Appendix I

Assurance Summary

VERSION 1 24.11.2021

SOUTH YORKSHIRE SYMCA MAYORAL COMBINED AUTHORITY

1 – SCHEME DETAILS			
Project Name	Hive-Central, Kelham Island, Sheffield	**Type of funding**	Grant
Grant Recipient	Grantside Limited	**Total Scheme Cost**	£17,719,693
MCA Executive Board	Housing and Infrastructure	**MCA Funding**	£1,600,000
Programme name	Brownfield Housing Fund	**% MCA Allocation**	9%
Current Gateway Stage	OBC	**MCA Development costs**	n/a
		% of total MCA allocation	n/a

2 – PROJECT DESCRIPTION

The business case outlines that Grantside is seeking a total of £1.6m of SYMCA BHF funding towards an overall investment of £17,719,693 to deliver a 5/6 storey 'co-living and co-working' new-build development in the Kelham Island district of Sheffield to the north of Sheffield City Centre. The proposal includes 100 units for private rent. and 5,252 sq ft commercial/community floorspace and associated amenity space including rooftop terrace and allotments.

The business case states that Grantside owns the freehold of the 0.2 ha brownfield site designated for the proposed development which forms part of the wider redevelopment of the Kelham Island neighbourhood, one of Sheffield's key strategic regeneration areas. A former industrial area, now largely derelict and/or underutilised, the site has been of little economic/productive use for some time.

Having secured full planning consent for the proposed scheme in 2023, Grantside has already partially completed the enabling works at this site (including demolition works, site investigation works and first stage archaeological works) in order to comply with current building regulations and avoid potential further delay to delivery. Grantside's intention is for the development to be managed by the company itself until it reaches a point of stabilisation/maturity in terms of occupancy before disposing of the scheme to an experienced investment partner who would manage it in the long term. Such an arrangement is not uncommon for the type of scheme being proposed here.

The scheme is described as being "shovel ready" with full planning consent in place, land under developer control and ground/enabling works at least partially completed.

The business case states that the £1.6m SYMCA BHF funding is to be used to contribute towards the capital costs of constructing the scheme. The applicant sets out that there are £8.995m of base construction costs (excl contingency) plus a further £1.542m of extra over sustainability costs to which the grant may contribute towards. These include £1.028m of specific net zero uplift costs and £0.514m of sustainability enhancements. Grantside make the argument that the need to address abnormal site issues and the compounded impacts of build cost inflation have opened up a viability gap relating to the planned development. This negative viability position is further exacerbated due to the high specification of the scheme and the design work required to reach a position that delivers net zero carbon emissions in both construction and operation. They make the case that without BHF funding, further work on the delivery of this co-living/co-working space will simply not proceed. The applicant has produced a development appraisal for the proposed scheme. A 13.4% development profit on GDV is forecast. It is asserted that market expectations on the minimum profit level of developer return on a scheme of this type would be 15% on GDV (with an upper ceiling of 20%). That said, Grantside have stated that they would be prepared to commit to the delivery of a scheme on the basis of a 13.4% rate but only in the case of the preferred option due to its innovative net zero design. Based on the Assessor's experience of similar schemes, the level of profit sits within an acceptable range.	
3. STRATEGIC CASE	
Options assessment	The OBC outlines a set of three short-listed options: **Do Minimum -** In a 'no BHF scenario', alternative public funding would be required or Grantside would be unable to bridge the current viability gap and the project will remain stalled for the foreseeable future. **Viable Alternative Option 1 -** Grantside sets out the possibility of a lower specification, alternative design option in which the planned co-living scheme is delivered to the same scale and massing as the preferred option, but that this design would not include any of the required features needed for this to be deemed a 'whole life net zero carbon' building. **Preferred Option -** As per the project description The primary justification for taking forward the 'preferred option' is its ability to meet all of the SMART objectives, something which cannot be achieved under the 'Do Minimum' or the 'Viable Alternative 1' options. The 'Viable Alternative Option 1' set out by the applicant can be assessed as representing a logical 'do less option', and they have also included a relatively detailed explanation of the barriers to why this option cannot be pursued. These challenges include the exacerbation of existing viability issues relating to the downgrading of the scheme's net zero credentials, the risk of non-compliance with existing planning permission and the unwillingness on the part of the applicant to deviate from its own corporate commitment to the delivery of net zero developments. The rationale for selecting the preferred option can be considered reasonable.
Statutory requirements and adverse consequences	The business case states that The Hive scheme has been designed to be fully compliant with Sheffield City Council's statutory planning and housing delivery policies and with SYMCA's 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. A Section 106 agreement is also in place. The project is therefore deemed to be compliant with the relevant planning authority, with no outstanding risks. The OBC makes clear that, as part of the planning application process, Grantside commissioned a suite of technical work in support of The Hive project. This included a transport assessment which was undertaken by qualified transport consultants, TPS. Summing up their findings, the consultants concluded that The Hive scheme would not result in a 'severe residual cumulative impact' (the test set out in the National Planning Policy Framework) and that the proposals were considered complementary to the wider current transport policy agenda. 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 bus services serving the local area. Grantside highlight that the area within which the proposed scheme is located is shown to be wholly within Flood Zone 2 of the Environment Agency's Flood Map for Planning. This places the scheme at a relatively low level of flood risk (given as between 0.01%-1% annual probability of a flood incident). This statement is further supported by a Flood Risk Assessment (included as part of the scheme's planning application) which concurs that the proposed development does not increase flood risk to the site or surrounding area and is considered safe from the risk of flooding for its lifetime.

4. VALUE FOR MONEY

Monetised Benefits:

VFM Indicator	*Value*	*R/A/G*
Net Present Social Value (£)	£4,426,558	G
Benefit Cost Ratio / GVA per £1 of SYMCA Investment	3.58	G

Value for Money Statement

A summary of the economic case BCR position for The Hive project is presented below:

Based on SYMCA and Total Public Sector Funding Only		Preferred Option
A	Present value benefits	£ 2,073,443
B	Present value costs	£ 1,715,942
C	Present value other quantified impacts	£ 4,069,057
D	Net present public value [A-B+C]	£ 4,426,558
E	Initial Benefit:Cost Ratio [A/B]	1.21

F	**Adjusted Benefit:Cost Ratio [(A+C)/B]]**	**3.58**
H	**Value for money category**	High

Based on the applicant's assessment of economic benefits, relative to total SYMCA and public sector investment, the level of estimated benefits represents High value for money, with an Initial BCR of 1.21 and Adjusted BCR of 3.58.

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 BHF funding	Unknown	5	Grantside have retained Cushman & Wakefield to submit an OBC supported by a viability appraisal to SYMCA for BHF funding. This evidences a viability gap and Grantside can therefore substantiate their case for grant funding. Grantside have been in discussions with the MCA for some time around this.	Grantside (BGS) LLP
2	Lack of ability secure third-party development finance	2	5	Grantside have continued dialogue with prospective lenders. These negotiations would be able to advance significantly with the benefit of a SYMCA OBC approval as requested through this process. Grantside have successfully accessed significant levels of development finance over the years and have a strong track record of delivery.	Grantside (BGS) LLP
3	Preferred contractor is not secured at a satisfactory price level	2	5	Grantside have continued engagement with the market through their retained project manager and quantity surveyor Summers Inman. Risk is further mitigated by build cost inflation now slowing and allowance of 5% contingency within the appraisal.	Grantside (BGS) LLP
4	Risk of continued inflation (materials / project costs) resulting in the project being too expensive to deliver within the current budget	2	5	The costs will be informed by the contractor procurement overseen by a professional QS and project manager that are retained by Grantside. There is also a 5% contingency allowance. There are also signs in the market that construction price inflation is starting to fall.	Grantside (BGS) LLP Summers Inman
5	Lack of market demand for product	1	5	Co-living is a rapidly developing market nationally and a number of co-living schemes have been successfully delivered in other core cities. Market reports suggest there is a significant but untapped opportunity in Sheffield.	Grantside (BGS) LLP

Overall, the risks identified demonstrate a clear understanding of the key project delivery risks, their likelihood, potential impact and owner. The only exception to this is in the assessment of likelihood against key risk 5. Due to the absence of a sound evidence base for this specific type of housing product, it is recommended that this risk score be revised upwards. The mitigations identified are appropriate and should therefore help to reduce either / both the likelihood and impact of the key risks.

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. (quality of build and whole-life net-zero infrastructure/design features).

The business case outlines that the significant bulk of the construction costs are to be funded by the applicant utilising third party bank/development finance for the scheme (as it would with any other major development project). However, with no third-party funding/development finance facility yet agreed, and a heavy dependency on the applicant to offer stronger guarantees around the bridging of the scheme's viability constraints, which itself has an implied dependency on OBC approval, there remains a medium level of risk around the possibility of Grantside being unable to secure the necessary funding from a development finance provider.
With the OBC key to providing more assurance regarding the viability of the project to the development finance provider market, at FBC stage, there should be greater assurance of funding from a third-party lender.

The applicant appropriately identifies the appetite of the contractor market to undertake the project within the contract price budget as the key procurement risk. Greater explanation to justify the low likeliness rating would have strengthened this assessment of the risk. Whilst an appropriate financial mitigation has been described the applicant is strongly advised to consider bolstering the current mitigation statement by further narrative to demonstrate strong contractor relationships and potential interest in the proposed scheme.

6. DELIVERY

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

Key Milestones	Any Dependencies	Date
All Funding Secured	Debt Funding Approved SYMCA BHF Funding Approved	Q2 2024
Cabinet/ Board / External Approvals	SYMCA BHF funding approval Grantside Board Approval Funder Investment Committee Approval	Q2 2024
Procurement Complete	Procurement process and negotiation with contractor.	Q2 2024
Statutory Processes Complete	Completed – No dependencies	13/01/2023
Land Acquisition Complete	None – No dependencies	30/09/2020
Works commence	All funding secured and procurement completed Construction contract secured in line with project budget	Q3 2024
Works complete/Project handover	All above dependencies Contractor successfully delivering within the programme timeframes	Q4 2025

The proposed timescales for SYMCA OBC/FBC Approval process, internal sign-off by Grantside and the third-party lender and the finalisation (and execution) of contractor agreements appears achievable, but with a high level of dependency placed on the initial OBC stage approval. Due to the conditionality requirements placed on Grantside by the contractor market and development finance provider market 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 just over a year, running from Q3 2024 to Q4 (30th May) 2025. The deliverability against this timeline is evidenced by a full Development Programme prepared by Grantside (and appended to the funding application) and would appear reasonable. However, with the procurement process for a construction contractor yet to commence, the ability of the applicant to guarantee adherence to this Development Programme remains subject to the outcome of any future contract negotiation. Further detail should be provided at FBC stage on the outcome of these negotiations to provide assurance that the scheme can proceed against the proposed timetable for delivery.

The business case states that it is the intention of Grantside to appoint a single contractor via a two-stage Design & Build procurement process. This process is to be managed in its entirety by Summers Inman, who have been appointed by the applicant to provide a complete range of project management, cost consultancy and employers' agent services on the project. The procurement process is due to commence in the early 2024. It is intended that Summers Inman will go to five known and established contractors with experience in this market place at the first stage, to be followed by shortlisting on the basis of a price and quality criteria.

With the procurement process having yet to commence the applicant is unable to provide any details on the specific contractual arrangement at this stage. However, they have committed to do so at FBC stage by which time they expect this information to be at a more advanced stage of development.

Grantside states that the level of cost certainty is 75%.
The applicant states that the costs in the accompanying viability appraisal have been directly informed by Summers Inman, Grantside's cost consultants. They further go on to state that the cost assumptions set out within the viability appraisal have been informed be an emerging RIBA Stage 3 cost plan.

As the formal procurement process has yet to commence, it is not possible to establish any certainties around the final cost price with a preferred contractor at this stage. Only with the parties' commitment to a Construction Services Agreement (CSA) will it be possible to obtain greater certainty around the final cost price (the CSA being used to inform a fixed price contract).

However, Grantside point out that they are unable to enter into such an Agreement until such time as it can demonstrate an ability to address the viability gap that exists on the project. Given the viability of the scheme is almost entirely dependent on the approval of BHF grant funding, the applicant has implied that an OBC approval would need to be provided in order to demonstrate a sufficiently strong expression of confidence in the scheme to empower Grantside to progress the contractor procurement process.

The applicant has advised that the position is similar from a funding perspective also. Whilst Grantside have been exploring financing options for the project, 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 the certainty of an SYMCA OBC approval would enable this to move forward at pace so that at a point in time (target is April 2024), there would be a fixed price construction contract, a fixed and final offer from the funding partner and a SYMCA FBC approval, all of which would be conditional on one another being in place, to enable the scheme to progress into the delivery phase.

Grantside 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 the applicant will manage cost overruns to provide assurance the scheme will continue to go ahead.

The business case identifies the SRO for the project as Steve Davis, the founder and sole company director of Grantside. This individual is also designated as the key contact for project delivery and the MCA BHF grant funding application.

Included in the business case is an organogram which clearly outlines the organisational and reporting structure put in place by Grantside to manage and deliver this project. Also appended to the business case is a comprehensive Project Directory detailing each of the external consultants engaged to support Grantside, the named person (or persons) assigned to this project and their duties pertaining there to. This clearly demonstrates the extensive nature of the consultancy team in place to deliver this scheme.

The applicant states that an extensive round of public and stakeholder consultation was undertaken as part of the original planning application process. Grantside make a point of highlighting that the scope of this exercise went beyond that which was necessary to meet the requirements of this process. These discussions included consultation with the planning authority concerning the scale and massing of the scheme as well as workshops with third party stakeholder groups.
In addition to the statutory consultation, the applicant states that SYMCA requested additional engagement sessions in order to understand the feedback relating to the specifics of the co-living concept and design proposed for The Hive development. These sessions included a presentation and roundtable discussion with architecture students at the University of Sheffield and further engagement with the Sheffield Community Land Trust, who were able to give their feedback on design elements of the scheme.

Grantside (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
0.2 ha brownfield site remediated.
100 new private co-living residential apartments.
5,252 sqft of ancillary commercial/community floorspace.
Whole life net zero carbon scheme.
Outcomes
New residents living in the City Centre (up to 120).
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. Grantside has also indicated its willingness to commission an independent final evaluation of the scheme at a time deemed appropriate post completion.

The proposed approach to monitoring and evaluating the delivery of the project and its outputs and outcomes is clear and focused on assessing the success of the project against its purpose and ambition. This should ensure framework / processes are in place to fulfil SYMCA's reporting requirements, should the project receive BHF funding.

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). The applicant indicates that in its "non-legal" understanding of the facts the BHF grant that is being sought would constitute a "subsidy" under the regulations. However, drawing on the public sector funding consultants Cushman & Wakefield's long experience of working on a number of BHF supported schemes, Grantside assert their confidence in the likelihood of the scheme being deemed compliant under the regulations.

8. RECOMMENDATION AND CONDITIONS

Recommendation	Proceed to FBC
Payment Basis	n/a

Conditions of Award (including clawback clauses)

Recommendations at FBC

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Information to be included at FBC;

- Terms to be agreed between Grantside and SYMCA
- Costs/ revenues up to the sale of the asset to be modelled and appended to FBC
- Grantside to submit the red book land valuation
- Subsidy control opinion

Proposed Contract Conditions

- Overage terms to be included in grant agreement
- Clawback on housing starts on site/delivered
- Clawback on BREEAM ‘Excellent’ achievement