

Delegated Decision Report

Subject: NECA Brownfield Housing Fund Programme – Farrington Row, 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. Farrington Row, 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 Farrington Row Scheme, Sunderland, delivered as part of the Brownfield Housing Fund for a total value of £3,315,000.

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 £3,315,000 from the Brownfield Housing Fund for Farrington Row Scheme, Sunderland 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

Proposal Name	Farrington Row
Lead Organisation	Sunderland City Council
Delivery Areas	Sunderland
Timescales	<ul style="list-style-type: none"> • May 2024 – Planning application submission • August 2024 – Planning approval • September 2024 – Complete land purchase • February 2025 – Commencement of BHF funded works • September 2025 – Completion of BHF spend • February 2025 – Construction period begins (first units) • April 2028 – BHF outputs to be achieved (all units)
Project Value	£41,547,500
Grant / Loan amount requested	£3,315,000 (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. Farrington Row is the next scheme to be brought forward from the South of Tyne pipeline.
- 1.2 Farrington Row is in a prime location on the south bank overlooking the River Wear and will deliver 166 new Build-to-Rent (BtR) homes on a key city centre brownfield site (1.85 hectares) within the Riverside Sunderland development. Overall, Riverside Sunderland will deliver a total of 1,000 new homes, alongside 1 million sq ft of employment space and supporting community infrastructure, on a 33.2-hectare site on both sides of the River Wear.
- 1.3 The Farrington Row area was occupied by the former coal-fired Sunderland Power Station, demolished in 1979, with other historic uses including a coal depot and a scrap

yard. The legacy of these former industrial uses has constrained the regeneration of the site over an extended period. The area is bordered to the west by commercial and retail outlets and much of the southernmost part of the site, where it is bounded by the A1231, has also been cleared and levelled, with significant infrastructure improvements as part of the city-wide Sunderland Strategic Transport Corridor (SSTC) project.

- 1.4 The scheme will support the repopulation of the city centre, providing build to rent homes which diversify the tenure mix and increase housing choice. The new homes will be built to a high-quality standard and specification which with all homes built an EPC A rating. This will be achieved through the installation of renewable energy and low carbon technology such as photovoltaics (PV) and heat recovery ventilation (MVHR) across all the properties. Additionally, Farrington Row will create aspirational and sustainable community living within the city centre, designed to put people first, promote low carbon lifestyles, reduce car use, and encourage active mobility.
- 1.5 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.
- 1.6 The site was marketed by the Council in 2022 and submissions were based on public sector grant being secured to address the cost of mitigating abnormal ground conditions. The contamination and ground conditions arise from former industrial uses, alongside ground stability and level issues which are a barrier to regeneration.
- 1.7 In March 2023, Sunderland City Council’s Cabinet approved Placefirst as the preferred developer who have an excellent track record of delivering exemplar regeneration projects, which align fully with the Council’s strategic objectives. Placefirst are expected to submit a planning application in July 2024 and disposal of the Land to Placefirst will not take place until funding is confirmed, and planning consent received.
- 1.8 The development appraisal for the site prepared by Placefirst 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 viability gap of £10.078m, of which £3.315m is sought from BHF. The remaining costs will be met through BLRF2 (£1.184m); Homes England BILF (£2.579m) and Council funding (£3m).

1.9 **Outputs – Farrington Row, Sunderland**

Measure	Number
Number of new homes brought forward	166
Area of site reclaimed, (re)developed or assembled (ha)	1.85 ha

Other outputs realised by the scheme:

Measure	Number
Construction Jobs Supported	192 gross person years of employment supported in the

	construction phase (April 2028)
Apprenticeships Created	7
Total value of private sector funds leveraged through public investment.	£31,468,630
Increased spend in local construction supply chain	+20%
Resident expenditure	£1.94 million expenditure on goods and services in the local area, supporting 23 FTE jobs
Highly efficient homes	EPC A homes employing advanced design features and low carbon technology such as PV and MVHR will minimise carbon emissions and support energy savings

2.0 Costs

The Due Diligence review prepared by Savills confirms that of the total £7.15m abnormal costs, £4.19m of these qualify as Brownfield Housing Fund eligible costs, sufficiently covering the BHF ask of £3.315m.

The project cost plan outlines the following eligible proposed works and associated costs:

Eligible Costs requested		Cost
1	Hazardous topsoil material to be removed from the Northern part of the site; as advised by Cundall	£1,200,000
2	Asbestos monitoring	£60,000
3	E/O Uplift related to the requirement of a piled foundation solution	£1,676,100
4	CS1 gas membrane and DPM system	£7,432
5	Extra over for improved concrete grade risk	£47,315
6	Import of Type 1 Material required to level site	£39,390
7	Retaining walls	£130,005
8	Abnormal Surface Water Drainage costs	£155,300
Total		£3,315,542

2.1 Appraisal

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

Overall RAG assessment	
Strategic case The appraiser notes the strategic case as Green as the strategic rationale for the project is well laid out and evidenced and the Case for Change is robust and also well evidenced.	G

A good summary of project risks and process is also included in the Strategic Case.	
Economic case The application underwent a comprehensive analysis of options, supported by appropriate evidence. The appraisal of economic outputs and subsequent supporting evidence were conducted in accordance with the HM Treasury Green Book. The application is found to represent medium value for money at a BCR of 1.69 and has been rated green.	G
Financial case The appraisal team consider the Financial Case to be green, costs have been collated through site surveys and with the assistance of Identity Consult. The costs identified are eligible. Placefirst have set out their intention to proceed on an open book basis with regards to costs on site and some conditions have been included to mitigate this rating to Green.	G
Commercial case The application has provided a robust Commercial Case, evidenced by specialist property consultant's research and reports. The appraiser asked for additional information to make this case clearer which has been provided, the applicant will be asked to update the business case with this information.	G
Management case The Business Case demonstrates that there is a clear plan to deliver and monitor KPIs and project success; there is a clear project plan; levels of project risk are acceptable and manageable; and there an appropriate framework for monitoring and evaluation.	G
Overall rating The appraisal is rated overall as Green by the appraiser.	G

Overview

The scheme has been appraised by Turner and Townsend and presents a strong strategic case that is closely aligned with the Combined Authority's strategic objectives. The case evidences alignment to the North of Tyne Combined Authority Corporate Plan, objectives, and strategic aims and the Riverside Sunderland Masterplan and objectives to regenerate the city of Sunderland.

The financial case has been appraised as green as the Business Case is well evidenced, and the listed costs provided are eligible for BHF. Furthermore, costs have been based on site surveys and developed with specialist consultants. However, costs were viewed as high through the due diligence process and while appropriate explanations have been provided a condition has been included that once the applicant has tendered the development to sub-contractors this would be shared on an open book basis with NTCA. Additionally, the £31.47 million private financing from Placefirst is currently described as

'secured' per the Appendix 15 Funding Statement. However, this financing should be described as 'pending' until all financing is secured. Appropriate risk mitigation has been included by Sunderland City Council regarding developer financing.

The project will look to deliver significant economic benefits to Sunderland with it being a significant plot in the wider Riverside development which looks to create a new market for city centre living in Sunderland. A full options analysis was completed, and the preferred development will deliver 166 units and a BCR of 1.67 alongside further benefits such as construction employment, increased local spending, £1.85m land value uplift, reduced crime as well as unlocking further regeneration.

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 Farringdon Row 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 £1.55m for Farringdon Row 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 commercial case has been rated as green with the case being evidenced by specialist property consultants with the report concluding that there is demand for single occupancy and multifamily buy to rent homes and open market sales, within Sunderland. Some areas of the commercial case required more information such as on the procurement process, fall-back position, type of contract, stakeholder engagement plan and a more detailed organogram. However, this has now been provided and the applicant will be asked to update the business case appropriately to reflect this additional information.

The management case is strong with clear governance arrangements in place. The Riverside Sunderland programme board, chaired by the Council's Development Director, holds the responsibility for overall governance while the Farringdon Row Project Delivery Group (PDG) is responsible for day-to-day project management, monitoring, and reporting. The appointed contractor will create a detailed Construction Programme, which will be agreed upon with the PM. 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 Green and recommended for approval by the appraiser.

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 a proportionate reduction to the grant ask.

Condition 2:

The £31.47 million private financing from Placefirst should be described as 'pending' in the business case until all funding is secured.

Condition 3:

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

Condition 4:

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

1. Securing planning permission – update by September 2024
2. Confirmation of all funding secured – update by September 2024
3. Agreement of Heads of Terms with Placefirst for disposal of the land – update by September 2024

3. Potential Impact on Objectives

- 3.1 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.

4. Key Risks

- 4.1 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.

5. Financial and Other Resources Implications

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

6. Legal Implications

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

7. Equalities Implications

- 7.1 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.
- 7.2 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.

8. Inclusive Economy Implications

- 8.1 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.

9. Climate Change Implications

- 9.1 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. Farringdon Row will include the installation of renewable energy and low carbon technology such as photovoltaics (PV) and heat recovery ventilation (MVHR) across all the properties.

10. Consultation and Engagement

10.1 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.

11. Appendices

11.1 None.

12. Background Papers

12.1 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>

13. Contact Officers

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14. Glossary

14.1 ASHP – Air Source Heat Pumps
 PV – Solar Photovoltaic Panels
 EV – Electric Vehicle Charging
 NTCA – North of Tyne Combined Authority

15. Sign-off

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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