

<b>To</b>	Resources O&S Committee
<b>Date</b>	15 October 2020
<b>Report from</b>	Aniekan Umoren – Interim Assistant Director Housing Development
<b>Subject</b>	InReach (Birmingham) Limited

## **Purpose of Report**

- 1.1 This report sets out the background to the creation of InReach (Birmingham) Limited, its current performance and success, future pipeline of PRS developments and reference to the withdrawal of interest in the Brasshouse site.

## **2 Background**

- 2.1 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.
- 2.2 InReach's primary objective was to be a strategic housing tool to drive housing growth within the private rented sector and provided an opportunity for the Council to lead by example and act as a developer of private rented sector homes, in locations where this form of tenure is most appropriate until the private sector's expressions of interest translated into investment in Birmingham.
- 2.3 The direct delivery of market rent homes through InReach also 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.
- 2.4 As the sole shareholder of InReach the Council retains control over the company, and the Directors of InReach, senior officers 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.
- 2.5 InReach completed its first scheme Embankment, a 92-apartment building all for private rent, in July 2018. Embankment is performing well; it is meeting its loan repayment obligations to the Council with the current occupancy level at 100% having recovered successfully following the pause on lettings during

lockdown.

### **3 Future Pipeline Developments**

3.1 On 18 October 2016 a further Cabinet approval was given to build on this initiative for additional sites 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.

#### **3.2 Brasshouse**

3.2.1 The Brasshouse site is the former Brasshouse Language Centre situated on Sheepcote Street, just off Board Street.

3.2.2 InReach withdrew its interest in pursuing the site for PRS development in May 2020 having carefully considered its position in relation to the Brasshouse site and concluded that it no longer represented a viable option for the company to take forward.

3.2.3 The main drivers for that decision being;

- A substantial increase in supply in the surrounding area meaning that the greater competition increases risks around rent levels and tenant pipeline
- Increased risk profile as the new development is likely to be a “tall building” with the attendant construction and management challenges
- Uncertainty as a result of COVID increasing the risk profile in terms of potential impact on InReach. The Brasshouse development would be around three times the current size of InReach, and a relatively small element of under-performance of this scheme could therefore substantially threaten the company’s overall financial viability and ability to continue trading.

#### **3.3 Key Hill**

3.3.1 Key Hill is a site in the Jewellery Quarter, which is likely to deliver circa 45 apartments for private rent.

3.3.2 InReach continues to pursue its interest in the acquisition of the site for development.

3.3.3 The Council and InReach are due to finalise the funding model for the development of the site with agreement on the loan facility imminent and anticipate the acquisition of the site to complete before the end of quarter 3 2020.

### 3.4 Summary Financial Implications

3.4.1 The capital funding implications for the Embankment, Brasshouse and Key Hill schemes are shown below. The values shown for each scheme are a combination of equity and loan funding.

InReach Scheme	Original Budget	Current Revised Budget	Previous Yrs Expenditure	2020/21 Forecast Expenditure	Later yrs Forecast Expenditure	Total Forecast Expenditure
	£m	£m	£m	£m	£m	£m
Embankment	14.950	<b>14.950</b>	14.950	0	0	<b>14.950</b>
Brasshouse	43.175	<b>0</b>	0	0	0	<b>0</b>
Key Hill	7.815	<b>7.815</b>	0	1.133	6.682	<b>7.815</b>
<b>Total</b>	<b>65.940</b>	<b>22.765</b>	<b>14.950</b>	<b>1.133</b>	<b>6.682</b>	<b>22.765</b>

3.4.2 The budgeted revenue income included within the 2020/21+ Council Financial Plan by scheme is shown below. The Income is generated through the loan funding arrangement between the Council and InReach and represents the margin between the Council borrowing rate and the commercial loan rate.

InReach Scheme	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Notes
	£m	£m	£m	£m	£m	£m	
Embankment	0.210	0.210	0.210	0.210	0.210	0.210	1
<i>Brasshouse</i>	<i>0.007</i>	<i>0.056</i>	<i>0.322</i>	<i>0.636</i>	<i>0.842</i>	<i>0.881</i>	2
Key Hill	0.001	0.039	0.136	0.154	0.153	0.153	3
<b>Total</b>	<b>0.217</b>	<b>0.304</b>	<b>0.667</b>	<b>1.000</b>	<b>1.205</b>	<b>1.245</b>	

#### Notes

1. Embankment scheme complete. Income being delivered in line with the budget.
2. *Brasshouse scheme no longer progressing. The in year non-delivery of income is being included as a revenue pressure within the forecast 2020/21 revenue outturn position and future years' non-delivery will be considered as part of the 2021/22+ Council Plan budget setting.*
3. Key Hill scheme proposal continues to be progressed by the Council and InReach. Site acquisition planned Q3 2020/21. Income anticipated to be delivered in line with the budget.

### **3.5 Conclusion and Next Steps**

- InReach is keen to explore other opportunities to deliver on its strategic objectives of providing quality market rented properties that make a good return for the Council to enable further investment in affordable homes
- Lessons have been learnt from the experience with Brasshouse and we are much clearer on the capacity and risks for InReach. The investigation and identification of sites for investment is crucial particularly as there is increased activity and competition in the private rented sector.
- InReach is ultimately another vehicle which the Council can use to deliver its strategic housing objectives and therefore is open to discussions on new opportunities and investment, subject always to capacity in both financial and personnel resources