

Report to:	CABINET
Report of:	Strategic Director of Economy
Date of Decision:	18th October 2016
SUBJECT:	FACILITATING THE PRIVATE RENTED SECTOR HOUSING PROGRAMME
Key Decision: Yes	Relevant Forward Plan Ref: 002313/2016
If not in the Forward Plan: (please "tick" box)	Chief Executive Approved <input type="checkbox"/> O&S Chairman Approved <input type="checkbox"/>
Type of decision:	Executive
Relevant Cabinet Member:	Councillor John Clancy, the Leader Councillor Peter Griffiths, Cabinet Member for Housing and Homes
Relevant O&S Chairman:	Councillor Victoria Quinn – Housing, Homes and the Environment
Wards affected:	All

1. Purpose of report:

To seek approval to the proposal to facilitate the development of a programme of market rent housing developments through the Council's wholly owned company, INReach. This is to include the provision of loan finance on commercial terms, and disposal of land to INReach, thus safeguarding and maximising the use of the Council's assets.

2. Decision(s) recommended:**Cabinet is recommended to:**

- 2.1 Approve the development of a programme of market rent homes through the Council's wholly owned company INReach Birmingham Limited (INReach), as set out in the Programme Option Appraisal document at Appendix 3;
- 2.2 Delegate the approval of individual site Full Business Cases for the programme to the Cabinet Member Housing and Homes in conjunction with the Strategic Director of Economy and the Strategic Director of Finance and Legal, subject to compliance with parameters as set out in section 5.6 of this report.
- 2.3 Delegate the approval to acquire privately owned sites for onward sale to INReach, subject to approval of a Full Business Case as set out in recommendation 2.2 to the Director of Property.
- 2.4 Delegate the approval of the disposal of Council owned land, as set out on the attached schedule at Appendix1, and any further sites identified by the Council, subject to best consideration being achieved, to INReach (Birmingham) Limited, and subject to approval of Full Business Cases as set out in recommendation 2.2, to the Director of Property.

Lead Contact Officer(s):

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<p>Recommendations Continued:</p> <p>2.5 Delegate to the Strategic Director of Finance and Legal the authority to approve loans up to an aggregate limit of £100m ,to be funded from prudential borrowing, on commercial terms, to INReach, subject to a full business case for each development being approved in accordance with recommendation 2.2.</p> <p>2.6 Approve the commissioning of independent joint valuations by the Council and INReach to support land disposal recommendations through existing Council framework agreements.</p> <p>2.7 Authorise the City Solicitor to negotiate, execute and complete all necessary documentation to give effect to the above recommendations including the execution and completion of the appropriate way-leaves and easements and highway agreements required for this development of the land identified within the planned development at Appendix 1.</p> <p>2.8 Note that this programme will be the subject of annual review and reported to Cabinet on this basis each summer from 2018.</p>	

3. Consultation
<p>3.1 <u>Internal</u></p> <p>3.1.2 The Strategic Director for Major Projects, and the Acting Strategic Director for Place, have been consulted regarding the contents of this report, and support the recommendations coming forward for an executive decision.</p> <p>3.1.3 Officers in Legal Services, City Finance, Birmingham Property Services and Housing Development and Place Directorate have been involved in the preparation of this report.</p> <p>3.1.4 Local ward members and district chairs of the sites identified at Appendix 1 have been consulted on this report. There have been no objections to the report being taken forward, and those that have responded are supportive.</p> <p>3.2 <u>External</u></p> <p>3.2.1 None required in relation to this report. However residents in all areas will be consulted as part of the statutory planning application process and their comments taken into account in the determination of future planning applications.</p>

4. Compliance Issues:
<p>4.1 The development of new homes for a growing city is a key objective of the Council Business Plan 2016+.</p> <p><u>Fairness</u> to tackle inequality and deprivation, promote social cohesion across all communities in Birmingham, and ensure dignity, in particular for our elderly and safeguarding for children – by providing new homes, apprenticeships and bursary</p>

programme placements.

Prosperity - to lay the foundations for a prosperous City, built on an inclusive economy – by stimulating the construction industry through the Council's housing building programme.

Democracy - to involve local people and communities in the future of their local area and their Public Services – by consulting communities about proposals for new development and ensure that new homes meet local needs and localised targeting of training, education and employment initiatives to complement the house-building programme.

This proposal responds to the Birmingham Connected five core objectives;

Efficient Birmingham - Birmingham Connected will facilitate the city's growth agenda in the most efficient and sustainable way possible, strengthening its economy and boosting jobs. The development of the market rent programme will provide a continuing revenue stream to the Council; ensure the development of unused land and support the construction industry.

Equitable Birmingham - Birmingham Connected will facilitate a more equitable transport system; linking communities together and improving access to jobs and services, by creating jobs and apprenticeships in the construction industry.

Sustainable Birmingham - Birmingham Connected will specifically reduce the impacts of air and noise pollution, greenhouse gas emissions and energy consumption. New homes are built with a focus on sustainability.

Healthy Birmingham - Birmingham Connected will contribute to a general raising of health standards across the city through the promotion of walking and cycling and the reduction of air pollution, through use of energy efficient homes which reduction our carbon footprint.

Attractive Birmingham - Birmingham Connected will contribute to enhancing the attractiveness and quality of the urban environment in local centres, key transport corridors and the city centre. New homes developed through the programme will ensure the best use of land and meet high quality standards.

4.1.1 **Birmingham Business Charter for Social Responsibility (BBCSR)**

Whilst there is no direct implication for the BBCSR in respect of the land disposals. INReach will be required to ensure compliance with the BBCSR and compliance will be required in respect of subsequent conditions of the construction contracts for the new homes developed on these sites. Tenderers for the building contracts will submit an action plan with their tender that will be evaluated as part of the tender process and the action plan of the successful tenderer will be implemented and monitored during the contract period. Successful tenderers will be required to provide at least training / apprenticeship per £1m of housing build value.

4.2 Financial Implications

- 4.2.1. The disposal of land to INReach will be subject to the demonstration of best consideration being achieved for the Council, taking into account the income to be derived by the Council in the form of capital receipts and revenue income, both at the point of land disposal and subsequently.
- 4.2.2 The proceeds from the land disposals will generate capital receipts to both the housing revenue account and general fund as determined by the existing holdings. Future surpluses arising from both the provision of loan funding to, and the Council's shareholding in INReach will provide an ongoing income stream to the general fund and be made available for reinvestment in other Council priorities.
- 4.2.3 The financial terms of loans to INReach will be on a commercial basis, at a specified margin in excess of the cost of funding incurred by the Council to reflect the risks associated with each individual scheme.
- 4.2.4 For the sites identified it is projected that an overall revenue surplus will be generated over the first 30 years of operation of the 4 schemes totalling in excess of £36m, including interest on loans of £39.32m to INReach and operating surpluses generated by INReach. Further details are set out in Appendix 3.

4.3 Legal Implications

- 4.3.1 The Councils power to dispose of land is contained with Sections 32-34 Housing Act 1985 and power to dispose of land held in the General Fund and public open space is contained in Section 123 Local Government Act 1972.
- 4.3.2 Using its investment powers at section 12 Local Government Act 2003, loan funding may be provided to INReach. This must be on commercial terms to ensure compliance with state aid rules. Trading between the Council and INReach is permissible, and in compliance with Section 95 of the Local Government Act 2003. Section 95 requires a company to be created in order to trade.
- 4.3.3 The Council has already entered into a service contract with INReach to provide project management, and legal services. The additional costs of facilitating the additional market rent projects will be charged to INReach and the contract will be varied by agreement with INReach reflect these increased costs. The details of each of the project costs will be recovered through each development, and included in its FBC.
- 4.3.4 In view of Birmingham City Council's as the sole shareholder of INReach (Birmingham) Limited, full transparency is required in respect of the determination of best consideration being achieved for the land disposals. To demonstrate probity, independent joint valuations are to be commissioned by the Council and INReach.
- 4.4.1 An Equality Audit reference EA 001410 has been completed and approved. The Equality Analysis has been undertaken and concludes that the programme will contribute to equality of opportunity for all groups by helping the city with its ongoing housing need. Within the scope of the project there is no potential to disproportionately disadvantage any protected group as all groups will benefit from an increased number of homes.

5. Relevant background/chronology of key events:

- 5.1 On the 8 December 2014 Cabinet approved the establishment of a wholly owned Company for the development of market rent homes in Birmingham, together with the development of an initial site at St Vincent's Street, Ladywood. Following the Cabinet approval, INReach (Birmingham) Limited was incorporated later in December 2014, and the site at St Vincent's Street acquired for development. Planning permission for this development, to be branded Embankment will provide 92 apartments close to the city centre, was secured in September 2015. The building contractor, appointed by INReach, is now on site, and Embankment is due for completion in February 2018.
- 5.2 The direct delivery of market rent homes through INReach enables the certainty of provision of new homes of the most appropriate tenure on sites owned by the City Council; an initial capital receipt at the market value for the land disposed of by the Council, a longer term return to the Council through lending at a commercial rate and dividends over the long term.
- 5.3 As the sole shareholder of INReach the Council retains control over the company, and approves its annual business plan, and the Director of INReach, a senior officer of the Council must be approved by Cabinet. The day to day management of the company and its development projects is undertaken by council officers under a formal service contract, which covers some but not all services required by the company.
- 5.4 To build on this initiative a review of council owned land has identified several sites where the provision of market rent homes would be the preferred tenure. Initial financial modelling using the INReach financial model to determine the viability of these sites, indicates that the development of these schemes would be financially sustainable and in addition to an initial capital receipt, generate a significant revenue income stream for the Council over the long term.
- 5.5 This report seeks approval to the proposal for additional sites (as detailed in Appendix 1) to be brought forward for development as Private Rented schemes and for loan finance on commercial terms for the development of these sites to be provided by the Council. The details and terms of the loan facility to be provided to INReach will be determined on a scheme by scheme approach, and subject to the approval of the Full Business Cases being separately approved by Strategic Director of Economy and the Strategic Director of Finance and Legal.
- 5.6 The Full Business Cases for the development of each site will consider the;
Financial viability – of the development over a minimum of 30 years using a cash flow model
Internal Rate of Return of each scheme to exceed interest rates charged by a minimum of 2%.
Strategic fit – ensuring that the development of new homes in the location fits with the Council's priorities;
Funding availability and terms, and impact on the shareholders dividend.
Land and property valuations

- 5.7 The development of the sites identified at Appendix 1 could provide up to 300 additional new market rent homes within the INReach portfolio.. The terms of the loan provided by the Council are to be approved on a scheme by scheme basis by the Strategic Director of Finance and Legal. The provision of loan finance will be subject to the demonstration of the financial viability of each scheme including consideration of payback periods, and loans being secured on the assets being developed. .
- 5.8 The Programme Options Appraisal document attached at Appendix 3 sets out how the delivery of the programme will be managed with key milestones set out initial cost estimates have been set out together with the identification of funding requirements and financial impact on the Council. The result of this work confirms that the Council will achieve net positive return and a surplus will be generated to the Council over the period of the programme. Wider economic benefits will also be achieved in the form of additional Council Tax and New Homes bonus.
- 5.9 The provision of market rent homes through INReach, will not replace the development of mixed tenure options on Council owned land provided as part of the Forward Homes or Birmingham Municipal Trust programmes, but will provide an additional housing offer and housing growth for the City. The Council needs to ensure the provision at least 89,000 new homes by 2031, and it is anticipated that some 62% of these will be in the private sector either for rent or sale.

6. Evaluation of alternative option(s):

- 6.1 As part of the development of this report, alternative options were considered for the land at Appendix 1 and these are set out in the PDD at Appendix 3.

7. Reasons for Decision(s):

- 7.1 The development of these sites by INReach will create additional housing growth within the City and provide valuable assets for the Council. The receipts arising from the development will support both the Housing Revenue Account Business plan, and the General fund; in addition surpluses will provide an income to the General Fund. This approach supports the direct delivery of market rent housing the Council is making the best use of its land, increasing provision in this tenure and capturing the value of the development.
- 7.2 As the sole shareholder of INReach, the Council can ensure that the development of these sites is brought forward, and accelerated as necessary; and retains the asset whilst deriving maximum income from the land.

Signatures (or relevant Cabinet Member approval to adopt the Decisions recommended):

Councillor John Clancy
The Leader

..... Dated:

Councillor Peter Griffiths
Cabinet Member for Housing and Homes:

..... Dated:.....

Waheed Nazir
Strategic Director of Economy:

..... Dated:.....

List of Background Documents used to compile this Report:

1. Cabinet Report 8th December 2014 (public and private) Driving Housing Growth: The Provision of new Private Rented Homes.
2. Relevant Officer's file(s) on the matter, save for confidential documents

List of Appendices accompanying this Report (if any):

1. Schedule of sites
2. Site Plans
3. Project Definition Document