

Appendix 2

Financial Appraisal Report

HRA Capital Project – Construction of 27 new affordable homes at Reservoir Road, Rowley Regis and submission of external funding application to Homes England

Date Issued: 29th March 2019

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Report to Cabinet

1 Executive Summary

Introduction

Regeneration & Economy are seeking approval for a capital project to provide 27 new homes for affordable rent on land at Reservoir Road, 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.

The proposed development site is in council ownership and previously provided housing in the form of 2 tower blocks. The site was cleared as part of a previous demolition programme in 1995, following a decrease in lettings and lack of demand for such property types.

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 Rowley Regis.

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 73%, with some areas of risk identified.

Project Objectives

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- 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 residential site will provide the following:

- 2-bedroom semi-detached houses x 19
- 4-bedroom semi-detached houses x 5
- 4-bedroom detached houses x 3

The Shared Ownership & Affordable Homes Programme 2016 to 2021 provides grant funding for the provision of new affordable homes. The project will need to be complete by March 2021 in order to secure grant funding. Details of each scheme will be submitted to Homes England for approval prior to commencement.

The planning application for the proposal will be submitted in April 2019, with project completion expected by July 2020.

Total project costs have been estimated by Urban Design & Building Services. Sandwell Metropolitan Borough Council will apply to Homes England for £0.986m, with the remaining funding to be provided by the Council's Housing Revenue Account. If the external funding bid is unsuccessful, project costs will be fully funded from existing resources within the Council's Housing Revenue Account.

Prudential borrowing will be funded by the Housing Revenue Account. This will incur additional costs of £2.560m over a 40-year period, with an assumed interest rate of 2.61%.

The proposed project is expected to generate a net rental income of £7.473m 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 £11,259 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:

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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 73% and provides **satisfactory assurance** over the adequacy of the proposals.

Financial appraisals will identify the following levels of issues:

Fundamental

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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 3 'merits attention' issues

2 Issues Arising

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

No	
2.1	<p><u>Economic Case – Option Analysis & Value for Money</u> There is currently no strategic plan to prioritise potential council owned sites for housing development on a value for money basis.</p> <p>Implication: That the proposed option may not offer the most cost-effective use of the Council's resources.</p> <p>Recommended Action: That a strategic plan is produced, prioritising sites on a value for money basis; assessed against pre-determined criteria and alternative options for achieving the Council's housing objectives within each area.</p>
2.2	<p><u>Economic Case – Value for money</u>– Although funding from Homes England would 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</p>

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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:

Prior to submission of the external funding bid, review the planned use of Right to Buy receipts 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

2.3 Economic Case – Risks - A corporate Risk Register has been provided, identifying a large number of amber risks. However, risks in relation to grant funding had not been adequately identified.

Implication:

Risks to the receipt of grant funding 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 are identified and adequately mitigated.

2.4 Management Case – Project Management

Accord Housing Association Ltd will 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.

Implication:

The contract with Accord Housing Association may not be effectively managed and monitored, resulting in financial implications to the Council should grant funding conditions not be met.

Recommended Action:

Determine roles and responsibilities for monitoring the contract with Accord Housing Association.

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2.5 Management Case – Project Evaluation

Project evaluation will be undertaken on completion of the scheme by the Partnerships Programme Manager, but 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 method for the evaluation of project outcomes is determined and a date for the completion of the project evaluation is confirmed.

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