

Financial Appraisal Report

External funding application to Local Growth Deal & HRA
Capital Project – Site remediation for the delivery of 28 new
homes at Mounts Road, Wednesbury.

Date Issued: 5th March 2019

Contents:

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

Report to Cabinet

1 Executive Summary

Introduction

Regeneration & Economy are seeking approval to submit an application to the Black Country Local Enterprise Partnership's Local Growth Deal Fund for site remediation costs at Mounts Road, Wednesbury.

The funding application also proposes the subsequent sale of the site for the delivery of 28 new 2-bedroom bungalows by March 2021.

The proposed site is in council ownership and held as an asset on the Council's General Fund. The land has previously been used as a refuse site but is currently used as open public space. Due to poor ground conditions, redevelopment has never been considered feasible.

With over 6,000 people on the Council's Housing Register and 65% requiring properties with 2 or more bedrooms, additional affordable housing is needed across the borough.

Demand for 2-bedroom bungalows for affordable rent in Wednesbury is supported by the Council's Housing Register, which evidences strong demand. However, no evidence was provided to support the demand for privately owned 2-bedroom bungalows 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 58%, with some significant areas of risk identified.

Project Objectives

[ILO: UNCLASSIFIED]



- To increase the number of authority owned stock and reduce the amount of under-utilised land within its 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 private residential site will provide the following:

- 2-bedroom semi-detached bungalows x 26
- 2-bedroom detached bungalows x 2

Planning approval for the development of the site is expected by October 2019, with land remediation completed by May 2020. It is anticipated that the subsequent sale of the site will enable the delivery of housing units by March 2021.

The total estimated capital cost for site remediation and the provision of 28 new homes has been estimated. Sandwell MBC will apply to the Black Country Local Enterprise Partnership’s Local Growth Deal Fund for site remediation costs. Following site remediation, the Council proposes to sell the site to a developer for the provision of a private residential scheme, promoting the use of modern, modular building techniques. It is understood that should a private developer not be found; the site would be developed for council housing.

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

[ILO: UNCLASSIFIED]



<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 58% and provides **limited assurance** over the adequacy of the proposals. There is limited evidence that the proposal to dispose of the land following remediation would offer the best use of council resources and effectively achieve the Council’s objectives. Under the current proposals, the risk of repayment of grant funding is considered extremely high and therefore, if appropriate funding to underwrite the grant cannot be identified, then the application in its current form will present a major risk to council resources and cannot be supported.

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

[ILO: UNCLASSIFIED]



- The financial appraisal has identified 5 ‘significant’ issues
- The financial appraisal has identified 4 ‘merits attention’ issues

2 Issues Arising

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

2.1 Strategic Case – Reasonableness of funding application– The funding application states that following remediation, the site will be sold on the open market. Terms and conditions of funding from the Local Growth Fund require prior written agreement for the disposal of an asset and the purpose of the Fund would not allow a grantee to benefit financially from grant funding. There is therefore a high risk that, following the sale of the land, the Council would be required to repay the grant to the level of the sale price agreed.

Implication:

The repayment of grant could present significant financial implications to the Council, as the use of capital receipts for the repayment of grant are not allowable under the Local Authorities Capital Finance & Accounting Regulations 2003. No alternative source of funding from the General Fund has been identified.

Recommended action:

- i. Prior to submission of the external funding application, funding should be identified from within the Council’s General Fund to underwrite the grant.
- ii. Following the approval of grant funding by the Black Country Local Enterprise Partnership, a reserve should be provided by the Council’s General Fund to underwrite grant funding.
- iii. Should revenue funding not be identified, then the funding application in its current form should not be submitted.

2.2 Economic Case – Option Analysis –There was no evidence to support that the proposed option had been independently considered and assessed against alternate options, such as retaining the site for council housing.

Implication:

The project proposal may not optimise the use of council resources in delivering its objectives and priorities.

[ILO: UNCLASSIFIED]



2.3 Economic Case – Value for money – Whilst it is acknowledged that full funding for site remediation would enable future redevelopment of the land, grant funding would provide little financial benefit to the Council should the land be subsequently sold. An element of grant funding would be repayable following the sale of the site and the disposal of council owned land would not enable the Council to meet its objectives of increasing the number of authority owned stock.

The administration of grant funding would also incur unrecoverable costs for both the grantor and grantee in the preparation and assessment of the funding application, legal approval of funding agreement, compliance audits, submission of claims etc.

Implication:

The submission of a funding application for the purposes of remediating land for future disposal may not offer the most effective use of the Council’s resources or achieve the Council’s objectives.

Recommended action for 2.2. & 2.3:

Prior to submission of the funding application, undertake detailed option analysis, including weighted scoring assessments and cost benefit analysis to ensure that the proposal will optimise value for money for the council and offer the most effective method in achieving the Council’s objectives.

2.4 Commercial Case – Terms & conditions of grant funding - If approved, grant funding will be awarded based on a match funding intervention rate. Based on estimated remediation costs, the proposed grant funding would require evidence of match funding in accordance with European regulations, at an intervention rate of 57%. If the repayment of grant following disposal of land is not required, the Council will still be responsible for evidencing match funding for the project. The sale of the land to a third party would result in a loss of control by the Council in the ability to evidence match funding.

Implication:

Match funding may not be adequately evidenced, resulting in the clawback of grant. The repayment of grant would have financial implications on the Council and would need to be funded from the Council’s General Fund existing revenue resources.

Recommended action:

Consider the option to include conditions within any future sale agreement for the requirement of the purchaser to maintain documentary evidence for

[ILO: UNCLASSIFIED]



the project on an open book basis and permit SMBC to take copies of all accounting records which the Council considers relevant to the project.

2.5 Financial Case – Accurate Costs & Budget Forecasts - It is understood that the estimated project costs are early stage estimates and there is a risk that the actual costs for remediation will vary from estimates included in the grant application.

Implication:

If remediation costs exceed the agreed level of intervention, the value of the grant paid in excess of the agreed rate will require repayment and need to be funded from the Council's General Fund.

Recommended action:

Ensure estimated costs are kept under review and notified to the Black Country Local Enterprise Partnership as variation requests at the earliest opportunity. This will reduce the risk of clawback of grant funding.

Action is advised to enhance operational efficiency
Merits Attention

2.6 Strategic Case – Achievability of delivery outputs – The funding application states that the delivery of housing outputs will be completed by May 2021. However, with site remediation not due for completion until May 2020, it is unclear whether the site could be marketed, sold and fully developed within twelve months.

Implication:

Delays in the delivery of agreed outputs could result in the clawback of grant from the funder and present financial implications to the Council.

Recommended action:

If the submission of the external funding application is approved, review the project timescales to ensure that outputs are deliverable within proposed timescales.

2.7 Economic Case – Identification of Risk

A corporate Risk Register has been provided but does not recognise all risks relating to external grant funding.

[ILO: UNCLASSIFIED]



Implication:

Risks to the receipt of grant funding may not be identified and mitigated sufficiently, resulting in financial implications to the Council.

Recommended Action:

That the Risk Register is reviewed to ensure all risks are identified and adequately mitigated.

2.8 Management Case – Project Monitoring

It was unclear from the information provided how the project would be managed and monitored in the event of the site being sold for development by a third party. No detail on the method or systems to be used in acquiring match funding information required by the Local Growth Fund was provided.

Implication:

Adequate evidence of match funding cannot be provided, and repayment of grant is required.

Recommended action:

That the requirements of the funder are identified in relation to the documentation required in evidencing match funding, along with methods and systems to be used to ensure that successful grant claims can be made.

2.9 Management Case – Project Evaluation

Conflicting information was provided in identifying a responsible officer to undertake project evaluation. No information was provided on how the outcomes will be evaluated or the date for completion of the evaluation.

Implication:

A timely project evaluation is not undertaken, and the success of the project cannot be confirmed.

Recommended action:

That a responsible officer to undertake project evaluation is identified, along with a method for the evaluation of project outcomes determined and a date for the completion of the project evaluation confirmed.

[ILO: UNCLASSIFIED]

