

Delegated Decision Report

Subject: NECA Brownfield Housing Fund Programme – Sheepfolds
(Plots 4 & 5), Sunderland

Report of: Principal Housing and Infrastructure Manager

Portfolio: Housing, Land and Development

Report Summary

On 8th September 2023, it was agreed that North of Tyne Combined Authority (NTCA) would act as accountable body for a programme of additional Brownfield Housing Funding (BHF) secured through devolution negotiations. As part of the £17,409,710 Brownfield Housing Fund secured through the Devolution Deal, the combined authority expanded the existing pipeline of sites in Northumberland, Newcastle and North Tyneside to include sites across all constituent authorities of the North East Mayoral Combined Authority (NEMCA). These schemes are being progressed alongside the £31,830,511 North of Tyne Brownfield Housing Fund and its pipeline of sites. Overall, the Brownfield Housing Fund totals £49,240,221 of which £35,708,094 is approved to date.

NTCA and Local Authorities have worked closely to develop the pipeline of proposals for the Brownfield Housing Fund which was endorsed by the Housing & Land Board and Investment Panel in Autumn 2020 and an updated pipeline was endorsed as part of the Brownfield Housing Fund Delivery plan in July 2022 and July 2023, respectively. The south of Tyne pipeline was published and endorsed in September 2023. Schemes which pass the initial gateway process have been added to the pipeline and invited to prepare a full business case. Sheepfolds (Plots 4 & 5), Sunderland is one of those schemes and the next scheme south of Tyne to come forward.

On 8th September 2023, NTCA published a Delegated Decision a report on the NE MCA Brownfield Housing Fund Programme and authorised the Chief Executive (Head of Paid Service) - in consultation with the Investment Panel, the Mayor and the Portfolio Holder to consider and approve relevant business case applications for the NE MCA Brownfield Housing Programme.

The purpose of this report is to approve request the approval of the Sheepfolds (Plots 4 & 5) scheme, Sunderland, delivered as part of the Brownfield Housing Fund for a total value of £4,814,820.

Recommendations

The Chief Executive, in consultation with the Director of Finance, the Mayor and relevant Cabinet Member and in accordance with the scheme of delegation, is recommended to approve the following funding award, and authorise entry into required agreements to facilitate approvals, as set out in this report:

1. To approve £4,814,820 from the Brownfield Housing Fund for Sheepfolds (Plots 4 & 5) scheme subject to the funding conditions set out in the report
2. To authorise the Chief Finance Officer and Monitoring Officer to:
 - a. Prepare the necessary documentation and to enter into grant agreements or contracts with the lead applicant.
 - b. Have sight and sign off on final cost plans prior to funding being released.

1. Background Information, Proposals and Timetable for Implementation

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|--------------------------------------|--|
| Proposal Name | Sheepfolds (Plots 4 & 5) |
| Lead Organisation | Sunderland City Council |
| Delivery Areas | Sunderland |
| Timescales | <ul style="list-style-type: none"> • Submit a remediation planning application in April 2024 • Appoint a development partner by July 2024 • Appoint a remediation partner by August 2024 • Commence remediation (Plots 4 & 5) by November 2024 • Complete remediation (Plots 4 & 5) by August 2025 • Commence housing construction by November 2025 • Complete housing construction by October 2027 |
| Project Value | £36,461,999 |
| Grant / Loan amount requested | £4,814,820 (BHF) |
| NTCA Budget Implications: | This forms part of the £49.2m Brownfield Housing Fund of which £35,708,094 is committed to date. |

1.1 On 8th September 2023 it was agreed that North of Tyne Combined Authority would act as accountable body for a programme of Brownfield Housing Fund projects secured as part of devolution negotiations. As part of the £17,409,710 Brownfield Housing Fund secured through the Devolution Deal, the combined authority compiled a pipeline of sites south of Tyne, that have been invited to progress to full business case. These schemes are being progressed alongside the £31,830,511 North of Tyne Brownfield Housing Fund and its pipeline of sites. Combined, the north and south of Tyne Brownfield Housing Fund totals £49,240,221. Newbiggin Hall, Scotswood The Rise Phase 2, North Shields Masterplan Area, Commissioners Quay, Bellingham Mart, Scotswood The Rise Phases 3, 5 and 5A, Ellington Colliery Phases 3 & 4, The Esplanade, Lyndon Walk, Walker Riverside, Hadston Industrial Estate, Kelly's Yard, Benwell Dene, Social Housing Schemes North Tyneside, Clasper Village and Chandless have been considered by Investment Panel to date. Sheepfolds is the next scheme to be brought forward from the South of Tyne pipeline.

1.2 Sheepfolds is the third of four new neighbourhoods which form Riverside Sunderland, the Council's strategic programme for the regeneration of Sunderland City Centre. Riverside Sunderland will deliver 1,000 new homes, alongside 1 million square ft of employment space and supporting community infrastructure, on a 33.2-hectare site on both sides of the River Wear. It will deliver a dynamic, carbon-neutral urban quarter across four distinctive neighbourhoods, doubling the city centre population and creating a vibrant new community.

- 1.3 Sheepfolds is a 9.1 Ha site in a prime location on the north bank of the River Wear, with strong connectivity to Sunderland city centre. When fully developed the Sheepfolds neighbourhood will contain over 600 homes, with a mix of houses, maisonettes, and apartments. Nine development plots are proposed, based around an intact historic street grid, providing a mix of build to rent and market sale homes which diversify the tenure mix and increase housing choice.
- 1.4 This funding will unlock phase 1 of the scheme which comprises 0.85ha of Brownfield land on plots 4 and 5 to deliver 159 high quality houses. Unlocking this first phase will contribute significantly to unlocking the wider development. The development is critical to the successful delivery of the Riverside Sunderland Masterplan and meeting wider City Plan objectives, addressing housing market failure, delivering more and better homes, repopulating the city centre, and driving social and economic growth. A developer will be appointed in July 2024 who will work with the council to submit a planning application in Winter 2024 with a decision expected by February 2025.
- 1.5 The new homes will be built using modern methods of construction (MMC) and will incorporate renewable energy and low carbon design features and technology, including connection to a local heat network. Through delivery of energy efficient (EPC rating A) homes, it is expected that 443 tonnes of CO2 will be saved per annum due to the EPC A rated homes, this will generate a forecasted energy savings of £372 per home per annum. Sunderland City Council has adopted a specific SPD for Riverside Sunderland which requires developers to provide a Sustainability Statement including a Carbon Impact Assessment. Additionally, the council has a Low Carbon Framework in place to achieve carbon neutrality and climate change resilience.
- 1.6 The development appraisal demonstrates the scheme is unviable without intervention due to site constraints, significant abnormal development costs, and suppressed city centre property and land values, resulting in an evidenced funding gap of £4.8m. As such, an amount of **£4,814,820** is requested from the Brownfield Housing Fund to unlock 0.85 ha of brownfield and to support the first phase of the Sheepfolds development which will see the development of 159 high quality, energy efficient new homes on Sheepfolds (Plots 4 and 5).

1.7 Outputs – Sheepfolds – Phase 1 (Plots 4 & 5), Sunderland

| Measure | Number |
|---|---------------|
| Number of new homes brought forward | 159 |
| Area of site reclaimed, (re)developed or assembled (ha) | 0.85 ha |

Other outputs realised by the scheme:

| Measure | Number |
|-----------------------------|---|
| Construction Jobs Supported | 221 construction jobs created and safeguarded (incl. green construction) by March 2027. |
| Apprenticeships Created | 7 |

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| Total value of private sector funds leveraged through BHF investment. | £19,079,480 |
| Increased spend in local construction supply chain | £20.7m |
| CO2 Savings | 443 tonnes of CO2 saved per annum through delivery of EPC A rated homes with low carbon design features including connection to local heat network |
| Societal Energy Savings | £372 saved per home per annum through delivery of EPC A rated homes with low carbon design features |
| Creation of Amenity Space | Create 2.18 hectares of off-site amenity space in the new Riverside Park by October 2026 |
| Transport | Reduced journey times and a shift to sustainable transport models through creation of city centre housing with green transport infrastructure |

1.8 Costs

A total amount of **£4,814,820** Brownfield Housing Fund is requested to fund eligible items involved with unlocking site delivery. The Due Diligence review prepared by Savills confirms the project viability gap, and that the viability gap is addressed through the provision of Brownfield Housing Fund into the development.

- **£1,064,820** for the acquisition of two third party interests, based on the estimated Market Value of the property including acquisition fees and costs to secure vacant possession.
- **£3,750,000** for preliminary, demolition and remedial works

| Eligible Costs requested | | Cost |
|--------------------------|---|-------------------|
| 1 | Site Acquisition | £1,064,820 |
| 2 | Preliminary works | £503,482 |
| 3 | Site topography | £274,180 |
| 4 | Demolition and removal of relic buried structures | £708,245 |
| 5 | Below ground contamination | £486,566 |
| 6 | Remedial works within built development | £100,000 |
| 7 | Foundations | £705,000 |
| 8 | General cost items (including preliminaries, overheads, contingency/risk and inflation) | £972,530 |
| Total | | £4,814,820 |

During the Due Diligence process, it was agreed that abnormal costs be shared on an open book basis with the Combined Authority, with a condition be included within the funding agreement in relation to abnormal costs. More details are provided below within the appraisal of the financial case and proposed funding conditions.

1.9 Appraisal

NTCA commissioned Thrive Economics to undertake an appraisal of the scheme's business case which was submitted by Sunderland City Council.

| Overall RAG assessment | |
|---|----------|
| <p>Strategic case A strong strategic case is presented with a clear strategic rationale and appropriate alignment to the Combined Authority's strategic priorities. The development is likely to make a very strong contribution to the local economy and SMART objectives are clear, comprehensive and appear achievable.</p> | G |
| <p>Economic case The Economic Case sets out a good range of options which are appropriately shortlisted down to arrive at a Preferred Option.</p> <p>The latest BCR assessment identifies an overall BCR of 2.08 representing good Value for Money and exceeding the Brownfield Housing Fund requirements of BCRs Target of 1+. Revised sensitivity analysis on costs and benefits also shows that in a 'worst case' scenario, the BCR would still be above 1.</p> | G |
| <p>Financial case To mitigate the amber RAG rating of the financial case, the appraisers strongly recommend that the cost plan be updated and resubmitted alongside the tender prices for future phases of the demolition works and ground remediation once the site surveys and reports have been completed and tender exercises completed.</p> <p>The appraisal team consider the Financial Case to be sufficient based upon the allowances made and the information provided within the Business Case alongside responses to the queries raised during the appraisal process.</p> | A |
| <p>Commercial case The appraisal confirms that the project has a clear and appropriate procurement plan. Whilst the business case highlights a small number of risks relating to, or influenced by procurement, these are mitigated effectively. The Council will retain site ownership during the period of demolition and site remediation, and the clean site will be sold to the preferred developer.</p> | G |
| <p>Management case In the view of the appraisal team, the project's governance structures are clear and appropriate, and the delivery plan appears realistic though the time taken</p> | G |

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| to negotiate with Network Rail could potentially take longer than forecast. The levels of scheme risk are acceptable and are capable of being managed. | |
| Overall rating The appraisal team are happy to recommend the scheme for approval, with proposed funding conditions to mitigate the amber RAG rated financial case. | G |

Overview

The scheme has been appraised by Thrive Economics as Green overall. The appraiser notes that the Sheepfolds scheme has a clear strategic rationale and aligns strongly with the Combined Authority's strategic economic objectives, along with local and national economic priorities.

The development makes a significant contribution to the Combined Authority's Corporate Plan. In addition, the Sheepfolds scheme contributes to the Combined Authority's Zero Carbon aims through a commitment to the delivery of a carbon-neutral development. The Sheepfolds scheme also directly supports the wider Riverside Sunderland Masterplan and its key principles; repopulation of the city centre, the reconnection of a fragmented city, and the creation of a dynamic new business district.

The appraisal confirms the need for public support and the scale of this support is explored within the Financial Case appraisal. There is clear market failure and opportunity. The Due Diligence Review highlighted a concern that the local market could be saturated when the developments at Vaux, Farringdon Row and the Civic Centre are taken into consideration. However, the risk here to the Combined Authority is mitigated as this is the first development phase, and Sunderland Council will review demand and adjust the mix on later phases if required to avoid market saturation.

Historically there has been a lack of market appetite to deliver on complex brownfield development sites in the city centre. This has resulted in a poor-quality city centre housing offer, an over-predominance of social and affordable rental properties, a declining and ageing population, social and economic deprivation. Land and property prices are suppressed, and the area is unattractive to housing developers. Through the regeneration of Sheepfolds the Council is seeking to address these market failures, stimulate private sector investment, accelerate housing delivery, increase the city centre population, and drive social and economic growth. The development appraisal excludes the provision of policy compliant levels (15%) of affordable housing on the two sites as this would reduce the gross development value by approximately £1.28m for Sheepfolds and thereby increase the viability gap. Viability assessments will be submitted with the planning applications to confirm and demonstrate affordable homes would not be a financially viable model on the sites. Due to the high levels of social housing within the City there is a need to address the current tenure imbalance by creating a new housing market offering, by doing so this will outweigh this diversion from policy and create greater social and economic regeneration benefits. The project applicant has confirmed that as development across Sunderland Riverside progresses, the Council will continue to review the balance of social and affordable housing need in the city.

The review also highlighted that unit build costs were high compared to BCIS data. The applicant confirmed that adopted build costs were based upon the average of the Spons rates provided by Turner & Townsend plus a flat rate for enhancements with a further

allowance for inflation. To mitigate this, it was agreed that once Sunderland City Council appoints a preferred developer costs will be shared on an open book basis with the Combined Authority, who will include a condition relating to build costs within the funding agreement. Full cost will only be fully understood and quantified once the site investigation surveys have been completed and priced via the open book tender process. Due to this the financial case is rated as Amber with appropriate conditions noted to mitigate this.

The scheme has a clear and appropriate procurement plan and whilst there are some risks relating to procurement, they are mitigated effectively. The Council demonstrates a full understanding of procurement regulations and has followed these during the securing of a demolition contractor. Ownership of the site will be retained by the Council during the period of demolition and site remediation, upon completion of which the clean site will be sold to the preferred developer. This ownership structure appears to be appropriate and reflects the need for public sector investment to make the development viable with public sector support.

The economic case has been appraised as green reflecting that the Council have explored an appropriate range of options which are shortlisted down to arrive at a Preferred Option. Whilst the scheme's business case does not explore the counterfactual scenario the appraisal team has worked with the Council's economic appraisal team to appropriately model the counterfactual scenario (benefits and costs). The revised assessment has identified an overall BCR of 2.08: 1, representing good Value for Money and exceeding the Brownfield Housing Fund requirement of BCRs over 1. The applicant will be asked to update the business case to reflect this.

A robust management case is presented, with clear and appropriate governance structures and a realistic delivery plan. A condition of funding is proposed to mitigate the risk that the time taken to negotiate with Network Rail could potentially take longer than forecasted. A detailed monitoring and evaluation plan has been provided, risks have been identified with appropriate mitigation and a subsidy control position has been provided which will be reviewed by NTCA's legal team prior to contracting.

Overall, the project has been rated as green and the appraiser has recommended for approval along with conditions to mitigate the financial case.

Proposed Funding Conditions

To mitigate the RAG assessment, the appraiser has recommended the following conditions:

Condition 1

Tendered costs will be shared on an open book basis with NTCA, and an updated development appraisal submitted once these have been confirmed. A reduction in the viability gap will be reflected in an equivalent reduction to the grant ask.

Condition 2:

Business Case updated to reflect additional information provided to the appraisers.

Condition 3:

It is recommended that Sunderland City Council updates the Combined Authority with progress on the following critical milestones:

1. Purchase of the Northern Rail plot – update required by August 2024
2. Purchase of the remaining industrial plots – update required by August 2024
3. Securing planning permission – update by September 2024

2. Potential Impact on Objectives

- 2.1 All activity outlined in the report will contribute to supporting economic activities which are highlighted in the Devolution Deal, the Economic Vision and in support of the six design principles for housing agreed by Cabinet in the Delegated Decision report of April 2020. The award of this funding helps us to meet our stated ambitions to increase the supply of new homes in the South of Tyne.

3. Key Risks

- 3.1 The risks associated with this application have been mitigated through funding conditions. These include receipt of a detailed procurement and programme plan with key milestones, the submission of a Red Book Valuation to demonstrate land value, implementation of a clawback clause to mitigate the risk of lower cost values, and the receipt of a Subsidy Control assessment associated with this development.

4. Financial and Other Resources Implications

- 4.1 In line with our agreed claims process, grants will be paid at the agreed intervention rate quarterly in arrears and upon verification of costs.
- 4.2 The financial completion date for the project is March 2026.

5. Legal Implications

- 5.1 The comments of the Monitoring Officer have been included in this report.

6. Equalities Implications

- 6.1 As required by Section 149 of the Equality Act 2010, the Combined Authority has considered its obligations regarding the Public Sector Equality Duty and there will be no anticipated negative impact on groups with protected characteristics from this proposal.
- 6.2 An Equalities Impact Assessment has been undertaken and the implications reviewed. The Combined Authority is committed to driving equality and diversity in housing. The measures contained within this paper will assist the Combined Authority to meet its duties under the Equality Act 2010, particularly around advancing equality of opportunity for those with protected characteristics, particularly with regard to socio-economic background.

7. Inclusive Economy Implications

- 7.1 The project contributes to the delivery of the inclusive economy objectives of the NTCA. The project sets out a range of interventions that will grow the economy in an inclusive manner providing opportunities to access models of housing that provide affordable and private market sale opportunities, with low carbon technologies to provide heat and energy sources that might otherwise be inaccessible in the open market for residents. The project assists community growth as well as supporting the wider inclusive economy work of the combined authority by providing high quality, energy efficient and accessible homes.

8. Climate Change Implications

- 8.1 Overall, the project contributes to the delivery of the climate change objectives of the NTCA. Projects have submitted information within their proposals and have been appraised. The Combined Authority is committed to exploring a range of methods – from modern methods of construction and use of low carbon technologies through to greater use of local suppliers – to reduce the carbon impact of new housing. Sheepfolds will be built using modern methods of construction (MMC) and will incorporate renewable energy and low carbon design features and technology, including connection to a local heat network.

9. Consultation and Engagement

- 9.1 Throughout the process, both internal and external consultation has taken place; this has included discussion at Technical Officers Group meeting and Investment Panel. Briefings have been provided in the context of the BHF pipeline of schemes to the elected Mayor and Portfolio lead for Housing Land and Development; both are supportive of the investment. The scheme was consulted externally as part of the planning application and approved, subject a S106 agreement. Consultation and engagement will have included statutory and non-statutory stakeholders and the public. Stakeholder and community engagement was also undertaken with statutory, non-statutory, community groups, landowners, the local authority and parish councils as part of the Masterplan for the site, prior to the submission of the planning application.

10. Appendices

- 10.1 None.

11. Background Papers

- 11.1 NTCA Delegated Decision 8th September 2023, Brownfield Housing Fund Programme South of Tyne Pipeline <https://www.northoftyne-ca.gov.uk/wp-content/uploads/2023/09/DD-RECORD.pdf>

12. Contact Officers

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13. Glossary

- 13.1 ASHP – Air Source Heat Pumps
PV – Solar Photovoltaic Panels
EV – Electric Vehicle Charging
NEMCA – North East Mayoral Combined Authority
NTCA – North of Tyne Combined Authority

14. Sign-off

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| 1) Portfolio holder: Yes | 2) Director of P&P/Head of Service: Yes | 3) Director of Finance: Yes | 4) Monitoring Officer: Yes |
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