

Report to:	CABINET
Report of:	Corporate Director of Economy
Date of Decision:	25 July 2017
SUBJECT:	DRIVING HOUSING GROWTH THROUGH THE EXPANSION OF INREACH – FULL BUSINESS CASE
Key Decision: Yes	Relevant Forward Plan Ref: 003345/2017
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:	
1.1 To set out proposals for the expansion of the Council's Wholly Owned Company (WOC) InReach (Birmingham) Limited which provides private rented housing to promote housing growth and contribute to the Council's Financial Plan 2017+ approved by Cabinet on 14 th February 2017.	
2. Decision(s) recommended:	
Cabinet is recommended to:	
2.1 Approve the Full Business case for the sale of approximately 200 void properties per year for the next 4 years held within the Housing Revenue Account (HRA) to InReach (Birmingham) Ltd (InReach) or another Wholly Owned Company (WOC) set up by the Council as set out at Appendix 1;	
2.2 Delegate authority to the Assistant Director of Property (Interim) to negotiate and approve final terms of individual disposals to InReach;	
2.3 Delegate authority to the Corporate Director Economy jointly with the Cabinet Member Housing and Homes to identify suitable properties held within the HRA for sale to InReach (Birmingham) Limited or some other Council WOC to give effect for every 2 properties being acquired by InReach being replaced with 1 new build;	
2.4 Approve a loan to InReach (Birmingham) Limited of up to £95million on commercial terms for the purpose of funding its acquisition of these properties, with approval of the terms delegated to the Chief Finance Officer;	
2.5 Note that the above recommendations may be subject to the consent of the Secretary of State as set out in paragraph 4.3.2 and	
2.6 Authorise the City Solicitor to negotiate, execute and complete all necessary documentation to give effect to the above recommendations.	
Lead Contact Officer(s):	Clive Skidmore, Head of Housing Development, Economy Directorate Mumtaz Mohammed, Change Agent, Economy Directorate
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3. Consultation

3.1 Internal

3.1.1 The Corporate Director for Place has been consulted regarding the contents of this report, and supports the recommendations coming forward for an executive decision.

3.1.2 Officers in Legal Services, City Finance, Birmingham Property Services and Place Directorate have been involved in the preparation of this report.

3.2 External

3.2.1 None required in relation to this report.

4. Compliance Issues:

4.1 This proposal responds to the Council's key priorities through the development of new homes which will be funded by this initiative;

Children – new homes will be developed in neighbourhoods which provide a safe, warm, sustainable and connected in which our children can thrive;

Housing – the Council is committed to the development of enough high quality new homes to meet the needs of a growing city, and the proposals within this report seek to accelerate the introduction of affordable high quality new homes in the city;

Jobs and Skills – activity within the construction sector will create jobs and apprenticeships in the city, and activity in the supply chain industries, supporting the local economy through the Birmingham Business Charter for Social Responsibility;

Health – the links between health and housing are well recognised. New thermally efficient, economical to run with lower maintenance costs new homes which are designed to high standards of quality and internal space standards will be more affordable for residents and will offer a higher quality of life leading to better health outcomes.

4.1.1 Birmingham Business Charter for Social Responsibility (BBCSR)

There is no direct implication for the BBCSR in respect of the land disposals.

4.2 Financial Implications

4.2.1 The disposal of HRA voids to InReach or another WOC will be subject to the demonstration of best consideration being achieved for the Council. It is assumed at this stage that the sale of voids will be to InReach Birmingham Ltd, however in order to achieve tax efficiencies it may be necessary for the Council to set up another WOC to which the voids would be sold.

4.2.2 The proceeds from the disposals will generate capital receipts estimated at £22m per annum which will be used either for housing investment purposes, or to support other Council priorities subject to the transfer of an equivalent value of borrowing from the HRA to the General Fund. The Capital receipts from the sale of property to InReach will be split by approximately 50% contribution towards new affordable housing provision and 50% paying off existing HRA debt as compensation for loss of future net rent from the disposed properties.

4.2.3 The proposed loan to InReach will be on commercial terms, and funded through prudential borrowing, with the interest rate charged to InReach exceeding the cost to the General Fund. This proposal supports the delivery of savings proposal HN11 within the Council's approved budget for 2017/18 and future years.

Further details of the savings to be delivered are included at Appendix 1. A summary of the financial impact of these proposals on InReach (Birmingham) Limited is included at Appendix 4.

The estimated savings are based on prudent assumptions of expenditure and income that will be generated by the WOC and therefore savings to the General Fund – the saving is potentially greater than estimated and this matter will be kept under continuous review as the programme develops. Any variations will be considered as part of the annual budget process and the LTFP adjusted as appropriate for approval by City Council.

4.3 Legal Implications

4.3.1 The Council's power to dispose of land to the WOC is contained with Sections 32-34 Housing Act 1985 General Consent A Section 32 Housing Act 1985. General Consent A limits disposals by a local authority to a WOC to 5 per year.

4.3.2 It is likely this proposal will require the consent of the Secretary of State for Community and Local Government and officers are in discussion with the Department of Community and Local Government in order to seek the necessary approval.

4.3.3 As the Housing Authority, the relevant legal powers relating to the discharge of the Council's statutory function to provide for its housing need are contained in section 9 of the Housing Act 1985.

4.3.4 S111 of the Local Government Act 1972 empowers local authorities to do anything (whether not involving the borrowing, expenditure or lending of money or the acquisition or disposal of any of its property) which, is calculated to, or is conducive or incidental to the discharge of any of their functions.

4.4 Public Sector Equality Duty

4.4.1 This proposal has been subject to an Equality Impact Analysis (EA001685). This analysis did not identify negative impacts for protected groups.

5. Relevant background/chronology of key events:

- 5.1 On 14 February 2017 as part of the Financial Plan 2017+ report, Cabinet approved the principles of the expansion of InReach through the sale of HRA voids. This report sets out the detail for the implementation of this policy.

The Council has already commenced the development of new homes for the private rented sector through its WOC. The principles of this model are –

- The Council sells land to InReach at open market value;
- Development of homes for PRS through the Council's WOC InReach generates income for the General Fund;
- The sale of Council development sites to the WOC creates a capital receipt to the Council;
- The Council borrows money at (Public Works Loan Board) rates to lend on to InReach at a (higher) commercial rate, which InReach uses to fund the construction of new homes for market rent;
- Any surpluses generated by the WOC return to the Council to fund General Fund services.

This approach therefore creates capital receipts, generates income to the General Fund, and achieves housing growth by enabling the development of new homes.

The first scheme at St Vincent Street is now on site, with completion due by January 2018, and Cabinet has approved the principle of the sale of further sites to InReach to develop a potential 300 new additional homes.

- 5.2 This report proposes an innovative variation on the existing InReach model which is more creative and enables the Council to use the BMHT and InReach development models together in a complementary and imaginative way. This model makes capital funding available to the Council which can be used to build a significant number of new homes, and generates significant revenue and capital benefits to the Council.
- 5.3 Under this model, a proportion of voids arising naturally within the Council's housing stock would be sold to InReach or a similar vehicle at full market value. The properties sold to InReach would be improved and let at market rents. The proceeds of the sale of voids to the WOC could be used to fund the construction of new social or affordable rented Council homes.

The key features of this model are –

- Existing Council properties sold to InReach and then rented at market rents rather than social rents;
- Offers the potential to repurchase properties previously sold by the Council when these are offered for sale on the open market to be sold to InReach to let as private rented

homes;

- The sale of properties to InReach will generate receipts to fund the construction of replacement social or affordable rented Council homes, at a ratio of 1 new home for every 3 homes sold (reflecting the lower value of many current council homes as compared with the construction costs of new homes). It may be possible to increase this ratio to 1 new home for every 2 sold subject to availability of additional Right to Buy receipts or grants from the HCA;
- The Council borrows in excess of £90m, to finance a loan to InReach – with the loan repaid to the Council from surpluses generated from rental income from the properties sold to InReach;
- The new replacement Council homes will be modern new homes with a longer life span, providing high standards of thermal efficiency and offer a more spacious, better quality home than the old homes that they replace;
- Acquiring homes dispersed across the city will reduce the management burden on the Council's Housing Management teams;
- The new replacement Council homes will be protected by the cost floor rule from Right to Buy at substantial discounts for 15 years, whereas existing Council properties can be sold at a discount of up to £78,000, properties also sold to InReach will be exempt from the Right to Buy;

5.4 The management and maintenance of the properties sold to InReach will be procured by InReach from third parties and will not be provided by the Council. One of the aspirations to the proposal is to drive up standards of management in the private rented sector overall by ensuring professional management of former Council stock.

5.5 Soft market testing indicates strong demand for the homes which would be sold to InReach as private rented homes, and it should be noted that these homes, unlike Council homes, will not be subject to the Council's rent setting policy. Once within the management of InReach the properties will be let at market rents which will need to be high enough not only to meet all management/maintenance and other running costs, but also to repay the loan from the Council. These rents will inevitably be higher than Council rents for comparable properties, estimated with the financial model at around £150 per week on average. As a condition of sale, the Council will require InReach to publish its rent policy, arrears policy, and Business Plan.

5.6 It will be important to minimise any delays in the sale of properties to InReach to ensure that there is no void rent loss to either the Council or InReach and therefore in order to allow for speedy decision making in deciding which properties should be sold to InReach, it is recommended that approval to dispose of individual properties to InReach is delegated to the Corporate Director of Economy and the Cabinet Member Housing and Homes. Such sales will be guided by the following criteria.

- Financial viability – demonstration that the disposal offers best consideration to the Council and is financially viable for InReach;
- Strategic fit – an assessment of the disposal of the local housing stock, in terms of the potential under supply of affordable homes, or over provision of privately rented homes, and it is anticipated that older persons housing, properties with substantial

aids/adaptations, bungalows, and larger family homes will as a general principle not be sold to InReach;

- Availability of funding – all proposals will be subject to funding being available.

6. Evaluation of alternative option(s):

6.1 There are a number of alternative options, which are: -

6.2 The proposal could be progressed at a lower scale, which would generate a lower level of financial benefits to the Council.

6.3 The proposal could be progressed at a higher scale, but this would result in a proportionate reduction in the level of affordable housing provided by the Council.

6.4 Finally, an alternative option is not proceed with this approach. In this case the financial benefits envisaged in the Budget Delivery Plan would not be realised and there would be a need to achieve financial savings elsewhere that deliver the revenue savings and £22m annual capital receipts. In addition the housing growth anticipated through these proposals would not be achieved.

7. Reasons for Decision(s):

7.1 To achieve housing growth in the City.

7.2 To achieve the financial benefits approved in the Council's Financial Plan 2017+

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
Corporate Director of Economy:

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

List of Background Documents used to compile this Report:

Council's Financial Plan 2017+ approved by Cabinet on 14th February 2017

Relevant Officer's file(s) on the matter, save for confidential documents

List of Appendices accompanying this Report (if any):

1. Full Business Case
2. Risk Register
3. Stakeholder Analysis
4. InReach (Birmingham) Limited Summary Financial Impact
5. Equality Impact Analysis (EA001685)

APPENDIX 1 – FULL BUSINESS CASE

Full Business Case (FBC)			
1. General Information			
Directorate	Economy	Portfolio/Committee	Housing & Homes
Project Title	DRIVING HOUSING GROWTH THROUGH THE EXPANSION OF INREACH	Project Code	
Project Description	<p>There is a measure within the Council’s Financial Plan 2017+ to achieve savings for the General Fund through the expansion of the Council’s Wholly Owned Company (WOC) InReach which was set up to deliver new private rented homes for the city.</p> <p>InReach is already building 92 new apartments at St Vincent St in Ladywood, and cabinet has also identified a number of other Council owned sites for potential residential development through this company.</p> <p>This proposal seeks to expand the role of InReach through the acquisition of existing homes by the company, comprising void HRA homes and former Council homes which have been sold under the Right to Buy and are offered up for resale.</p> <p>The proposal offers a number of benefits to the city –</p> <p>Financial – the structure of the sale of properties to InReach will realise financial benefits to the Council, both revenue and capital;</p> <p>Housing growth – a proportion of the receipts generated will be used to fund the construction of new high quality Council homes;</p> <p>Quality of housing offer – the Council aspires to raise standards in the PRS sector by providing its own high quality offer.</p>		
Links to Corporate and Service Outcomes	<p>This project will make a direct contribution to both Corporate and Directorate outcomes, including the following:</p> <ul style="list-style-type: none"> • Housing Revenue Account Business Plan 2017+ • Birmingham Development Plan (BDP). 		

	<ul style="list-style-type: none"> • Budget Delivery Plan • Homelessness Strategy 2012 • Birmingham Housing Growth Plan. 		
Project Definition Document Approved by	N/A	Date of Approval	N/A
Benefits Quantification- Impact on Outcomes	Measure		Impact
	Significant level of revenue benefits for the General Fund		<ul style="list-style-type: none"> • 2017/18 - £0.179million • 2018/19 - £0.345million • 2019/20 - £0.520million • 2020/21 - £0.733million
	The WOC providing a high standard of management.		An improvement in the standard of the PRS offer across the city
Project Deliverables	The project will deliver a minimum of 65 new homes for social rent each year. It will also deliver a capital receipt estimated at £22 million per annum.		
Scope	<p>A number of elements have already been delivered for this project that provide critical information to move the project forward, these include:</p> <ul style="list-style-type: none"> • Development of a financial model; • Soft market testing; • Development of systems to enable seamless transfer to InReach; • Evaluation of options for management and maintenance. <p>The key elements remaining within the scope of the project are set out below. The indicative timescale is as follows:</p> <ul style="list-style-type: none"> • Obtain Cabinet approval – July 2017 • Procure managing agent – September 2017 • Sale of first tranche of properties – October 2017 		
Scope exclusions	<p>The project does not consider the detailed arrangements for the management or on-going maintenance of the transferred housing once built, which will be dealt with by InReach.</p> <p>This project also does not consider the new build social or affordable rented homes for the Council which will be funded by the capital receipts which it generates.</p>		
Dependencies on other projects or activities	<p>Key dependencies include:</p> <ul style="list-style-type: none"> • Appointment of management and repairs contractor by InReach 		

	<ul style="list-style-type: none"> • Agreement of InReach to acquire the properties • Agreement by InReach of the loan terms 	
Achievability	Extensive work has been undertaken to ensure that these proposals are deliverable. The delivery of the project is entirely within the Councils control, the other parties involved will be employed by InReach on a contractual basis.	
Project Manager	Mumtaz Mohammed, Change Agent, Economy Directorate. T: (0121) 303 7879. Mumtaz.mohammed@birmingham.gov.uk	
Budget Holder	Clive Skidmore, Head of Housing Development. T: 303 3341 clive.skidmore@birmingham.gov.uk	
Sponsor	Waheed Nazir (Strategic Director, Economy) waheed.nazir@birmingham.gov.uk	
Project Accountant	Nick Ward, (Finance Manager, City Finance) 464 4282) nick.ward@birmingham.gov.uk	
Project Board Members	<p>Waheed Nazir (Strategic Director, Economy) waheed.nazir@birmingham.gov.uk</p> <p>Clive Skidmore, Head of Housing Development. T: 303 3341 clive.skidmore@birmingham.gov.uk</p> <p>Mumtaz Mohammed, Change Agent, Economy Directorate. T: (0121) 303 7879. Mumtaz.mohammed@birmingham.gov.uk</p> <p>Guy Olivant, Head of City Finance T: 303 4752 guy.olivant@birmingham.gov.uk</p>	
Head of City Finance (HoCF)	<p>Guy Olivant, Head of City Finance - T: 303 4752 guy.olivant@birmingham.gov.uk</p>	Date of HoCF Approval:

2a. Budget Summary (General Fund)					
	<i>Voyager Code</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20 to 2026/27(8 years)</i>	<i>Totals</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Capital Costs & Funding					
<u>Expenditure:</u> Loan to InReach (Birmingham) Ltd		22,600	22,600	45,200	90,400
Totals		22,600	22,600	45,200	90,400
<u>Funding</u>					
Prudential Borrowing		(22,600)	(22,600)	(45,200)	(90,400)
Principal Repayments from InReach		-	(46)	(79,145)	(79,145)
BCC Loan Redemption		-	46	79,145	79,145
Totals		(22,600)	(22,600)	(45,200)	(90,400)
		2017/18	2018/19	2019/20 to 2046/47 (28 years)	Totals
Revenue Consequences					
Expenditure Interest Payable		232	1,302	79,957	81,491
Income Interest Receivable Distributions		(272) (139)	(1,482) (165)	(119,978) (331)	(121,732) (635)
Totals		(179)	(345)	(40,352)	(40,876)
Totals					
2b. Budget Summary (Housing Revenue Account)					
	<i>Voyager Code</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20 to 2046/47 (28 years)</i>	<i>Totals</i>
		<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Capital Implications					
<u>Expenditure:</u> Capital Expenditure avoided		-	-	(33,273)	(33,273)

Pre-Disposal Capital Expenditure		1,000	1,000	2,000	4,000
Totals		1,000	1,000	(31,273)	(29,273)
Capital Receipts					
Disposal Proceeds		(22,000)	(22,000)	(44,000)	(88,000)
Net Capital Impact		(21,000)	(21,000)	(75,273)	(117,273)
Revenue Consequences					
Rental Income Foregone		405	1,353	152,406	154,164
Expenditure Avoided		(104)	(347)	(39,018)	(39,469)
Net Revenue Impact		301	1,006	113,388	114,695
Whilst the above table shows a revenue cost to the HRA arising from these proposals, it should be noted that this is offset in full by the net capital impact also set out in the table.					
Planned Start date for delivery of the project	<i>September 2017</i>	Planned Date of Technical completion	<i>Ongoing</i>		

3. Checklist of Documents Supporting the FBC		
Item	Mandatory attachment	Number attached
Financial Case and Plan		
<ul style="list-style-type: none"> Detailed workings in support of the above Budget Summary (as necessary) 	Mandatory	
<ul style="list-style-type: none"> Statement of required resource (people, equipment, accommodation) – append a spreadsheet or other document 	Mandatory	
<ul style="list-style-type: none"> Whole Lifecycle Costing analysis (as necessary) 	Mandatory	
<ul style="list-style-type: none"> Milestone Dates/ Project Critical Path (set up in Voyager or attached in a spreadsheet) 	Mandatory	
<ul style="list-style-type: none"> Partnership Funding Proposal 		
<ul style="list-style-type: none"> Specific Funding (Grant) outline 		
Project Development products		
<ul style="list-style-type: none"> Populated Issues and Risks register 	Mandatory	
<ul style="list-style-type: none"> Stakeholder Analysis 	Mandatory	
<ul style="list-style-type: none"> Technical Feasibility Assessments 		
<ul style="list-style-type: none"> Partnership Agreement 		
<ul style="list-style-type: none"> Non-Financial Benefits 		
Other Attachments (list as appropriate)		
<ul style="list-style-type: none"> 		
<ul style="list-style-type: none"> 		

APPENDIX 2 - Risk Register

Description of Risk	Impact	Probability	Score	Mitigation Measures	Adjusted risk	Risk Owner
InReach unable to let homes at market rent	4	2	8	Soft market testing has already been undertaken and received positive feedback.	4	InReach
Insufficient properties available for sale to InReach	4	2	8	In excess of 4,000 HRA properties per annum become void every year.	4	Council

Rents generated are insufficient to meet overheads	4	2	8	Properties for sale to InReach will be selected on the criterion of financial viability	4	InReach
Excessive void periods incurring loss to the Council or to InReach	3	2	6	Robust processes will be implemented to minimise void periods.	4	InReach
Non performance of managing/repairs contractor	3	2	6	Contract will contain appropriate termination clauses.	4	InReach
IMPACT	Probability		SCORE			
1 - Insignificant	1 – Unlikely		1 – 4			
2 – Minor	2 – Possible		5 – 8			
3 – Moderate	3 – Likely		9 -12			
4 – Major	4 – Almost Certain		13 -16			

APPENDIX 3 - Stakeholder Analysis

Stakeholder	Stake in project	Potential impact on project	What does the project expect from the stakeholder	Perceived attitudes and/or risks	Stakeholder management strategy	Responsible
Elected Members	Link with local residents	High	Support for the project	Objections from local residents	Provide information and keep informed	Project manager
Project officer team	Delivery and responsibility for project	High	Expertise in delivery and project management.	Unforeseen delays Unforeseen costs	Co-ordinate team and management/repairs contractor	Project manager
Management /repairs contractor	Management and maintenance of properties for InReach	High	Performance as per contract with InReach	Non performance		InReach

Appendix 4 – InReach (Birmingham) Limited Financial Impact

The following table summarises the financial impacts on InReach (Birmingham) Limited of these proposals for the first 5 years of activity, including the financial impacts of the proposed loan from Birmingham City Council.

Year	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Rental Income	(715)	(2,387)	(4,042)	(5,746)	(6,722)
Voids & Arrears Management	14	48	81	115	134
Costs	80	266	450	640	749
Repairs / Furniture	64	215	364	517	875
Interest Payable	272	1,482	2,664	3,840	4,745
Principal	-	46	133	264	264
Repayments					
In Year (Surplus) / Deficit	(285)	(330)	(350)	(370)	45
Surplus b/f	-	(146)	(311)	(496)	(701)
Cumulative surplus before distributions	(285)	(476)	(661)	(866)	(656)
Distributions to BCC	139	165	165	165	-
Surplus c/f	(146)	(311)	(496)	(701)	(656)