

Financial Appraisal Report - PUBLIC

HRA Capital Project – Construction of 6 affordable homes at Whitgreave Street, West Bromwich and use of external grant funding from Homes England

Date Issued: 27th May 2022

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Report to Cabinet

1 Executive Summary

Introduction

Regeneration & Economy are seeking approval for a capital project to construct 6 semi-detached 4-bedroom houses for affordable rent on land at Whitgreave Street, West Bromwich.

Approval is also sought to apply to Homes England for grant funding through the Strategic Partnerships Programme, to assist with the delivery of the project. Homes England are inviting bids as part of a continuous market engagement process. There is no fixed closing date for bids.

The proposed development site is in council ownership and is currently vacant. Historically, the site had been occupied since the late 1960's by the former Ryder House high rise block that was subsequently demolished in 2002. An electricity sub-station with an access route from Whitgreave Street was erected within the South Western corner of the site at some time prior to 1980.

The site does not have a primary allocation in the Sandwell Site Allocations and Delivery Development Plan, but its development for residential use is considered appropriate.

There are currently over 9,800 people on the Council's Housing Register, of which approximately a third are existing tenants requesting property transfers. As at September 2021, there were 658 households on the Housing Register who required 4-bedroom houses, with approximately 42 households in West Bromwich eligible for a 4-bedroom house. Forecasts suggest that the need for housing over the next 18 years

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will increase further, with a projected 32% increase for 1 bed homes, 17% for 2 bed homes, 14% for 3 bed homes & a 40% increase for 4 bed homes.

Whilst demand for houses remains far higher than for other types of property, recent bidding data shows sufficient demand for all property types within 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 79%, with some areas of risk identified.

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 6 new 4-bedroom, semi-detached houses (117 sqm).

The Homes England Strategic Partnership programme allows for the delivery of affordable housing under the same principles as the Shared ownership and Affordable Homes Programme (SOAHP) 2016 to 2021. Delivery through the Strategic Partnership must start on site by March 2022, with completion by March 2025. Details of each scheme will be submitted to Homes England for approval prior to commencement.

The proposed development site is currently held as an asset in the Council's Housing Revenue Account. Planning approval for the proposal is expected by August 2022, with project completion due by September 2023.

Total project costs have been estimated by Urban Design & Building Services. Sandwell Metropolitan Borough Council will apply to Homes England for £0.205m, with the remaining funding to be provided from a Revenue Contribution to Capital Outlay (RCCO) from the HRA

Total estimated income and expenditure of project:

Expenditure

Construction costs	£2.313m
HCA Grant	(£0.205m)
HRA RCCO	(£2.108m)

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The proposed project is expected to generate a net rental income of £2.619m over a 40-year period.

Accord Housing Association will manage and monitor grant funding from Homes England on behalf of the Council, at a cost of £417 per unit. The total revenue cost for the service of £2,502 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 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	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.

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could be adequately mitigated.

Overall Conclusion

The appraisal scored 79% and provides **satisfactory assurance** over the adequacy of the proposals.

Financial appraisals will identify the following levels of issues:

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 NO 'fundamental' issues
- The financial appraisal has identified 2 'significant' issues
- The financial appraisal has identified 1 'merits attention' issue

2 Issues Arising

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

2.1 Economic Case – Value for Money & Option Analysis

Construction costs for the proposed properties have been estimated to be £0.385m per unit, although it is acknowledged that funding from Homes England will reduce the cost to the Council to £0.351m. Whilst estimated construction costs have been measured against the Building Cost Indices for the West Midlands region and it is recognised that there has been a significant increase in construction costs in recent months, the following should be noted:

- a) The unit construction cost does not include the value of the land, which if included, would increase the unit costs by £0.028m.
- b) It is understood that the site has never been marketed for sale and therefore the level of market interest from private developers is unknown.

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- c) A contingency of 10% has been included within the estimated costs but it is unclear how reasonable this is due to the recent continual increase in construction costs.
- d) Construction costs for 4-bedroom semi-detached houses appear high in relation to current property prices within the area, where new build 4-bedroom detached houses are currently on the market at £320,000. However, it is acknowledged that high construction costs per unit are partly due to current market conditions within the construction industry and the development of small sites, which do not offer economies of scale.

Whilst local authority housing generally provides larger homes with a higher build quality than those of private developers, and privately purchased homes potentially require adaptations/modifications for council house use, it is not clear whether all other options have subsequently been explored to deliver the Council's objectives at a lesser cost. Such options may include site disposal, purchase of privately owned properties, alternative house types/construction methods or a 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.

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 the process 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.

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2.3 Economic Case – Value for money

Although funding from Homes England will provide grant monies of £0.034m per property, the use of the Council's Right to Buy receipts could reduce the Council's funding requirement by £0.154m 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 5 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.

Implication:

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

Recommended action:

That the planned use of Right to Buy receipts is reviewed prior to the submission of a 'firm scheme' to Homes England to ensure that the project secures the most appropriate and financially advantageous source of funding.

Action is advised to enhance operational efficiency
Merits Attention

Economic Case – Strategic Asset Implications

An electricity sub-station with an access route from Whitgreave Street was erected within the south western corner of the site in 1965. The site of the electricity sub-station is subject to a lease with Western Power Distribution which is due to end in September 2025. It is advised that discussions are currently ongoing with Western Power Distribution regarding the relocation of the new substation and that the current lease will be relinquished upon the commencement of the new lease.

Implication:

Whilst it is advised that there is not expected to be any impact upon construction, as the new lease arrangements are expected to be in place before construction starts, any delay to the relocation of the electricity sub-station may impact on project delivery timescales and costs etc.

Recommended action:

That the relocation of the electricity sub-station and related lease are completed as a matter of urgency to ensure no delays to project timescales.

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