

Birmingham City Council

Report to the Leader and the Cabinet Members for Finance and Resources and Homes and Neighbourhoods

1 March 2022



Subject: BMHT Abbeyfields Phase 4; Approval for the change of tenure from open market sale to social rent properties and revised Full Business Case

Report of: Paul Kitson, Strategic Director, Place, Prosperity and Sustainability

Relevant Cabinet Member: Cllr Ian Ward, Leader
Cllr Tristan Chatfield, Finance and Resources
Cllr Shabrana Hussain, Homes and Neighbourhoods

Relevant O &S Chair(s): Councillor Carl Rice, Co-Ordinating O&S Committee
Councillor Mohammed Aikhlaq, Resources

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Are specific wards affected?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s): Erdington		
Is this a key decision?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, add Forward Plan Reference: N/A		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential:		

1 Executive Summary

- 1.1 The report seeks to obtain approval for the revised Full Business Case (FBC) and change of tenure for nineteen new build homes from open market sale properties to social rent properties on the site known as Abbeyfields Phase 4, Erdington.

2 Recommendations

That the Leader, and the Cabinet Members for Homes and Neighbourhoods and Finance and Resources:

- 2.1 Approves the reduction in the total number of new build homes constructed from 21 to 19.
- 2.2 Approves the change of tenure for nineteen new build homes from open market sale to social rent.
- 2.3 Approves the revised FBC for this scheme attached as Appendix A.
- 2.4 Authorises the Director of Planning, Transport & Sustainability and the Strategic Director of Place, Prosperity and Sustainability to seek consent from the Secretary of State under Section 174 of Localism Act 2011, to exclude the new council properties developed through the Scheme from the Right to Buy pooling requirements, and to ensure that any capital receipts generated from any future sale of homes under the Right to Buy are retained by the Council for reinvestment in future housing delivery.

3 Background

- 3.1 The development known as Abbeyfields Phase 4 is the final phase of new homes delivered under the Lyndhurst Regeneration programme with the original tenure being open market sale properties to be delivered under the Birmingham Municipal Housing Trust (BMHT) Forward Homes programme.
- 3.2 The scheme including the FBC and award of contract was approved by Cabinet on 10 November 2020, in a report entitled, Driving Housing Growth – Building New Homes on the Abbeyfields and Birchfield Estates, which, pursuant to 2.5 of the report, included an authority to change the tenure of the homes if the sale option became unviable.
- 3.3 The 10 November 2020 Cabinet report approved a scheme for 21 homes; 2 homes for social rent and 19 homes for outright sale. However, during the construction phase, it became clear that the location of the 2 homes for social rent were unviable due a number of significant constraints, such as service diversions, (gas / electric / sewage), and also highways related access issues. This will result in the loss of the two homes for social rent.
- 3.4 The margin for financial viability for the 19 outright sale units in the original 2020 FBC was nominal. Current construction industry prices now indicate that the indicative cost to complete the works would present a significant risk to the Housing

Revenue Account (HRA) which funds this scheme. Any scheme of open market sale properties cannot make a loss and the HRA cannot subsidise private developments.

- 3.5 During the last twelve months, materials, transport and labour costs in the construction industry have risen considerably more than anticipated, impacting on the approved contract price for the development.
- 3.6 The increase in costs and uncertainty within the open market for new homes has impacted on the financial viability of these final 19 sale properties, to the point where it is uncertain if all development costs for the scheme would be recovered by the overall sales prices of the properties.
- 3.7 Changing the tenure of the 19 homes from outright sale to social rent is considered more financially viable and provides a saving as detailed at 7.3.1 below.
- 3.8 The Lyndhurst regeneration programme had scheduled 148 social rent properties (55%) and 120 open market sale (45%). The proposed change of tenure for these 19 properties will result in an overall 62% for social rent properties and 38% for open market sale properties.
- 3.9 The change in tenure will not have a detrimental impact on the overall scheme and removes the financial risk to the HRA of subsidising an open market sale scheme whilst at the same time providing urgently needed social rent homes.
- 3.10 The development at Abbeyfields Phase 4 is already under construction and is expected to be completed in September 2022. A red line plan of the site is at Appendix B.

4 Options considered and Recommended Proposal

- 4.1 To progress the site as outlined in this report to remove any financial or legal risk to the HRA and deliver nineteen urgently need family homes for social rent. This is the recommended proposal.
- 4.2 Not to change the tenure of the nineteen properties and continue at risk with open market sales properties. This exposes the HRA to financial risk of having to subsidise open market sale properties and subsequent legal issues surrounding the governance of HRA funds.

5 Consultation

- 5.1 N/A.

6 Risk Management

- 6.1 The details were included in the Driving Housing Growth – Building New Homes on the Abbeyfields and Birchfield Estates, report to Cabinet on 10 November 2020 and the same continues to apply.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

7.1.1 The recommended decisions contribute to the Council Plan objectives / outcomes by:

- A Bold Prosperous Birmingham; 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 to accelerate housing growth in the City by providing new homes for rent and will help ease pressure on the housing register.
- A Bold Green Birmingham; the new homes will be built to a high standard of energy efficiency by using the latest technologies and use a range of measures to improve the environment and tackle air pollution by using cleaner technologies such as Fabric First and building energy efficient homes.
- A Bold Inclusive Birmingham; the new homes will be available to any applicant on housing register.
- A Bold Healthy Birmingham; the links between health and housing are well recognised. New thermally efficient, economical to run new homes which are designed to high standards of quality and internal space standards will be more affordable for residents and offer a higher quality of life leading to better health outcomes.
- A Bold Safe Birmingham; new homes will be developed which will provide a safe, warm, sustainable, and connected neighbourhood in which all communities can thrive.

7.2 Legal Implications

- 7.2.1. As the Housing Authority, the relevant legal powers relating to the discharge of the Council's statutory function to provide its housing need are contained in section 9 of the Housing Act 1985.
- 7.2.2. Section 1 of the Localism Act 2011 contains the Council's general power of competence.
- 7.2.3. Section 111 of the Local Government Act contains the Council's subsidiary financial powers in relation to the discharge of its functions.

7.3. Financial Implications

- 7.3.1. The estimated original scheme cost was £4.7m, with estimated sales income of £4.2m. The estimated revised scheme cost is £4.2m, a saving of £0.5m compared to the original scheme, which is largely due to the reduction in the number of units being built. There is no sales income with the revised scheme as the properties will be included in the HRA as social rent units.
- 7.3.2. The revised scheme will be funded from HRA revenue contributions and Right to Buy 1-4-1 receipts. The cost of development is included in the

HRA Business Plan 2022+ and the revised FBC is attached as Appendix 1.

- 7.3.3. The financial viability of the scheme proposal is based on the Government's social housing rent policy that rents will increase annually by the Consumer Price Index (CPI) + 1 % over a 5-year period from 2020/21.
- 7.3.4. The new Council rented homes will be subject to the Right to Buy cost floor regulations, which mean that for the first 15 years following the completion of the new homes, any tenant purchasing their Council property through the Right to Buy will be obliged to pay the Council the full construction cost of the property, irrespective of any discount to which they may be entitled under the Right to Buy legislation.
- 7.3.5. The construction of the new Council homes should not be liable to VAT; however, VAT may be payable on other project costs. The letting of HRA homes is non-business; as are sales of such homes under Right to Buy. The Council can reclaim VAT incurred on the development and management of HRA homes, including sales under Right to Buy. Therefore, VAT should not be a cost to the project. VAT implications are detailed in the Full Business Case in Appendix A.

7.4. Procurement Implications (if required)

- 7.4.1. There are no procurement implications with the recommendations in this report.

7.5. Human Resources Implications (if required)

- 7.5.1. N/A.

7.6. Public Sector Equality Duty

- 7.6.1. The details were included in the report 'Driving Housing Growth – Building New Homes on the Abbeyfields and Birchfield Estates' dated 10th November 2020 and the same continues to apply.

8. Appendices

- 8.2. Appendix A – Full Business Case
- 8.3. Appendix B – Red line site plan

9. Background Documents

Report to Cabinet, Driving Housing Growth – Building New Homes on the Abbeyfields and Birchfield Estates, 10 November 2020.