F	**Adjusted Benefit:Cost Ratio [(A+C)/B]]**	**1.56**
H	**Value for money category**	Medium

Based on the applicant's assessment of economic benefits, relative to total SYMCA and public sector investment, the level of estimated benefits represents Medium value for money, with an Initial BCR of 1.19 and Adjusted BCR of 1.56.

5. RISK

The business case identifies the top five project risks:

No.	Risk	Likelihood (High, Med, Low)	Impact (High, Med, Low)	Mitigation	Owner
1	Failure to secure SYMCA BHF Funding	Unknown at this stage	High	Robust appraisal of proposed scheme to evidence the funding need supported by development of this Green Book compliant OBC	Brickland/SYMCA
2	Failure to secure forward purchase investor	Low	High	Continued engagement with NREP Securing SYMCA BHF funding to enable Brickland to present a viable funding proposition to the funding market. Brickland could engage with wider funders in the market if this was the case	Brickland
3	Construction costs increase further	Med	High	Dalbergia engaged to manage project risks and the appointment of the main contractor. Early engagement with preferred contractor on costs undertaken and this has informed the latest costs. Proposals now at RIBA stage 3 and the costs include a 5% contingency to allow for cost-overruns.	Brickland
4	Further site constraints identified	Low	Med	Extensive survey work carried to achieve planning consent and de-risk the site. Enabling works have also been completed and so Brickland has good knowledge of the site	Brickland
5	Macro-economic conditions result in scheme delivery challenges in terms of the build cost environment, funding	Med	High	There is clear and evidenced demand for private rented residential accommodation in Sheffield with an immature but growing BtR market. Brickland is experienced in the management of scheme delivery in challenging economic conditions.	Brickland

	environment and impact on occupier demand				

The business case demonstrates that the applicant has a good understanding of the immediate key risks associated with delivering the project having appropriately scored the likelihood and impact of the key risks identified. In general, the mitigations proposed are appropriate but in some cases are only able to reduce the impact of the risk through contingency or reduce the likelihood it will happen.

Appendix A.3 also identifies other key delivery risks such as contractor availability, delays in the construction programme (and its implications on project costs) and Subsidy Control compliance demonstrating a good understanding of wider delivery risks.

Whilst the key risks themselves do not require any specific contract clauses, SYMCA may wish to consider a contract condition associated with the approach to addressing cost increases beyond the contingency allowance for the project to ensure the approach outlined in the business case (use of developer profit) to ensure the scheme is not value engineered in a way that risks the project not delivering against its objectives i.e. (PV panels, quality of housing, quality of public realm and EV Charging Stations).

The business case outlines that a significant bulk of the construction costs are to be funded by an institutional funder in place at the point of signing the building contract: Q2 2024. However, with both the preferred construction contractor and the forward funding partner placing a heavy dependency on the applicant to offer stronger guarantees around the bridging of the scheme's viability constraints, which itself is entirely dependent on the BHF grant funding approval, there remains a high level of risk around the possibility of Brickland Limited being able to secure the necessary forward funding from the institutional funder. With the OBC key to providing more assurance regarding the viability of the project to the preferred construction contractor and forward funding partner, at FBC stage, there should be greater assurance of funding from an investor.

The applicant appropriately identifies contractor availability as the key procurement risk. The business case risk log assesses the overall likelihood and impact of this outcome to be Amber. Greater explanation to justify the low likeliness rating would have strengthened this assessment of the risk. Whilst an appropriate financial mitigation has been described, given the previous incidence of provider failure, the applicant is advised to consider bolstering the current mitigation statement with some narrative outlining why BCEGI is better placed to deliver on this scheme where United Living failed.

6. DELIVERY

The delivery timetable as set out in Section 6.1 is outlined below:

Key Milestones	Any Dependencies	Date
All Funding Secured	Formal Heads of Terms to be agreed with NREP as funder Due diligence by the funder Negotiation and completion of funding agreement Approval of OBC and subsequent FBC Approval and completion of Grant Funding Agreement	Q2 2024
Cabinet/ Board / External Approvals	SYMCA BHF funding approval Brickland Board Approval	Q2 2024

	Funder Investment Committee Approval	
Procurement Complete	Enter into PCSA with contractor Agree and execute construction/build contract on a JCT D&B basis	Q2 2024
Statutory Processes Complete	Completed – No dependencies	20/02/2019
Land Acquisition Complete	Completed – No dependencies	11/05/2020
Works commence	All funding secured and procurement completed Construction contract secured in line with project budget	Q3 2024
Works complete/Project opening	All above dependencies Contractor successfully delivering within the programme timeframes	July 2026

The proposed timescales for SYMCA OBC/FBC Approval process, internal sign-off by Brickland Limited and NREP (the preferred forward funder) and the finalisation (and execution) of contractor agreements appears achievable. Due to the conditionality requirements placed on Brickland Limited by the preferred contractor and forward funding body, any slippage at this point in the timeline could negatively impact the deliverability against the remainder of the proposed timeline.

The construction works are estimated to take two years, running from Q3 2024 to Q3 2026. Whilst this appears reasonable, it does not appear as though the project is at a stage where it has been possible to provide a detailed delivery programme. This will need greater consideration as the project moves into its next stage of development.

The business case suggests that it is the intention Brickland Limited to appoint a single contractor to deliver both the enabling works (including demolition) and the Design and Build stage of the proposed scheme. To this end, Brickland Limited appointed Dalbergia Consulting Limited to manage the procurement process. This was opened in 2020 and United Living was subsequently selected as the preferred contractor. United Living proceeded to complete the initial phase of the enabling works at the site, but then withdrew from the Design and Build element of the contract due to increasing build cost inflation issues and their inability to deliver the scheme against a viable budget.

Following the withdrawal of United Living, the Beijing Construction Engineering Group International (BCEGI) approached Brickland Limited in early Summer 2023 about taking over the Design and Build element of the contract. This offer was provisionally accepted and they are now currently progressing advanced design proposals through engagement on a negotiated basis with BCEGI. The intention is that Brickland Limited will enter into a Pre-Construction Services Agreement (PCSA) with BCEGI and then appoint them directly through a Design and Build (D&B) contract. This is to be finalised by May 2024, but is conditional on there being more certainty of a viable scheme with a funding partner, which the requested BHF grant is identified as being critical to unlocking.

It has been stated that Brickland Limited have yet to appoint a number of “professional team advisors,” but will do so as required, undertaking any necessary due diligence as part of the pre-selection process. However, it is also noted that most of this “professional team” is already in place, with Brickland Limited drawing upon the same personnel that they have worked with previously on other similar projects.

Given previous contractor failure, this element of the proposal would have been greatly strengthened by the inclusion of more detailed information on the individual contractors, their roles and principle procurement milestones relating to the respective contractor works. It is noted however that, although no individual milestones have been identified, the business case does state that all procurement is expected to be completed by May 2024. Some additional information on the weighting of the selection criteria and also some narrative around why Brickland Limited chose to make a direct appointment (following an approach by BCEGI) rather than go back out to the market following the withdrawal of United Living would be beneficial at FBC.

Brickland Limited states that the level of cost certainty is 75%. Whilst the costs presented in the information accompanying the business case have been informed by a construction cost negotiated with the preferred contractor, these costs are not yet fixed as a final tender cost. Only with the parties' commitment to a Pre-Construction Services Agreement (PCSA) will it be possible to obtain greater certainty around the final cost price (the PCSA being used to inform a fixed price contract). However, Brickland Limited point out that they are unable to enter into such an Agreement until such time as a viable scheme can be demonstrated. Given the viability of the scheme is almost entirely dependent on the approval of BHF grant funding, the applicant has indicated that only an OBC approval would provide a sufficiently strong expression of confidence in the scheme for them to consider entering into a PCSA with the preferred contractor to then to inform a fixed price contract which will then help to form the basis of the cost analysis in the FBC.

The applicant has advised that the position is similar from a funding perspective. NREP, the preferred forward funding partner, has presented Brickland Limited with a written offer but on a provisional basis only. Progressing this to a more formal Heads of Terms/conditional contract arrangement will require the applicant to demonstrate an ability to address the current viability gap on the scheme. Again, given the project's dependency on the BHF grant funding, Brickland Limited does not feel they are in a position to offer such guarantees to the forward funding partner without SYMCA OBC approval.

Brickland Limited has outlined that within the cost plan they have included a 2.5% contractor contingency as well as a further 2.5% design development contingency; amounting to a 5% total contingency allowance. The business case suggests that this level of contingency represents an industry standard for a scheme of this scale, and at this stage of development and should provide a degree of headroom to absorb possible cost overruns. In the scenario that this contingency is exhausted, Brickland Limited has made it clear that it will take full responsibility for the management of cost over-runs, although whether this will be drawn from developer profit or its own capital reserves is unspecified. As such, further detail should be provided at FBC to describe how Brickland Limited will manage cost overruns to provide assurance the scheme will continue to go ahead.

The business case identifies the SRO for the project as Sam Rowlands, CEO of Brickland Limited. The business case also outlines that he will be supported by Darren Leary, COO, as the key contact for project delivery and the MCA BHF granting funding application. Also included in the business case is an organogram which clearly outlines the organisational and reporting structure within the company. In addition to outlining the internal resource, there is a list presented of the wider external professional team of consultants and advisors who have been supporting the applicant in the development of the project since its inception. This external team will provide expertise in quantity surveying, architecture and design, structural engineering, building control and planning demonstrating capacity and expertise to deliver the project.

Brickland Limited (and its wider consultant team) have stated that the responsibility for project monitoring, both in terms of expenditure and outputs/outcomes delivery, will sit with the applicant themselves. This is to ensure that the project is delivered against the programme, within budget and achieves the desired impacts set out within the business case. The business case identifies the following key outputs and outcomes as those that will be measured/monitored against a set of agreed Key Performance Indicators (KPIs) to be agreed with SYMCA from the outset:

Outputs:

- 0.33 ha brownfield site remediated
- 268 new private rented residential apartments
- 308 sqm of ancillary commercial floorspace
- 268 (no) new cycle parking spaces

- New public realm (to be quantified in due course)

Outcomes:

- New residents living in the City Centre
- New businesses
- Direct and indirect operational jobs
- Direct and indirect construction jobs
- Improved local placemaking and catalytic regeneration impacts

The applicant has committed to develop and maintain a full Benefits Realisation Plan and Monitoring & Evaluation Plan to further inform the wider process and to be used to inform its progress reporting obligations to SYMCA. Brickland Limited has also indicated its willingness to commission an independent final evaluation of the scheme at a time deemed appropriate post completion.

7. LEGAL

The business case states that the applicant has yet to seek a formal Subsidy Control opinion, but it is their intention to do so once the business case development moves to the FBC stage (although it will commission this advice earlier if required to do so).

8. RECOMMENDATION AND CONDITIONS

Recommendation	In Principle Approval, proceed to FBC
Payment Basis	N/A

Conditions of Award (including clawback clauses)

Recommendations for FBC:

1. Please provide a copy of the formal Red Book valuation report to confirm the market value of the site.
2. As part of the options assessment at FBC, it is advised that a 'Do More' option is included that assesses the potential for a higher density development.
3. At FBC, greater assurance of funding from an investor should be provided, given the OBC is key to providing more assurance regarding the viability of the project to the preferred construction contractor and forward funding partner.
4. Due to the previous incidence of contractor failure, the applicant is advised to consider bolstering the current mitigation statement in the risk assessment with narrative outlining why BCEGI is better placed to deliver on this scheme where United Living failed.
5. Due to the previous incidence of contractor failure, the applicant should provide more detailed information on the individual contractors, their roles and principle procurement milestones relating to the respective contractor works. The FBC should also explain why Brickland Limited chose to make a direct appointment (following an approach by BCEGI) rather than go back out to the market following the withdrawal of United Living.
6. Further detail should be provided at FBC to explain how Brickland Limited will manage cost overruns should they occur to provide assurance the scheme will continue to go ahead e.g. whether cost overruns will be drawn from developer profit or its own capital reserves.