

# Financial Appraisal Report

External funding application to Local Growth Deal & HRA  
Capital Project – Delivery of 32 new affordable homes at  
Stanhope Road, Smethwick.

Date Issued: 5<sup>th</sup> March 2019

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## 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 Stanhope Road, Smethwick.

The funding application also proposes the subsequent delivery of 32 new 2 and 4 bedroom homes for affordable rent on the site by May 2021.

The proposed development site is in council ownership and has previously been occupied by a laundry. The land is currently vacant but due to poor ground conditions, redevelopment has not previously been proposed.

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 the proposed property types is supported by the Council's Housing Register, which evidences strong demand for 2 and 4 bedroom houses in Smethwick. Eligibility for 4 bedroom homes is however, lower than that of 2 and 3 bedroom houses.

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 75%, 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 its ownership.

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- 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 houses x 18
- 4 bedroom semi-detached houses x 14

The planning application for the proposal will be submitted in July 2019, with housing completion expected by May 2021.

The total capital cost for site remediation and the delivery of 32 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, with the remaining funding to be provided by the Council's Housing Revenue Account. If the external funding bid is unsuccessful, project costs could be fully funded from existing resources within the Council's Housing Revenue Account.

The Council's Housing Revenue Account will fund construction costs through prudential borrowing over a 40-year period. This will incur additional costs at an assumed interest rate of 2.61%.

### 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

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<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 75% 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 1 'significant' issue
- The financial appraisal has identified 3 'merits attention' issues

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## 2 Issues Arising

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

**2.1 Financial Case – Accurate Costs & Budget Forecasts** - If approved, grant funding will be awarded based on a match funding intervention rate of 90.5% from Sandwell MBC.

It is understood that the estimated project costs are early stage estimates and that actual costs for remediation and/or construction may vary from estimates included in the grant application. This could impact on the value of grant received, as funding will only be awarded for 9.5% of total project costs.

**Implication:**

If remediation costs exceed the agreed level or construction costs are lower than originally estimated, any grant received in excess of the agreed intervention rate will require repayment and need to be funded from within HRA's existing resources.

**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 minimise the risk of clawback of grant funding.

Action is advised to enhance operational efficiency  
**Merits Attention**

**2.2 Economic Case – Identification of Risk**

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

**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.

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### 2.3 Economic Case – Strategic Asset Implications

The proposed site at Stanhope Road, Smethwick is currently held as an asset on the Council's General Fund but once remediated is to be used for housing purposes. A recent independent valuation of the site has been provided.

**Implication:**

Council's assets are not accounted for correctly.

**Recommended action:**

That the site at Stanhope Road is appropriated from the Council's General Fund to the Housing Revenue Account.

### 2.4 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.

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