



West Midlands
Combined Authority

The Risk & Investment Appraisal has been completed to support better and more informed spending and investment decisions at the WMCA

Risk and Investment Appraisal

The purpose of this report is to:

- Provide a high-level summary of the risks (project and strategic), commercial viability and Value for Money (VfM) of the investment and the opportunities it brings forward,
- Determine if and how the proposal is aligned to WMCA Aims and Objectives and other regional Policy,
- and act as an informative tool for decision-makers that accompanies the business case through to an approval decision.

**Housing, Property & Regeneration (HPR)
Investment**

Housing PBC

August 2023

Appraisal by Cara McCarthy

1 EXECUTIVE SUMMARY

This PBC has been submitted by Rob Lamond, Head of Strategy & Analysis from Housing Property & Regeneration.

Exec Board are required to make a decision on the programme of works within the business case, which aims to unlock and pump prime brownfield land, so it is more financially viable to private companies in the commercial sector to deliver high quality development schemes that meet the needs of the local community.

Under this PBC, the following Project Cases have already been funded:

- 1) Wallows Road - £5,400,000 total requested through cocktail funding of which £695,000.00 of this amount is gap funded by WMCA through this housing PBC (Housing, Property & Regeneration (HPR) Investment).**
- 2) Former Stirchley Leisure Centre - £18,078,344 total requested through cocktail funding of which £412,353.00 of this amount is gap funded by WMCA through this housing PBC (Housing, Property & Regeneration (HPR) Investment).**

West Midlands Combined Authority (WMCA) has a series of investment funds available for projects that increase the supply of readily developable land to deliver high quality development schemes with new homes, commercial, retail and other employment space that would not otherwise come forwards without public sector intervention.

This Programme Business Case (PBC) has been developed, describing how these funds will be used to contribute to Housing, Property and Regeneration Directorate objectives.

The HPR Investment Programme is funded through devolved Housing and Land funds secured by WMCA from central Government. At present, these funds total £253,330,167 across 3 funding pots, of which £84,136,621 has been committed.

The funds are outlined in the table below:

| Funding Stream | Amount |
|---------------------------|------------------------|
| Land Fund | £100,000,000.00 |
| Brownfield Housing Fund | £129,144,120.00 |
| National Competitive Fund | £24,186,047.00 |
| Combined Total: | £253,330,167.00 |

This Grant funding is offered to tackle site remediation challenges, infrastructure deficits, repurposing of derelict / underutilised properties, WMCA land acquisitions and other enabling requirements and is to address genuine scheme viability issues (excluding those which are a result of unrealistic land value expectations).

New applications for Housing, Property & Regeneration (HPR) Investment are channelled through WMCA's Single Commissioning Framework (SCF). Central to this process is an assessment of the project's additionality, in terms of its contribution towards HPR and WMCA's strategic objectives and policies. These include:

- Increased affordable housing delivery.
- Higher quality placemaking.
- Construction innovation.
- Social value.
- Inclusive growth and net-zero carbon.

The WMCA investment funds are a key part of the region's strategy to increase the supply of housing and employment space, and to deliver high quality development schemes that meet the needs of the local community.

1.1 Appraisal Recommendation

The PBC was rated Green / Amber in the BCAT, scoring 64%.

Following the BCAT (and appraisal), further detail has been added to the business case which provides more confidence that this programme can deliver its objectives successfully. The economic case would still benefit from further development, but it is noted that the Project Cases aligned to this PBC will be able to provide further evidence of VfM for each investment, as and when they are submitted into the SAF.

The financial asks within the project cases which are already in delivery (Wallows Road and Stirchley Leisure Centre) may be perceived as vague, and consequently, misleading. It is important that more clarity is provided around the financial summary and funding streams for any future project cases coming forward.

The appraisal activity concludes that the PBC should be approved by Exec Board as the programme is an integral part of WMCA's strategy to address the housing crisis (this is reinforced by WMCA's strategic risk register which highlights our duty to the citizens of the West Midlands to deliver HPR activity). However, it is noted that this business case entered the SAF after some of its projects were already in flight, so it is recommended as a condition of approval that the Housing Team works with Programme Assurance to undergo regular health checks on the projects and engage with PAA to develop future applications for external funding.

Please see key risks in section 1.2 of this report, and approval caveats as follows:

1. Project team should attend SAF training courses, available via Learning Pool. Please note there are several SAF related courses, of which one module is mandatory for all staff and one module is mandatory for all Project Managers. This will provide a deeper understanding of the assurance, appraisal, and approvals process.
2. Ensure the future Project Case's aligned with this PBC are submitted into SAF and that they include transparent financial summaries.
3. Engage with Programme Assurance to arrange programme health checks on projects in flight.
4. Engage with Programme Assurance for support with future applications for external funding.
5. Ensure affordable housing quotas are continued to be fulfilled in future Project Case submissions.

1.2 Key Risks

It is recommended that the business case author:

- a) responds to the following lines of enquiry in the table below and
- b) updates the business case (where relevant) to strengthen the PBC submission.

Any instances where the business case has been updated should be indicated in the project response column.

Updates to the business case should use tracked changes or discernible font.

| Risk | Project Response |
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| <p>Delivery Risk: Is any recruitment required to support this PBC? If so, how much progress has been made with this activity?</p> | <p>The programme can be resourced through the existing HPR structure and arrangements detailed in the Programme Business Case.</p> <p>Significant responsibility for the day to day management of project cases and funding programmes sits in the Development and Delivery team, under the Head of Service post which was vacant at the time of writing the appraised iteration of the PBC. A Head of Development and Delivery has now been appointed to oversee management of the programme.</p> |

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Single Assurance Framework

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| | Sections 2F and 2I have been updated. |
| <p>Delivery Risk: It will be difficult to assess the impact / M&E of the PBC when the project cases haven't been contained in the detail.</p> | <p>HPR's grants are awarded through a Continuous Market Engagement approach. Where indicative pipelines have been identified to support WMCA's bid for funding, the schemes included are not sufficiently developed to produce a project case, nor will the grant required/attribution outputs be verified at this stage.</p> <p>Programme impact is closely monitored, evaluated and reported accordingly and on an ongoing basis. Reporting dashboards are produced and reviewed for each Investment Board and Housing & Land Delivery Boards, alongside quarterly and annual reports to HMG as a condition of WMCA's funding agreement. These provide data aligned to the outcomes and benefits in the PBC and performance to date. A further dashboard has been produced for the Section 151 officer/Executive Board, with support from HPR's Finance Business Partner and WMCA's Performance Manager with a specific focus on in flight delivery and risk.</p> |
| <p>Financial Risk: Is the funding for capital or revenue expenditure? Has any expenditure incurred to date?</p> | <p>Funding is for capital expenditure, with a small revenue allocation awarded alongside the BHF.</p> <p>Section 5A updated to include existing approvals and expenditure to date.</p> |
| <p>Financial Risk: Has the cashflow accounted for inflation? How was inflation calculated? Commentary of how inflation is incorporated into nominal costs should be provided.</p> | <p>The funding profile (tranche payment profile) is "final", subject to WMCA demonstrating sufficient delivery progress in its quarterly and annual reports to DLUHC.</p> <p>Due diligence is undertaken on every project by HP&R and independent advisors. This includes assessing whether the costs within the development appraisal, including any allowance for inflation, are reasonable and justified.</p> <p>Grant investment is provided as a fixed envelope with an upper limit, with any additional costs to be borne by the applicant.</p> <p>Section 5C updated.</p> |
| <p>Reputational Risk: The PBC appears to be aligned with our Inclusive Growth objectives. Has anybody engaged with the Inclusive Growth team to discuss alignment with our Inclusive Growth strategies and make use of the tool kits available?</p> | <p>Annex 1 – SCF Measures and Performance Monitoring Matrix includes a list of metrics HPR use to assess individual scheme performance and demonstrate outcome delivery across the programme, with links to existing WMCA strategies. At the time of production, the Inclusive Growth team, via the Applied Inclusive Growth group, were engaged on these measures.</p> <p>All applications for HPR grants are referred to the Inclusive Growth Decision Making Tool. On a project-by-project basis, officers engage the Inclusive Growth team where schemes are recognised to have potential to deliver significant inclusive growth benefits following triage/EoI development, to identify and maximise inclusive growth outcomes.</p> |

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Single Assurance Framework

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| | Section 2C updated. |
| <p>Delivery Risk: The PBC submission did not contain an appendix for the risk register, so it is unclear how the project are recording and managing their risks. The risk register should evidence the status of each risk and be updated, maintained, and reviewed on a regular basis.</p> <p>It is noted that 7 risks have been copied into the context appendix and the HPR intend to engage Peter Astrella on production of full risk register for directorate and its programmes. When is this targeted to happen? The programme already has projects in flight so the risk register should be a live document at this point.</p> | <p>A risk register is in place for the funding programme and reviewed at fortnightly site pipeline meetings. Individual project risk registers are maintained by Development Managers, and risks flagged to the Exec Director and Heads of Service through weekly programme updates.</p> <p>Work is progressing to develop an operational/Directorate risk register, which will identify directorate wide risks and mitigations, to be incorporated into the PBC risk register as appropriate. This will also provide a route for escalation of risks in this programme.</p> <p>Section 2J updated/Risk Register appended.</p> |
| <p>Financial Risk: Is land sold to investors / developers for profit? If so, where does this profit go?</p> | <p>In line with the Fund agreements in place with HMG, in the instance that a receipt was recovered for the disposal of land acquired, this funding would be recycled to facilitate the delivery of additional housing under the same governance and assurance arrangements.</p> <p>Section 4B updated.</p> |
| <p>Economic Risk: As the Project Case's are submitted, care must be taken to adjust for the additionality of the intervention and to avoid double counting of other impacts – particularly amenity and transport impacts (if the scheme includes new transport provision).</p> | <p>Outputs typically attributable to HPR grant include housing units enabled, brownfield remediated, commercial floor space and jobs.</p> <p>Avoidance of double counting is of paramount importance and potential for double counting is considered at every stage of the application process. Applicants provide a full breakdown of equity and loan contributions alongside any outputs claimed by other funders. Grant sources are also identified within the Financial Appraisal, and Development Managers will seek evidence of the funder's confirmation of claimed outputs and approval of the approach to output sharing.</p> <p>Section 5C updated.</p> |
| <p>Delivery / Reputational Risk: Consider congestion costs to existing individuals within identified areas. Will traffic congestion be picked up in the planning permission for individual sites? Will it be addressed to local authorities at that point?</p> | <p>The approach to transport and travel management is determined and approved through the planning process. WMCA does not have formal planning powers and these rest with Local Planning Authorities (LPA).</p> <p>The applicant is responsible for securing planning permission and adhering to planning processes and requirements. There is a risk of delayed or non-delivery of outputs/outcomes if planning is not secured. This risk is managed or avoided by requiring strong planning certainty prior to governance approvals, with evidence of the planning approval or a statement of support for the scheme from the LPA. Local Planning Authorities (LPAs) are engaged on all projects in their area to ensure alignment across their and WMCA's approach.</p> <p>HPR manages its exposure to reputational risks associated with poor quality development by requiring developers to demonstrate deliver against its policies related to good place-making. Proximity to public transport nodes, or location in</p> |

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| | <p>public transport corridors, towns and city centres is identified as an essential criteria in the Single Commissioning Framework, and sustainable travel and connectivity are considered within the holistic appraisal of each scheme's outcomes and benefits, and assessed against relevant WMCA policies, including the Regional Design Charter.</p> |
| <p>Delivery / Operational Risk: Are the housing team engaged with TfWM for additional transport provisions / ancillary measures / adjustments to existing routes and network? Will this be addressed during planning permission for individual sites? Will this be raised as part of the new Network Management Forum?</p> | <p>See previous response.</p> |
| <p>Delivery Risk: Is the programme utilising any Lesson's Learnt from similar projects or programmes?</p> | <p>The Single Commissioning Framework process was co-developed with Local Authorities, LEPs and West Midlands Development Capital and informed by best practice for similar regional and national programmes. The process is monitored, evaluated and amended as appropriate on an ongoing basis, including through internal audit.</p> |
| <p>Delivery / Reputational Risk: How does the programme mitigate the environmental costs of the development to society? E.g. tree removal, noise pollution?</p> | <p>The Zero Carbon Homes Charter, Regional Design Charter and Advanced Manufacture in Construction routemap set out WMCA's expectations and aspirations of developers in terms of limiting environmental impacts on development, and applications for funding are required to demonstrate and evidence their performance against these.</p> |
| <p>Delivery / Reputational Risk: Regeneration can cause house prices to increase, however on the flipside this can cause displacement of people from their local area when they can no longer afford to live there. Does the programme have a duty of care to ensure people are not being displaced from their area? How will this impact be measured?</p> | <p>The programme seeks to improve access to homes for all residents by investing to unlock additional housing supply on schemes which could not come forward without public sector intervention. In doing so, HPR will work with applicants and local authorities bring forward a mix of housing types and tenures which responds to local housing need and placemaking aspirations.</p> <p>The primary mechanism through which WMCA can ensure access to local, affordable housing is in its funding agreements. Residential schemes must include a minimum of 20% affordable housing (or the local defined requirement, if higher), defined as either:</p> <ul style="list-style-type: none"> • 'WMCA locally affordable homes' - homes meeting a specific need in the relevant local area (e.g., keyworker homes) and with the assessment of affordability based upon 35% of lower quartile household income levels in the local areas. • "Affordable Housing" as per the glossary of terms set out in Annex 2 of the National Planning Policy Framework. <p>Any combination of NPPF defined and WMCA locally affordable defined affordable housing is acceptable, but in all cases the minimum 20% requirement must be delivered as an integral part of the scheme i.e. on site.</p> <p>Measurement of this impact is addressed in the PBC.</p> |
| <p>Delivery / Reputational Risk: DLUHC has a mission to provide a path to home ownership for first-time buyers and improve the standard of housing in the UK (Source: <i>Levelling Up White Paper</i>). What mitigations are in place to prevent / monitor investors from purchasing new homes for rental purposes</p> | <p>Local Planning Authorities are responsible for setting policies for the mix and tenure of developments within their Local Plans and through planning obligations. WMCA may work with the LPA and applicants to address market failures preventing specific housing products or tenure mixes coming forward in identified areas of need.</p> |

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| <p>(essentially reducing the number / type of homes available to first time buyers)?</p> | <p>Where WMCA requires delivery of specific housing products or additional delivery beyond that secured through planning, provisions will be made in the legal agreement and secured against a legal charge where appropriate.</p> <p>During the delivery phase, assurance that the project is being delivered in accordance with the terms of the legal agreement is provided through Project Monitoring Surveyor reports.</p> |
| <p>Economic Risk: The PBC claims to align to our Net Zero targets but does not evidence how and why. What specific activities will contribute to reducing our carbon emissions through the delivery of this PBC?</p> | <p>Both operational and embodied carbon reduction targets as well as thermal performance targets have been established in the Zero Carbon Homes Routemap and schemes brought forward for HPR grant are expected to demonstrate performance against these – referenced in Section 2b and language strengthened.</p> <p>Other potential carbon reduction benefits to be delivered through application of policies referenced in 2b:</p> <ul style="list-style-type: none"> - Application of the principles in the Regional Design Charter, focused on connectivity and sustainability, which could enable residents to adopt less carbon-intensive behaviours. - Adoption of Advanced Manufacture in Construction, which reduces emissions associated with material production by limiting construction waste and the emissions associated with vehicular movements by reducing the number of these required to site. |

1.3 Key Opportunities

- Supports our aim to 'Connect our communities by delivering transport and unlocking housing and regeneration schemes', specifically, unlocking additional housing and affordable housing supply through brownfield land remediation.
- Contributes to resolving the housing shortage in the West Midlands.
- New houses can support regeneration by increasing a local area's desirability. (*Source: DLUHC Appraisal Guide*).
- If the West Midlands is a nicer place to live and visit, it could attract further investment to our region in the long-term.

1.4 Inclusive Growth

This PBC will contribute towards Inclusive Growth within the West Midlands by increasing affordable housing delivery. The PBC is committed to supporting our Inclusive Growth objectives.

1.5 #WM2041 Net Zero

WMCA declared a climate emergency in 2019 and identified a target date of 2041 by which the region should reduce their emissions to Net Zero.

Although references to Net Zero were made, unfortunately there were no significant benefits in the PBC that would contribute to #WM2041. The project team could consider agreeing investment with private companies that have a focus on green ethics and energy, e.g. developers that will incorporate cycle storage that encourages greener travel or; implementing living green roofs that absorb carbon emissions or; incorporating solar panels to reduce running costs and energy bills etc.

2 HIGH RATED ASSURANCE OBSERVATIONS

Assurance rated the overall maturity of this business case as 64% which is defined as Green / Amber 60 – 79%: Successful delivery appears probable. However, constant attention will be needed to ensure risks do not materialise into major issues threatening delivery.

Set out below is the project response to the 'high-rated priorities' set out in the Assurance Observations Report.

| Recommendation | SRO Comment |
|--|---|
| Update objectives to include key performance indicators, showing timescales and baseline measurements versus programme outputs. | Agreed: Objectives to be amended to reflect SMART criteria. |
| Produce a Benefits Realisation Plan and include the type and ranking of each benefit. | Agreed. |
| Ensure all potential options/interventions are detailed, analysed and appraised, to present the programme's overall preferred way forward, linked to CSFs. The business case should demonstrate how funds will be used to ensure the best value for money option is taken forward. | Disagreed: Process has already been agreed with government and is a condition of funding agreement. New schemes are identified through continuous market engagement i.e. there is not a long list or ranking system. Projects are brought forward providing they meet all of the minimum criteria – with VFM and outcomes assessed on a project-by-project basis through robust and consistent due diligence process. |
| Liaise with Legal/Procurement business partners/subject matter experts (SMEs) to ensure detail regarding how Subsidy Control requirements will be managed is included in the PBC and appendices. | Agreed: Mark Nicholson (Property Solicitor) to be engaged who has provided revised wording on subsidy control. |
| Liaise with the Performance team (within the Business Improvement Team of the Finance & Business Hub) and SMEs, to develop and implement a detailed Monitoring and Evaluation Plan. | Evaluation ongoing in line with HMG reporting, and to follow completion of programme |

3 SUBJECT MATTER EXPERT (SME) INVOLVEMENT AND NEXT STEPS

The SME's who were consulted on this business case include:

- Rob Lamond, SRO / Head of Strategy & Analysis
- Rachel-Ann Atterbury, Project Manager / Senior Strategy Officer
- Mark Nicholson, Legal Business Partner for Property & Regeneration
- Jo Snell, Finance Business Partner

Detailed below is the approval route to obtain a decision for this business case:

| Approval / Endorsement Body | Comments / Conditions | Date |
|-----------------------------|---------------------------------|------------|
| Exec Board | Tbc by appraisal after decision | 30/08/2023 |