

## 1 – SCHEME DETAILS

<b>Project Name</b>	Waverley Net Zero Carbon Pilot (Parcel 4C)	<b>Type of funding</b>	Grant
<b>Grant Recipient</b>	Harworth Estates (Waverley Prince) Ltd	<b>Total Scheme Cost</b>	£32,116,732
<b>MCA Executive Board</b>	Housing and Infrastructure	<b>MCA Funding</b>	£2,017,000
<b>Programme name</b>	Brownfield Housing Fund	<b>% MCA Allocation</b>	6.3%
<b>Current Gateway Stage</b>	OBC	<b>MCA Development costs</b>	n/a
		<b>% of total MCA allocation</b>	n/a

## 2 – PROJECT DESCRIPTION

The business case outlines that Harworth is seeking a total of £2.017m of SYMCA BHF funding towards an overall investment of £32,116,732 to deliver a fully modular 100% “Whole Life-Cycle Net Zero Carbon” development comprising 87 residential units for market sale. This planned development is located to the east of the Sheffield City Centre, bounding the Advanced Manufacturing Park (AMP).

The business case states that Harworth owns the freehold of the c.6 acres brownfield site which is designated for the proposed development. This site forms part of the much larger Waverley regeneration site. The site already benefits from an extant outline planning permission as part of the wider outline consent for the Waverley regeneration scheme as a whole.

SYMCA BHF funding has been requested to make the proposed project financially viable for the developer. Harworth makes the argument that the need to address a range of significant abnormal site issues relating to the site’s former use as a colliery (ground conditions and former mine workings) compounded by additional topographical challenges and the commitment to deliver of whole life net zero scheme have opened up a viability gap relating to the planned development. This negative viability position is further exacerbated due to the scale and configuration of the site.

The applicant has commissioned a development appraisal for the proposed scheme (as the preferred option). A 10.5% 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, Harworth have stated that they would be prepared to commit to the delivery of a scheme on the basis of a 10.5% 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.

Based on the information provided by the applicant, the assessment around the value assumptions and cost estimates etc would appear reasonable and provide a robust case for public sector investment.

### 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 Harworth would be unable to bridge the current viability gap and the project will remain stalled for the foreseeable future.

**Viable Alternative Option 1** - a 'do less' option in which the scheme is delivered as a traditional market build scheme (i.e. not net zero) as opposed to a modular construction net zero carbon scheme. This is described as having reduced build costs but also a modest reduction in the likely revenue yield associated with the lack of any "green premium" that is assumed under the preferred option. It is also highlighted that, due to the differing footprint and varied design needed in a traditional build development, the number of units delivered under this option would be reduced to 81 (as opposed to 87 units in the preferred option). Even with a reversion to a more traditional build design, the challenges around the viability of the scheme would continue to persist, meaning BHF grant funding would still be required but discounted to £1.46m.

**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.

In the case of the 'Do Minimum' option, this assessment against the SMART objectives can be deemed as both accurate and strong and therefore provides ample justification for rejecting this option in favour of the 'preferred option.' Similarly, in the case of 'Viable Alternative 1' option the applicant presents a reasonable case for the discounting of this option on the basis of their unwillingness to invest in a traditional build scheme, a reduction in output (in terms of housing unit delivery) and the failure to yield the benefits associated with the net zero carbon design approach. As such, this option would also not deliver against SMART objectives.

In summary, the options presented can be considered realistic scenarios. In each case, the appraiser is presented with a reasonable case as to why neither the 'do min' or 'do less' option can fully deliver against the stated SMART objectives, and therefore why the choice of the preferred option is appropriate option to take forward.

#### *Statutory requirements and adverse consequences*

The business case states the Waverley Parcel 4C scheme has been designed to be fully compliant with Rotherham Metropolitan Borough Council's statutory planning and housing delivery policies and with SYMCA's economic growth strategies. It is stated that the site already benefits from an extant outline planning permission as part of the wider outline consent for the Waverley regeneration scheme as a whole.

The applicant also states that it intended to submit a reserved matters planning application for the proposed scheme in January 2024. Harworth have confirmed that an application for the enabling works was submitted within this timeframe, with the more detailed applications relating to the build due for submission at the end of February. These applications are considered to have a low risk of non-approval due to the strength of Harworth’s relationship with the Council, the alignment of the scheme to planning policy and the extant outline consent.

It is acknowledged in the OBC that the proposed scheme will have an impact on the local transport network. However, it is also made clear that, as one of several sites forming part of the much larger Waverley development area, the original outline planning permission secured on the site in 2011 included a road capacity design which accounted for the overall unit numbers proposed at the strategic level.

As Parcel 4C represents one of the last of the development plots to come forward, the proposed scheme will be built out within a wider development context which has already benefited from significant investment in local transport and public transport infrastructure designed to mitigate the impact of the increase in housing numbers across this site. This includes new dedicated bus services to the Waverley site as well as local access and junction upgrades and active travel routes. In addition, Harworth indicate that there has been significant recent increases in momentum behind proposals for a new rail station at Waverley which would serve the residential community as well as the Advanced Manufacturing Park.

With regards to any additional highways impacts which may relate to this scheme in particular, the applicant has provided assurance that a full assessment will be undertaken by transport professionals as part of the reserved matters planning application and approval process. This will include provision for any interventions deemed as necessary mitigations.

In terms of the potential environmental impact of the development, it is also recognised that there will be a potential loss of natural habitat. However, as with the transport provision, suitable mitigations have already been built in as part of the wider strategic level planning for this site (e.g. Harworth will be delivering the new Highwall Park). As to any specific mitigations required for the Parcel 4C site in particular, the applicant has advised that an Environmental Impact Assessment will also be commissioned as part of the reserved matters planning application process. Further information on this will then be made available as the business case moves to the next stage of development.

The evidence to support the conclusion that the project will not negatively impact the existing transport network or environment appears strong. For those risks which have been identified, Harworth makes the case that appropriate mitigations in terms of design features and/or the required infrastructure needed either already has been built into the scheme or will be included as part of any subsequent planning application process.

#### 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>	£1,775,410	G
<i>Benefit Cost Ratio / GVA per £1 of SYMCA Investment</i>	1.81	G

### Value for Money Statement

A summary of the economic case BCR position for the Waverley Parcel 4C project is presented below:

Based on SYMCA and Total Public Sector Funding Only		Preferred Option	
A	Present value benefits	£	1,914,896
B	Present value costs	£	2,162,797
C	Present value other quantified impacts	£	2,003,311
D	Net present public value [A-B+C]	£	1,755,410
E	Initial Benefit:Cost Ratio [A/B]		0.89
F	<b>Adjusted Benefit:Cost Ratio [(A+C)/B]</b>		<b>1.81</b>
H	<b>Value for money category</b>		Medium

Based on the applicant's assessment of economic benefits, relative to total SYMCA and public sector investment, the level of adjusted estimated benefits represents a Medium value for money, with an adjusted BCR of 1.81.

With the strategic objectives well reflected by the economic outcomes, the applicant's assessment of the economic benefits of the project shows potential to deliver a Medium value for money to SYMCA and the public sector as a whole.

The methodology used to calculate the gross economic benefits is sound. The additionality assumptions and methodology used to calculate the net economic costs and benefits is also sound, however, there is a risk that Optimism Bias has been marginally underestimated given the innovative nature of the project and procurement requirements outstanding. As such there is a risk that economic costs have been marginally underestimated and economic benefits marginally overestimated.

At FBC stage, it is therefore recommended that a more robust assessment of Optimism Bias is undertaken utilising the methodology set out in the Green Book Supplementary Guidance for Optimism Bias to provide greater assurance that the project delivers Value for Money.

## 5. RISK

The business case identifies the top five project risks:

No.	Risk	Likelihood (High, Med, Low)	Impact (High, Med, Low)	Mitigation	Owner
1	Unknown Ground Conditions	Low	High	Full SI works have now been undertaken and the findings of this have informed the MAC cost plan. We have already overseen the development of the wider Waverley site. Harworth has the knowledge and experience of delivering housing on this site, and as the entire site has a similar previous use, we know what sort of conditions to expect at the site. For the reasons highlighted above, we have included a 5% contingency allowance to account for uncertainty related with abnormal ground conditions at this stage.	Harworth
2	Legal (Procurement/Subsidy Control)	Low	Med	Main contractor to be procured for the infrastructure and construction works separately and all costs to be independently validated by a professional Employers' Agent, so low risk surrounding this. This will be mitigated by ensuring all contractors/consultants are procured well in advance of the anticipated construction start date. 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.	Harworth
3	Planning	Low	High	Outline planning consent already secured for the wider Waverley development. Reserved Matters consent required. Risk of non-approval/unexpected delays of this consent is low due to the current outline consent, relationship with the planning authority and alignment of the scheme to planning policy. This will be mitigated through early dialogue and pre-app discussions with the Council in order to put forward an acceptable scheme.	Harworth
4	Build Cost inflation	Medium	High	This will be mitigated through reviewing associated costs regularly up until a point where we will enter into a fixed price contract with the contractor for the enabling works and main build packages. Appropriate contingencies have been applied in the scheme appraisal at this stage.	TopHat/ Harworth
5	Market Demand	Low	Medium	Low risk based on established market demand for housing proven across the wider site.	Harworth

The business case demonstrates that the applicant has a good understanding of the immediate key risks associated with delivering the project and have, for the most part, appropriately scored the likelihood and impact of the key risks identified. It is only in the case of Risk 5: Market Demand that it is recommended that these scores be adjusted in order to better reflect the misalignment between local demand and affordability, especially within the target demographic. The mitigations identified are appropriate and should therefore help to reduce either / both the likelihood and impact of the key risks.

The business case outlines that the remainder of the project funding is to be provided via Harworth's own balance sheet funding secured through an existing development finance facility. With the applicant having already given a commitment to the provision of the necessary funding, any risk around the security of the

private sector funding contribution is therefore minimal. Although this should be caveated with an awareness of the fact that the release of this funding has been made conditional on the approval of the BHF grant funding request.

Appendix A.3 – Risk Log identifies build cost inflation and the failure to secure public funding as being the two key procurement risks:

Risk Description	Likelihood (High, Med, Low)	Impact (High, Med, Low)	Mitigation
Build cost inflation up until this point could affect the viability/deliverability of the scheme.	3	5	Harworth have received cost estimates at this stage and will enter into a fixed price contract with the agreed contractor. The risk is one of build cost inflation between now and tender stage.
Lack of public funding would render the scheme unviable.	2	5	Lack of SYMCA grant funding will significantly reduce the profit level further below the acceptable range identified of 15%-20% and will lead to the risk of no delivery on the site. Harworth will engage with SYMCA early in order to ensure availability of BHF grant funding and likelihood of a successful application.

The applicant appropriately identifies build cost inflation and the failure to secure public funding as being the two key procurement risks. The business case risk log assesses the overall impact of these outcomes to be Amber. In the case of the likelihood rating, the applicant presents a more optimistic assessment in the case of one risk over the other. This can be considered justified given that Harworth's long-term association with the Waverley development area means that they are well appraised of the expectations of SYMCA as a funding partner, but also the strength of relationship with the client to make the necessary levels of engagement possible. Until such a time as a fixed price contract is agreed, cost fluctuations in the market lay outside of the applicant's control, and therefore merit a higher likelihood rating. As such, there remains a significant risk that project costs increase, reducing the viability of the scheme without further public funding.

## 6. DELIVERY

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

Key Milestones	Any Dependencies	Date
All Funding Secured	Balance Sheet Funding Available	N/A
Cabinet/ Board / External Approvals	Harworth Board Approval SYMCA OBC Funding Approval	March 2024
Procurement Complete	TopHat Fixed Price Contract Award Competitive Tender Process for Ground Works Contract	April 2024 February 2024
Statutory Processes Complete	Reserved Matters Planning Consent	April 2024 (Enabling Works)
Land Acquisition Complete	Land is owned by Harworth	Acquired in May 2008

Evaluation Report - Mid Term Review	N/A	June 2025
Works commence	N/A	April 2024
Works complete/Project opening	N/A	June 2026
Interim Evaluation Report - Process Ex Post Evaluation	N/A	June 2026
Final Evaluation Report - Outcome Evaluation	N/A	June 2027

The proposed timescales for SYMCA OBC/FBC Approval process, internal approval by Harworth 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 of the Harworth Board any slippage at this point in the timeline could negatively impact the deliverability against the remainder of the proposed timeline.

Timescales relating to the delivery stage element of the project are detailed in the Development Appraisal Proforma and are set out here:

Key Date	4C	Months
Enabling Works Planning Submission	31/01/2024	3
RM Full Application	29/02/2024	
Enabling Works Start	15/04/2024	9
First Plots Foundation	10/01/2025	19
First Homes Completion	04/06/2025	
Development Completion Date	31/06/2026	

The enabling works and construction stage are estimated to take just over two years, running from Q2 2024 to Q2 (31<sup>st</sup> June) 2026. The deliverability against this timeline is evidenced within the Development Appraisal Proforma prepared by Harworth and would appear reasonable.

The business case states that delivery of the scheme will be via two construction works contracts: one for the enabling works and one for the unit build/construction works. In the case of the enabling works, a competitive tender process will be run via MAC Construction Consultants, Harworth's Project Management and Cost Consultants. The procurement process will be an open tender to the wider market in order to encourage new suppliers with the correct experience and capabilities to undertake the work. MAC Construction Consultants will be responsible for assessing the bids received before providing a Value for Money report to confirm the reasonableness of the preferred bidder based on both quality and price scoring criteria.

With the procurement process having yet to commence for the enabling works contractor, the applicant is unable to provide any details on the specific contractual arrangements at this stage. Further information will therefore need to be provided at FBC stage.

For the main unit build, this will be delivered via a call off contract under Harworth's Framework Agreement with its preferred main contractor TopHat. TopHat represent what is effectively the sole supplier of volumetric modular housing to third party customers in the UK of a scale, capability and financial strength, that could deliver a

project of this nature. Again, MAC Construction Consultants will ensure that the TopHat prices represent a Value for Money outcome and will provide a Value for Money report which Harworth will share with SYMCA to confirm this.

In summary, the applicant has clearly set out the proposed process and approach to procuring the required contractor support needed to deliver the scheme. Although no individual milestones have been identified, the business case does state that all procurement is expected to be completed by early 2024. If the project progresses to FBC stage, procurement for the project will likely have progressed meaning the applicant should be able to provide further assurance that a contractor for the enabling works and the preferred main contractor, TopHat, can be procured in line with current cost estimates.

Harworth states that the level of cost certainty is 75%. As the formal procurement process has yet to commence, the final cost prices relating to the enabling works and unit build costs are subject to change. It is noted that the current costs set out in the accompanying development appraisal are based on estimates from MAC Cost Consultants and informed by discussions with the preferred build contractor TopHat in relation to modular build costs. All procurement and tendering activity is scheduled to take place in the first half of 2024. Only after this point will it be possible to obtain greater assurance around the cost certainty related to the delivery of the scheme.

Whilst there is a high level of risk that project costs increase throughout the procurement process, Harworth's experience developing the Waverley site, discussions with the preferred main contractor to inform unit build cost estimates and a contingency allowance of 5% (£1.17m) provide some assurance total project costs have a degree of reliability. As such, the level of cost certainty estimated by the applicant (75%), appears reasonable.

In the scenario that this contingency is exhausted, the applicant has made it clear that it will take full responsibility for the management of cost over-runs, which are to be met by revisiting the delivery strategy, slowing down the build rate in order to manage this, mitigate work in progress exposure and adjust sales prices to recoup cost overruns where market conditions allow.

The business case identifies the SRO for the project as Andrew Blackshaw, Harworth's Chief Operating Officer (COO). The individual designated as the key contact for project delivery and the MCA BHF grant funding application is James Crow, Director of Mixed Tenure at Harworth. Included in the business case is an organogram which clearly outlines the organisational and reporting structure put in place by Harworth to manage and deliver this project. 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.

The applicant states that an extensive round of public and stakeholder consultation was undertaken as part of the wider outline planning consent covering the whole of the Waverley regeneration site. These discussions included consultation with the planning authority concerning the scale and massing of the scheme as well as engagement with third party stakeholder groups, in addition to taking comments and feedback from residents already housed within the wider development area, and to consult on future development consultation. Harworth has acknowledged that further consultation on this specific project will be required as part of the reserved matters planning application process. However, with this yet to be submitted (in terms of the detailed design element), there has not yet been the opportunity to gather feedback on Waverley Parcel 4C scheme itself. The applicant has therefore given an undertaking to provide further details on this at the FBC stage (once the reserved matters planning process has been concluded).

Harworth (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 following key outputs and outcomes will be measured/monitored against a set of agreed Key Performance Indicators (KPIs) to be agreed with SYMCA from the outset:

<b>Outputs:</b>
2.42 ha brownfield site remediated
87 new market homes delivered to a net zero standard
<b>Outcomes:</b>
New residents living at Waverley
Direct and indirect construction jobs
Improved local placemaking and catalytic regeneration impacts
Environmental sustainability benefits

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. A benefits register template has been provided in the business case. This should be completed at FBC stage for the outputs and outcomes identified, to demonstrate a greater understanding of the responsible owner, performance measures and data collection method. Harworth 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.

## 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).

Although a formal Subsidy Control compliance judgement remains outstanding, 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, Harworth assert their confidence in the likelihood of the scheme being deemed compliant under the regulations.

Whilst acknowledging that the basis of this “non-legal” assessment cannot be considered as anything other than advisory, the applicant believes it to be of sufficient robustness to provide some degree of comfort to the MCA that a future legal opinion will consider the Waverley Parcel 4C proposal to be in full compliance.

## 8. RECOMMENDATION AND CONDITIONS

<b>Recommendation</b>	Proceed to FBC
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<b>Payment Basis</b>	N/A
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<b>Conditions of Award (including clawback clauses)</b>	
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Standard conditions. Must include applicant commits to cover any cost overruns without unduly compromising outputs.

**Recommendations at FBC:**

At FBC, a more robust assessment of Optimism Bias should be undertaken utilising the methodology set out in the Green Book Supplementary Guidance for Optimism Bias to provide greater assurance that the project delivers Value for Money.

With the procurement process having yet to commence for the enabling works contractor, the applicant is unable to provide any details on the specific contractual arrangements at this stage. Further information should therefore be provided at FBC stage.

Harworth has acknowledged that further consultation on this specific project will be required as part of the reserved matters planning application process. However, with this yet to be submitted (in terms of the detailed design element), there has not yet been the opportunity to gather feedback on Waverley Parcel 4C scheme itself. The applicant has therefore given an undertaking to provide further details on this at the FBC stage (once the reserved matters planning process has been concluded).