

Financial Appraisal Report - PUBLIC

HRA Capital Project – Construction of 18 new affordable homes at Beever Road, Tipton and submission of external funding application to Homes England

Date Issued: 2nd December 2021

Contents:

- 1. Executive Summary**
- 2. Issues Arising**

Report to Cabinet

1 Executive Summary

Introduction

Regeneration & Economy are seeking approval for a capital project to provide 10 new bungalows and 8 apartments for affordable rent on land at Beever Road, Tipton.

Approval is also sought to utilise grant funding offered by Homes England, under the extended Homes England Strategic Partnership Programme 2016 to 2021, to assist with the delivery of the project.

The proposed development site is in council ownership and is currently vacant. The site had previously been used for residential housing until its demolition in the mid1970s.

There are currently over 9,800 people on the Council's Housing Register, of which approximately a third are existing tenants requesting property transfers. With over 65% of all housing applicants requiring properties with 2 or more bedrooms, additional affordable housing is needed across the borough.

Whilst demand for houses remains far higher than for other types of property, recent bidding data shows sufficient demand for both bungalows and apartments in the area.

Strategic Finance has been asked to carry out an appraisal of the funding application, which has been evaluated against HM Treasury Green Book guidance. The appraisal process recorded a score of 76%, with some areas of risk identified.

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Project Objectives

- To increase the number of authority owned stock and reduce the amount of under-utilised land within council ownership.
- To support the Council's Vision 2030, where Sandwell has many new homes to meet a full range of housing needs, in attractive neighbourhoods and close to key transport routes.

Project Details

The proposed residential site will provide the following:

- 2-bedroom semi-detached bungalows (60.2 sqm) x 2
- 2-bedroom detached bungalows (60.2 sqm) x 3
- 2-bedroom detached bungalows (66.2 sqm) x 3
- 2-bedroom semi-detached bungalows (78.4 sqm) x 2
- 1-bedroom apartments (52-73 sqm) x 8

Homes England Strategic Partnership Grant Programme 2016 to 2021 has now been extended and provides grant funding for the provision of new affordable homes. Work on site will need to commence by March 2023 and be complete by March 2025 in order to comply with grant funding conditions. Details of each scheme will be submitted to Homes England for approval prior to commencement.

The proposed development site is currently designated as an allotment site and held as an asset in the Council's General Fund Account within the Neighbourhood's Directorate.

Planning approval for the proposal is expected by October 2021, with project completion due by March 2023.

Total project costs have been estimated by Urban Design & Building Services. Sandwell Metropolitan Borough Council will utilise Homes England grant funding of £0.657m, with the remaining funding to be provided by the Council's Housing Revenue Account.

Prudential borrowing will be funded by the Housing Revenue Account over a 40-year period, with an assumed interest rate of 2.31%.

Accord Housing Association will manage and monitor grant funding from Homes England on behalf of the Council, at a cost of £417 per housing unit. The total revenue cost for the service of £7,506 will be funded through the Housing Revenue Account.

Scope and objectives of financial appraisal

The purpose of financial appraisals is to consider the guidance provided by HM Treasury in evaluating business case proposals and assessing the potential risk to

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the Council in achieving its objectives. The following components and risks are assessed:

HM Treasury Green Book	Potential Risks
<u>Strategic Case</u> Objective, need, demand and reasonableness	Insufficient justification for project/will not meet strategic objectives
<u>Economic case</u> Option analysis and risk	Poor use of council resources & excessive risk to Council
<u>Commercial Case</u> Legal and statutory implications	Project may contravene legal/statutory regulations
<u>Financial Case</u> Affordability	Proposals are not affordable or realistic
<u>Management Case</u> Governance, project management, monitoring and evaluation	Non-delivery of project and outputs
Limitations to scope of appraisal	Information provided by Project Officer

LEVEL OF ASSURANCE GAINED FROM FINANCIAL APPRAISAL

Limited (0%-65%)	Satisfactory (66%-80%)	Substantial (81%-100%)
There is a high risk of objectives not being met due to insufficient assurance within the project proposals. There is limited evidence to confirm that the risks to the Council could be adequately mitigated.	There is adequate assurance that objectives could be met, but further actions are required to adequately mitigate the risk to the Council.	There is good assurance that objectives will be met, with little risk to council resources.

Overall Conclusion

The appraisal scored 76% and provides **satisfactory assurance** over the adequacy of the proposals.

Financial appraisals will identify the following levels of issues:

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Fundamental

Action is imperative to ensure that the objectives of the project are met

Significant

Action is required to avoid exposure to significant risks in achieving objectives

Merits Attention

Action is advised to enhance operational efficiency

Summary of key issues identified

- The financial appraisal has identified 1 'fundamental' issues
- The financial appraisal has identified 2 'significant' issues
- The financial appraisal has identified 2 'merits attention' issues

2 Issues Arising

Action is imperative to ensure that the objectives for the area under review are met
Fundamental

2.1 Economic Case – Option Analysis & Value for Money

The unit cost to construct 2 bedroom bungalows and 1 bedroom flats on the proposed site have been estimated by Building Services. Estimated construction costs have been measured against the Building Cost Indices for the West Midlands region and include a 25% risk allowance due to a significant increase in construction costs in recent months. However, the unit cost does not take into account the estimated land value of the site.

- a) It is understood that the site has never been marketed for sale and therefore the level of market interest from private developers is unknown.
- b) Whilst the construction cost appears reasonable for 2 bedroom bungalows, current property prices for privately owned flats, for sale on the open market within Tipton, do not exceed £0.110m for 2 bedroom accommodation. It is acknowledged that local authority housing generally provides larger homes with a higher build quality than those of private developers, with privately purchased homes potentially requiring adaptations/modifications for council house use.

The high construction cost per unit compared to current property prices may also be associated with a number of other factors including current market conditions within the construction industry, small sites which do not offer economies of scale and poor ground conditions with high remediation costs.

Considering the high construction costs, it is not clear whether all other options have subsequently been explored to deliver the Council's objectives at a lesser

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cost, and the impact of these on its long-term goals. Such options may include site disposal, purchase of privately owned properties, alternative house types/construction methods, other grant funding options and temporary delay to construction to develop other sites at a lower cost.

Implication:

That the proposed option may not optimise value for money for the Council.

Recommended Action:

That Cabinet consider the alternatives and are satisfied that the proposal to construct the new build homes will meet the Council's objectives in the most appropriate manner.

Action is required to avoid exposure to significant risks in achieving objectives
Significant

2.2 Economic Case – Option Analysis & Value for Money

A list of sites for the Council's house building programme was provided, identifying council owned sites with potential for future development. Whilst the proposed site was included within the programme, it was unclear how sites are prioritised for development or processes for evaluation and approval.

Implication:

That development of the proposed site may not offer the most effective use of the Council's resources.

Recommended Action:

That a process is developed to prioritise the development of sites against pre-determined criteria and alternative options for achieving the Council's housing objectives within each locality.

2.3 Economic Case – Value for money

Although funding from Homes England will provide grant monies of £36,500 per property, the use of the Council's Right to Buy receipts could reduce the Council's funding requirement by £57,000 per property. Under the Local Government Act 2003, both types of funding cannot jointly be utilised on individual schemes. The use of receipts from Right to Buy house sales are time limited to 3 years, after which they must be returned to government with interest. Although it is advised that the use of grant funding on the proposed scheme will not reduce the Council's ability to use its balance of Right to Buy receipts, any slippage in current housing schemes may impact on the use of receipts.

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Implication:

Council resources may not be utilised in the most effective way.

Recommended action:

That prior to submission of the external funding bid, a review of the planned use of Right to Buy receipts is undertaken to ensure that HCA funding for the project would offer the most financially advantageous source of funding.

Action is advised to enhance operational efficiency
Merits Attention

2.4 Economic Case – Risks - A corporate Risk Register has been provided, identifying a large number of amber risks. However, risks in relation to grant funding or the use of Right to Buy receipts had not been adequately identified.

Implication:

Risks may not be identified and adequately mitigated, resulting in financial implications to the Council.

Recommended Action:

That the Risk Register is reviewed to ensure all risks relating to grant funding and the use of Right to Buy receipts are identified and adequately mitigated.

2.5 Economic Case – Strategic Asset Implications

The proposed development site is currently designated for use as allotments and held as an asset within the Council's General Fund under the Neighbourhoods directorate. It is understood that under the Allotments Act 1925, approval from the Secretary of State may be required to re-designate the land for housing development. Once developed for housing purposes, the land should be accounted for as an HRA asset.

Implication:

Without development approval from the Secretary of State, the site cannot be legally developed for housing. If an appropriation from the GF to HRA is not completed, Council assets are not accounted for correctly.

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Recommended Action:

- That where required, approval is sought from the Secretary of State to reclassify the site for housing development.
- That the site is appropriated, where necessary, from the Council's General Fund to the Housing Revenue Account.

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