

PROGRAMME OPTIONS APPRAISAL (POA)			
1. General Information			
Directorate	Economy	Portfolio/Committee	<i>Housing and Homes.</i>
Project Title	FACILITATING THE PRIVATE SECTOR HOUSING RENTED PROGRAMME	Project Code	
Project Description	<p>The provision of loan finance and development of a programme of disposals of land to INReach, for the development of market rent housing through the Council's wholly owned company. This proposal includes disposals of land to INReach for the development of housing for market rent, the provision of loan funding from the City Council to INReach and the further acquisition of suitable sites to facilitate the continued expansion of the programme.</p> <p>The INReach model represents one of a number of approaches to drive housing growth in Birmingham, and is complementary to other approaches, including the disposal of sites on the open market and development through BMHT. It includes a requirement for loan funding to INReach (wholly owned by the Council) from the Council at commercial rates, taking account of the risk management arrangements in place for this approach.</p>		
Links to Corporate and Service Outcomes	<p>The development of new homes for a growing city is one of the Council's top four priorities as set out in the Council Business Plan and Budget 2016+. Not only does the development of new homes help to achieve housing growth, but it also produces benefits to the city's economy through creating activity in the construction and supply chain sectors, and improves the quality of life offer in the city which is crucial to attract and retain economically active households. By utilising its land assets appropriately and developing new homes directly, the councils intervention will also act as a catalyst for private investment in housing development</p>		

<p>Project Benefits</p>	<p>By 2031 Birmingham’s population is projected to grow by 150,000. The Draft Birmingham Development Plan forecasts that from a baseline position in 2011 an estimated 89,000 new homes will be needed to accommodate this growth, and the Growth plan sets out how the Council will both directly contribute to the provision of new homes and facilitate development by other public sector partners and the private sector. The provision of market rent housing directly by the Councils’ wholly owned company, INReach is a further tool for the council to drive housing growth.</p> <p>As such, this proposed programme will be complementary to the existing BMHT development programme which is currently responsible for the development of 30% of new homes in the city. Development of market rent homes through INReach will enable the Council to make the best use of its land in locations where market rent housing would be most appropriate.</p> <p>Following disposal to INReach, the sites are to be developed and held by INreach. Whilst the revenue generated by the schemes will in the first instance return to INReach, a revenue stream is generated to the City Council through interest payments on loan finance provided to INReach (assumed at 5.5% compound per annum). Surpluses generated by the scheme will also be payable to the council as sole shareholder. As sole shareholder the council will also determine when the assets held by INreach may be sold. Any enhanced value for the assets will ultimately be returned to the Council as sole shareholder.</p> <p>Receipts or revenue share income generated from such schemes can be used to provide new mixed tenure housing, support the new Council homes building programme or invested in other Council priorities. The direct provision of new market rented homes will contribute to meeting continuing housing need, for those people who may not qualify for a an affordable home, or may not wish to buy.</p>
--------------------------------	--

APPENDIX 3

Project Deliverables	<ul style="list-style-type: none"> • The inclusion of the sites identified in this report will provide up to 300 new homes for market rent. • Disposal to INReach will generate a capital receipt for each site identified • Revenue stream to the City Council generated by management of the homes by INReach. • Revenue stream to the City Council generated from the interest rate margin on lending to INReach, reflecting the risk profile of individual projects.
Key Programme Milestones	Planned Delivery Dates
Scheme design	October 2016
Land valuations	November 2016
Pre planning application negotiations/section 106 assessment	November 2016
Scheme viability appraisal	December 2016
Approval of Full Business Cases for individual sites	January to March 2017
Determination of planning applications	May- July 2017
Funding approvals secured	July - September 17
Land disposals (*subject to planning)	February 2017
Initial scheme start on site	December 17
Completion and lettings (programme)	2018-2020
Dependencies on other projects or activities	<ul style="list-style-type: none"> • Preparation of individual Full Business Cases require detailed financial advice in respect of taxation and financial modelling to determine the optimum delivery programme. • Approval of Full Business Cases and loan financing by relevant Strategic Directors • Land Valuations, must demonstrate best consideration for BCC • Loan terms must be commercial. • Planning approvals • Resourcing within BCC – INReach service contract.
Achievability	<ul style="list-style-type: none"> • INReach was established in Dec 2014 and now trading. • Service contract in place between BCC and INReach to operate and manage both company and new development projects. • Service contract to be reviewed to determine any additional resources required to ensure the successful development of the market rent programme. • The council also has direct experience of the project management of housing development, through the BMHT and Forward Homes programme. The Housing and Regeneration team will manage the development process as part of its directly delivery programme of mixed tenure housing. • Funding for the project will be identified as part of the development of the scheme specific Full Business Cases and any finance arrangements will be on commercial terms.
Project Manager	Clive Skidmore / Head of Housing Regeneration and Development/ Tel 0121 303 1667/ clive.skidmore@birmingham.gov.uk
Project Accountant	Guy Olivant / Head of City Finance (Housing) / Tel 0121 303 5742 / guy.olivant@birmingham.gov.uk
Project Sponsor	Paul Dransfield/Strategic Director of Major Projects / 0121 464 7735/ paul.dransfield@birmingham.gov.uk
Proposed Project Board Members	<ul style="list-style-type: none"> • Paul Dransfield as above • Waheed Nazir / Strategic Director of Economy Tel 464 7735 • Clive Skidmore / Head of Housing Development/as above • Guy Olivant / Head of City Finance (Housing)/as above • Martin Easton/Head of Financial Strategy / Tel 0121 303 2384/ martin.k.easton@birmingham.gov.uk • Rob Barker Head of Service, Delivery and Procurement/ Legal

APPENDIX 3

Head of City Finance (HoCF)	Guy Olivant	Date of HoCF Approval	
<i>Other Mandatory Information</i>			
• Has project budget been set up on Voyager?			No
• Issues and Risks updated <i>(Please attach a copy to the PDD and on Voyager)</i>			Yes – risk log to be attached

2. Options Appraisal Records

The following sections are evidence of the different options that have been considered in respect of Council-owned land.

Option 1	Retention of land for Affordable Housing: This option would not see the council directly providing new homes for market rent, but rather utilising the sites identified for the provision of affordable housing via the BMHT programme.
Information Considered	<ul style="list-style-type: none"> • Housing need in identified locations • Understanding of the demand for market rent housing • Site conditions – physical and economic • Consideration of land values being achieved for disposal, and revenue generated.
Pros and Cons of Option	<p><u>Pros</u></p> <ul style="list-style-type: none"> • Contribute to the increase in affordable housing • Speed and certainty of delivery of new homes. <p><u>Cons</u></p> <ul style="list-style-type: none"> • Physical constraints of sites do not lend themselves to family accommodation. • Additional borrowing requirements may exceed available HRA headroom. There is continuing demand for homes for market rent and this. • There is a risk that the council will not realise the maximum value from its land.
People Consulted	Housing Regeneration and Development Housing Strategy and Commissioning. City Finance
Recommendation	This option should be discounted.
Principal Reason for Decision	This option does not proactively meet the increasing demand for market rent accommodation within Birmingham, and specifically in identified locations which are not appropriate for the family accommodation required as affordable homes. Whilst the retention of council owned land is appropriate in many locations, where the provision of market rent housing would be more appropriate such as the sites identified, a greater financial return may also be achieved.

<p>Option 2</p>	<p>Land Disposal: This option would involve the council disposing of land onto the market for development of market rent housing by other partners and providers or open market sale. This option would advocate the disposal of council land to facilitate the development of market rent housing.</p>
<p>Information Considered</p>	<ul style="list-style-type: none"> • Assessment of vacant land assets held by the council and their suitability for the development of affordable, market rent or open market sale housing. As part of this work a number of HRA sites have been identified as locations where the provision of market rent housing would be the best use of the land. • Understanding of the demand for market rent housing • The appetite for bringing forward new developments by the private sector, as evidenced by planning consents being implemented. • Consideration of land values being achieved for disposal • Consideration of best consideration being achieved by BCC.
<p>Pros and Cons of Option</p>	<ul style="list-style-type: none"> • <u>Pros</u> • The disposal of land could achieve a capital receipt to the council. • There would be no funding requirements for development by the local authority and avoids the council taking the risk of the project. • This is a tried and traditional route for the use of the councils land. • <u>Cons</u> • Disposal is reliant upon the appetite by developers and viability of individual projects. Where projects may be considered high risk particularly where rent levels may not be high this may be reflected in a reduced land offer. An upfront capital receipt may not capture a longer term value that might be achieved by the Council retaining a longer term stake in its land and or development as provided for by the direct delivery option or some form of joint venture. • Procurement specifically for a market rent development will require the use of an EU procurement compliant process which may take longer than a straightforward sale of land. This could be negated by developing a frame work for such disposals • Disposal is generally conditional, successful disposal is generally reliant upon the achievement of a planning permission, by the developer. • Uncertain contribution to affordable housing through planning obligations • Whilst a number of planning permissions have been granted across Birmingham. This is not matched by new starts and there is evidence to suggest that the private sector remains cautious and that these sites remain land banked • In order to reduce risk by speculative developers it is likely that there would be pressure to suppress land price offers. There is a risk that the council will not realise the maximum value from its land.

APPENDIX 3

People Consulted	Housing Regeneration and Development Housing Strategy and Commissioning City Finance
Recommendation	This option should be discounted for these specific sites.
Principal Reason for Decision	Whilst disposal may be appropriate for certain sites it is preferable to undertake development through the INReach model for these specific sites in order to establish the effectiveness of this approach.

<p>Option 3</p>	<p>Disposal of land to INReach for delivery of market rent programme.</p> <p>This option involves the development of a programme of market rent utilising the wholly owned company INReach, the disposal of land and provision of loan finance from the Council at commercial rates.</p>
<p>Information Considered</p>	<ul style="list-style-type: none"> • Assessment of vacant land assets held by the Council and their suitability for the development of affordable, market rent or open market sale housing. As part of this work Council owned land has been identified at locations where the provision of market rent housing would be the best use of the land. • Understanding of the demand for market rent housing • Consideration of potential land value that could be achieved for immediate disposal as against the value that could be achieved by the disposal to INReach and consequent revenue stream to the Council.
<p>Pros and Cons of Option</p>	<p><u>Pros</u></p> <ul style="list-style-type: none"> • The direct development of Private Rented Sector homes by the Council will generate additional housing numbers to contribute to the Council's housing growth targets; • Working through the wholly owned company, the development of the Private Rented Sector homes can be undertaken without diverting financial resources away from the existing programme of development of social rented homes through the BMHT. This proposal will therefore create an additional mechanism for the Council to directly provide new homes. • The Council has a well-developed expertise in the development of new homes which is equally applicable to the Private Rented Sector. • The disposal of land to INReach to achieve best consideration provides a capital receipt to the Council. • The loan facility on commercial terms generates an income stream to the Council • As the sole shareholder in INReach. BCC will realise 100% of any dividends that arise as a result of IN Reach's activities. <p><u>Cons</u></p> <ul style="list-style-type: none"> • A robust project management structure is required to ensure the continued viability of the individual projects, as part of the service contract between BCC and INReach. • As the sole shareholder in INReach level of financial risk increased • There is uncertain contribution to the level of affordable housing
<p>People Consulted</p>	<p>Housing Strategy and Commissioning. Housing Regeneration and Development Team City Finance Legal and Democratic Services</p>

APPENDIX 3

Recommendation	This option should be actioned and a Full Business Case developed to progress the extension of the market rent programme through INReach.
Principal Reason for Decision	<p>Although this option has less potential to share risk, it also enables the Council to meet its strategic objectives by taking the lead and benefiting from having greater control in respect of delivery, management and financial returns by this direct delivery approach.</p> <p>The proposed recommendation will both create additional housing growth within the city, and provide a valuable asset for the Council any surpluses from which can be used to meet Council priorities. By developing a proposal that supports direct delivery of market housing the Council is making the best use of its land, increasing provision in this tenure and capturing the full value of the development.</p>

3. Summary of Options Appraisal Evaluation matrix

Criteria	Options			Weighting 100%	Weighted score		
	1	2	3		1	2	3
Meets strategic objective housing growth	4	3	5	20	80	60	100
Legal compliance	5	5	5	20	100	100	100
Council control of development	5	1	3	10	50	10	30
Provides capital receipt	1	4	5	20	20	80	100
Revenue Income	3	1	5	15	45	15	75
Level of risk to the Council	3	5	1	15	45	75	15
Total	18	15	23	100%	340	340	420

Criteria are scored 1-5: 1 being least compatible and 5 being most.

<p>4. Option Recommended</p>	<p>It is recommended that option 3 to develop the market rent programme through the wholly owned company INReach is progressed, and those terms of the land disposals and finance terms are agreed to enable the full business case for each site to be submitted for approval in line with the recommendations sought in this report.</p> <p>The proposed recommendation will both create additional housing growth within the city, and provide a valuable asset for the Council any surpluses from which can be used to meet the cost of additional affordable rented housing. By developing a proposal that supports direct delivery of market housing the Council is making the best use of its land, increasing provision in this tenure and capturing the value of the development. This will be tested in the development of a full business case.</p>
-------------------------------------	--

5a. Budget information – Birmingham City Council					
	2016/17	2017/18	2018/19	2019/20 to 2047/48	Total
Capital Costs & Funding	£000	£000	£000	£000	£000
<u>Expenditure:</u>					
• Loan to INReach	2,850	19,134	11,139	6,197	39,320
Total Capital Expenditure	2,850	19,134	11,139	6,197	39,320
<u>Funding / Capital Receipts</u>					
Service Funded Prudential Borrowing	(2,850)	(19,134)	(11,139)	(6,197)	(39,320)
Land receipts	(2,850)				(2,850)
Total Capital Income	(5,700)	(19,134)	(11,139)	(6,197)	(42,170)
Net Capital Surplus	(2,850)	0	0	0	(2,850)
Revenue Consequences					
<u>Expenditure</u>					
Interest payable on Prudential Borrowing	46	404	895	24,459	25,804
<u>Income:</u>					
Interest Receivable from INReach	(78)	(683)	(1,515)	(43,018)	(45,294)
Dividends from INReach	-	-	-	(18,825)	(18,825)
Totals	(32)	(279)	(620)	(37,384)	(38,315)

APPENDIX 3

5b. Budget information – INReach Cashflows					
	2016/17	2017/18	2018/19	2019/20 to 2047/48	Total
Expenditure Summary	£000	£000	£000	£000	£000
Land Acquisition	2,850	-	-	-	2,850
Construction Costs	-	19,038	9,348	5,983	34,369
Operating Costs	-	-	104	23,355	23,459
Interest Payable	78	683	1,515	41,391	43,667
Interest Deferral Impacts	(78)	(683)	(567)	2,955	1,627
Loan Repayments	-	-	-	39,320	39,320
Total Expenditure	2,850	19,038	10,400	113,004	145,292
Income Summary					
Loan from BCC	(2,850)	(19,134)	(11,139)	(6,197)	(39,320)
Rental Income	-	-	(258)	(124,540)	(124,798)
Total Income	(2,850)	(19,134)	(11,397)	(130,737)	(164,118)
Net Balance – in year	-	(96)	(997)	(17,733)	
Net Balance b/f	-	-	(96)	(1,093)	
Surplus Redistribution to BCC	-	-	-	18,825	
Retained Balance c/f	-	(96)	(1,093)	(1)	

6. Project Development Requirements/Information	
Products required to produce Full Business Case	<p>The Full Business Case will include :</p> <ul style="list-style-type: none"> • Strategic objectives of the programme • Financial strategy: including funding arrangements, taxation implications, and exit strategy. • Detailed proposals for development of each site and development appraisal • Land value
Estimated time to complete project development	<p>It is anticipated that the Council owned sites identified within this report could be disposed of to INReach during 2016/17. The building programme to be undertaken / commissioned by INReach could be completed by 2020. The provision of loan finance to INReach would reflect the expenditure profile attached to these activities.</p>
Estimated cost to complete project development	<p>Project pre development costs would substantially be incurred by INReach and comprise:</p> <ul style="list-style-type: none"> • Design and Project management to provide detailed design and cost information for sites identified. • External finance and taxation advice • Design , cost planning and procurement costs <p>Maximum cost estimated at £400,000</p> <p>Estimated total project costs to completion £37.2m (subject to site valuation and procurement of construction contracts)</p>
Funding of development costs	<p>The project development costs will be met from financial resources already held by INReach.</p> <p>The total project costs will only be incurred subject to approval to a full business case for each of the sites identified. Loan finance is to be provided from the Council to INReach at commercial terms, funded from prudential borrowing by the Council.</p>

Planned FBC Date	March 2017	Planned Date for Technical Completion	2020
-------------------------	------------	--	------