

Appraisal Report

Date: 14th February 2019
To: Cabinet
From: Strategic Finance
Subject: Approval for new housing at Britannia Road, Rowley Regis, along with the submission of an external funding bid to Homes England. **PUBLIC**

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Content: Appraisal Report undertaken by Strategic Finance.

Regeneration & Growth are seeking approval for a capital project to deliver 10 new homes for affordable rent on land at Britannia Road in Rowley Regis.

Approval is also sought to submit an application for grant funding to Homes England, under the Shared Ownership & Affordable Homes Programme 2016 to 2021, 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.

Strategic Finance has been asked to carry out an appraisal of the proposals, which has been evaluated against HM Treasury Green Book guidance. The Capital Project Appraisal Form and supporting papers have been used to undertake the appraisal.

The appraisal process recorded a score of 65%, with some areas of risk identified.

The appraisal covered the following areas:

Strategic Case

The proposed development site on land at Britannia Road in Rowley Regis is in Council ownership but at the time of the appraisal it was unclear whether the freehold had been transferred to the Council's Sandwell Land & Property Company. The project involves the demolition of a two-storey building which was previously used as a teaching block at the former

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Britannia High School. The building has since been used by a charitable organisation but is now understood to be vacant. Demolition of the existing building, along with the use of the adjoining plot of land will allow for the construction of the following affordable homes:

- 2 bedroom houses x 8 (semi-detached)
- 4 bedroom houses x 2 (semi-detached)

The HRA Investment Programme, approved in October 2017, recognised a need to replace housing units lost under the Right to Buy Scheme and consequently approved funding for future growth in this area.

The Shared Ownership & Affordable Homes Programme 2016 to 2021 provides grant funding for the provision of new affordable homes. Details of each scheme will need to be submitted to Homes England for approval prior to commencement. There is a risk that until formal approval from Homes England is received, funding for the project cannot be guaranteed. However, if the external funding bid is unsuccessful, project costs could be fully funded from existing resources within the Council's Housing Revenue Account.

The project will need to be complete by March 2021 in order to secure grant funding. If completion is not achieved by this date, the new homes are unlikely to be eligible for grant funding under the scheme. Under the terms and conditions of Homes England grant funding, a default will occur if the delivery of the project is not achieved within agreed timescales and funding will need to be repaid.

There are approximately 6,000 people on the Council's Housing Register, with 65% requiring properties with 2 or more bedrooms.

Information obtained from the Housing Register shows that in 2016/17, an average of 90 tenancy bids were received for each 2-bedroom house in Blackheath, along with 82 and 66 bids for each 3 and 4-bedroom house respectively.

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Over 20% of all council housing is severely under-occupied and the Council has a strategic priority to re-house these households to more suitable accommodation. As such, they are entitled to 'Band One Priority' of either bungalows or 2 bedroom houses. The Appraisal Panel were advised that there are currently 75 under occupied council owned homes in Rowley Regis where tenants have requested a transfer to a smaller property. Of these, 15 would qualify for a 2-bedroom house.

It is understood that the planning application will be submitted in June 2019 but until full planning approval is given for the redevelopment of the site, it cannot be confirmed that the proposed number/type of houses is achievable.

If approved, demolition will be completed by August 2019, with project completion by March 2021. However, until the procurement process has been undertaken and a contractor selected, it cannot be confirmed that the proposed timeframe for delivery of the project is reasonable and will be delivered in line with HCA's timescales.

Public consultation on the proposals has not yet been undertaken but it is understood that this will commence on submission of the planning applications.

The project will contribute to Sandwell's 2030 vision of providing homes that meet people's needs.

Economic Case

Construction costs have been calculated on the assumption that the land ownership is held by the Council's General Fund and includes an appropriation cost of £0.081m. The appropriation cost has been based on a current land value, less estimated demolition costs.

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However, should the land be in the ownership of Sandwell Land & Property, a full land purchase will be required but the cost is not currently known. This may result in an increase in the cost per unit and may not provide value for money to the Council.

Despite the growing need for more affordable homes within the borough, no supporting evidence has been provided, in the form of a strategic plan prioritising potential sites for development on a value for money basis.

Neither was any evidence provided to confirm that comparative costings or sensitivity analysis of whole life costs had been undertaken on a range of property types, to demonstrate the proposal would offer the most effective use of council resources.

The Appraisal Panel were advised that alternative options for the site have been considered, including the sale of the land, along with redevelopment in partnership with a registered housing provider.

Regeneration and Growth do not recommend the sale of the site, as it would not achieve the objective of increasing the Council's housing stock. The Appraisal Panel were also informed that the sale of the land would result in the Council having little control of the use of the site, with potential safeguarding issues, given the close proximity to Blackheath Primary School.

Regarding redevelopment in partnership with a registered housing provider, the Appraisal Panel were informed that some registered providers have scaled back on development programmes and therefore it is not known whether a suitable provider could be found. However, with the reclassification of housing associations as private companies in October 2017, allowing additional private finance to be secured and invested in new homes, along with the ability to increase rents from 2020, registered providers are now more likely to recommence their development programmes.

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The Appraisal Panel raised the concern as to whether all possible options for the site had been considered e.g. other council accommodation, lease potential etc.

There are currently several sites in Rowley Regis with planning permission to build new homes and which will deliver up to 200 additional properties. Furthermore, there are also allocated sites which have yet to obtain planning permission but which could provide an additional 1,500 homes for the area. Despite the proposed site having been declared surplus for current education requirements, the potential increase in new homes is likely to lead to an increase in the requirement for school places within the area and it is not clear whether the longer term need for the site has been thoroughly evaluated.

There was also no evidence that the options considered had been scored against any objective success criteria for the site or whether there may be other more cost-effective options in achieving the Council's housing objectives. No information was provided on alternate council owned sites and their considerations. From the limited information provided, it cannot be confirmed that the proposals offer the most cost-effective use of the Council's resources.

From cashflow projections provided, the project will not deliver any financial return to the Council within the next 22 years; at which time the annual rent collected will exceed the annual borrowing cost. The annual deficit will be managed through the Housing Revenue Account.

The increase in new homes however, should reduce the Council's costs in providing temporary accommodation and result in additional income generation from Council Tax of £8,900 per annum. The project may also be eligible for the New Homes Bonus which could generate an additional £56,400 over the four-year eligibility period.

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Construction work on the project will offer temporary employment and training opportunities, as well as additional community benefits to local economies through work with local supply chains and use of local labour.

A corporate Risk Register has been provided, identifying a large number of amber risks. Problems associated with planning permission, delays and increased costs, the loss of houses through the right to buy programme and lack of demand for properties due to rent increases and welfare reforms have been identified. A limited number of risks were identified in relation to grant funding.

Funding from Homes England could provide grant monies of £36,500 per property. In contrast, the use of the Council's Right to Buy receipts would reduce the Council's funding requirement by £57,000 per property. However, under the Local Government Act 2003, both types of funding cannot jointly be utilised on individual schemes, as the use of right to buy receipts is prohibited where the provision of housing is funded, wholly or in part, by grant paid by Homes England.

The Appraisal Panel were advised that it was considered more beneficial to utilise grant funding where possible and that the use of grant funding on the proposed scheme will not impact on the Council's ability to use the balance of replacement receipts, as these have been committed to schemes currently in progress.

At the time of appraisal, it had not been established whether any legal constraints on the use of the site for education purposes may impact on the redevelopment of the site for housing purposes.

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Commercial Case

The demolition contract will be procured via the Council's Demolition Partner Framework. Procurement for the construction work will be through the NEC3 Engineering & Construction Contract Option C: Target Contract with Activity Schedule.

The management and monitoring of grant funding from Homes England will be undertaken by Accord Housing Association Ltd.

State Aid

There should not be any state aid implications to the Council, providing proper procurement processes are followed.

Financial Case

Total project costs have been estimated by Urban Design & Building Services. Sandwell Metropolitan Borough Council will apply to Homes England for £0.365m, 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.

Contingency has been provided at 10% within the estimated costs. However, it was noted that site investigations have yet to be undertaken and therefore costs for abnormal ground conditions have not been included within the total project costs. In addition to this, costs for asbestos removal cannot be confirmed until a full demolition survey is undertaken and therefore, it is not possible to confirm whether adequate contingency has been included within the total project costs.

Prudential borrowing will be funded by the Housing Revenue Account.

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This will incur additional costs of £0.971m over a 40-year period, with an assumed interest rate of 2.64%. The land cost of £0.085m will be funded via the Housing Revenue Account's Capital Financing Requirement, at a cost of £0.002m per annum.

The proposed project is expected to generate a net rental income of £2.826m over a 40-year period.

The projected cash flow of the project shows an annual in year deficit for the first 22 years. It is understood that the total deficit over this period of £0.459m will be managed through existing resources within the Housing Revenue Account.

Rental income has been calculated assuming a void period of 1.4% per annum (based on the Council's latest performance indicators), along with a rent collection rate of 98%.

The Appraisal Panel were informed that there will be no requirement for the rental income to contribute towards management/maintenance of the HRA stock, as there will not be any overall increase in the number of Council owned houses, due to properties lost through the Right to Buy programme.

Accord Housing Association will manage and monitor grant funding from Homes England at a cost of £417 per unit. The cost to the Council of £4,170 will be funded through the Housing Revenue Account.

VAT Implications

There are no tax/VAT implications with this project as council housing contained within the Housing Revenue Account is treated as a statutory function of the Council and VAT incurred recoverable under Section 33 of the VAT Act 1994.

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Management Case

The overall construction programme will be managed and monitored by the Housing Partnerships Team within Neighbourhood Services and overseen by the Regeneration & Planning Strategic Management Team. A governance structure detailing the roles of individual officers has not been provided.

Homes England's terms and conditions of grant funding are extremely stringent and the Council has previously experienced problems with previous housing schemes, resulting in the repayment of grant. In February 2018, Cabinet approved Accord Housing Association Ltd to undertake the management and monitoring of grant funding from Homes England on behalf of the Council. However, detailed information has not been provided on how this will be managed or how the contract with Accord will be monitored by the Council.

Outputs and outcomes were provided for the scheme but limited information was provided on the methods or systems to measure the outcomes.

A basic works programme for the construction element of the project was provided by Urban Design & Building Services. However, this lacked sufficient detail of the demolition phase.

The monitoring of Council funds for the programme will be supported by the Neighbourhoods Finance Team.

The Partnerships Programmes Manager will be responsible for post project evaluation. Urban Design will undertake Design Quality Audits examining quality, delivery timescales & financial management. No information was provided on how other outcomes of the project will be evaluated or the date for delivery.

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Action Points

The following action points have been identified which should be managed in order to reduce the risk to the Council:

- Ensure that the long-term requirements of the Council for the site, including the need for school places within the area, are fully evaluated prior to reallocating the site for housing development.
- Determine the ownership of the site to enable the appropriation/purchase of the land and identify any legal restrictions that may impact on site redevelopment.
- Produce a detailed project plan to assist in ensuring that the project can be delivered in a timely manner, in accordance with Homes England's timescales and to minimise the risk of repayment of grant funding.
- Produce a detailed governance structure for the project and determine roles and responsibilities for monitoring the contract with Accord Housing Association.
- Determine how proposed outcomes will be measured and reported.
- Ensure that the use of Right to Buy receipts are kept under review to ensure that the use of funding sources available to the Council are maximised.

Conclusion

The full implementation of the above action points should mitigate the risk to the Council's resources. However, from the limited information provided it cannot be confirmed that the current proposal offers the best use of Council resources.

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Financial Planning Team
14th February 2019