



## Cabinet

<b>Title</b>	<b>The Barnet Group Business Plan</b>
<b>Date of meeting</b>	12 March 2024
<b>Report of</b>	Councillor Ross Houston, Deputy Leader and Cabinet Member for Homes and Regeneration
<b>Wards</b>	All
<b>Status</b>	Public with accompanying exempt appendix - Exempt from publication in accordance with paragraph 3 of Schedule 12A of the Local Government Act 1972 on account that it contains information relating to the financial or business affairs of any particular person including the authority holding the information.
<b>Key</b>	Key
<b>Urgent</b>	No
<b>Appendices</b>	Appendix A – (Exempt)
<b>Lead Officer</b>	Tim Mulvenna, Chief Executive Officer- The Barnet Group <a href="mailto:Tim.Mulvenna@thebarnetgroup.org">Tim.Mulvenna@thebarnetgroup.org</a> 0208 359 4142
<b>Officer Contact Details</b>	Shaun McLean, The Barnet Group <a href="mailto:Shaun.Mclean@BarnetHomes.org">Shaun.Mclean@BarnetHomes.org</a> 0208 359 4681
<b>Summary</b>	
In accordance with the Shareholder agreement between London Borough of Barnet and The Barnet Group (TBG), there is a requirement for TBG to prepare an annual 5-year business plan each year. Once this business plan has been approved by TBG Board it	

is shared with the Council and is presented to Cabinet for information as the Council is 100% shareholder of the Group.

The companies within TBG generally provide statutory services on behalf of the Council (housing and adult social care) and so as a Group do not make significant surpluses. Over 80% of TBG revenue is from the Council. Within TBG there is a registered social housing provider, TBG Open Door Limited, (Open Door) which is making significant accounting losses (though is generally cash neutral) as it is operating to a long-term business plan whereby it has significant assets and debt which is at a fixed interest rate and as rental increase, so the entity will be profitable and repay its debts over a 50-year timeframe.

## Recommendations

### 1. That Cabinet approve The Barnet Group (and subsidiaries) 5-year business plan.

#### 1. Reasons for the Recommendations

##### 1.1 Introduction

As per clause 2.6 of the Shareholder agreement dated 2<sup>nd</sup> February 2016, The Barnet Group will present a 5-year business plan for the Barnet Group and each entity within the specified in clause 2.6 (the Group) to the Council for approval each year.

##### 1.2 Budget overview 2024/25

Entity	Surplus/ (deficit) 2024/25 £'000	Key points			
The Barnet Group	(41)	Continues to deliver a small loss from overheads			
Barnet Homes	182	Key risks – Difficulties operating within the core contract 'envelope'			
Your Choice	73				
Bumblebee	281	Key risks – more landlords exit the sector meaning lower lease and/or management deal volumes. and its' impact on cash flow			
TBG Flex	11	Key risks – Staff turnover reduces significantly or more agency staff utilised. Turnover would be net neutral for the Group			
<b>Service Companies</b>	<b>506</b>				
Open Door	(3,819)	Key risks – Increased arrears, increased operating costs (primarily repairs) and interest rates for acquisition program.			
<b>Group result</b>	<b>(3,313)</b>	<b>(4,130)</b>	<b>(4,581)</b>	<b>(4,564)</b>	<b>(4,250)</b>

### 1.3 Key Assumptions

		2024/25	2025/26	2026/27	2027/28	2028/29
<b>Barnet Homes</b>	CPI	6.7%	3.0%	2.0%	2.0%	2.0%
	Pay increases	5%	3%	2%	2%	2%
	Insurance	30%	10%	2%	2%	2%
	Utilities	10%	5%	2%	2%	2%
	Management fee increase	6%	3%	2%	2%	2%
<b>YCB</b>	LLW increase	£1.20/hr	£1/hr	£1/hr	£1hr	£1/hr
	Non-LLW linked pay increases	5%	3%	2%	2%	2%
	Insurance	30%	10%	2%	2%	2%
	Utilities	10%	5%	2%	2%	2%
<b>ODH</b>	Unit Growth (Start 786 units)	176	90	106	32	0
	Other assumptions	As per BH	As per BH	As per BH	As per BH	As per BH
<b>Bumblebee</b>	Unit Growth/sales (Start 403 units)	1	11	51	37	44
	Other assumptions	As per BH	As per BH	As per BH	As per BH	As per BH

1.3.1 The table above summarises the main assumptions per entity. Specific assumptions per entity are further below where relevant.

### 1.4 Barnet Homes

1.4.1 Key items that support the Barnet Homes budget and assumptions made are as follows:

1.4.1.1 The key points (not included in 1.3 above) are:

- The contract with LBB ends in Year 2 and is subject to renewal. Years 3- 5 assume the renewal is on the same terms as currently.
- Conversion of approximately £1m of agency and sub-contractor spend to permanent employees within the repairs team.
- A 'recycling' of between £400k and £650k of TBG Flex surplus is included each year.

1.4.1.2 In applying the above assumptions, a surplus is achieved in year 1 & 2. Thereafter, as currently identified development fees finish and then the ODH acquisition program completes, speculative growth income is required to achieve breakeven (see 1.6.3 below).

1.4.1.3 The minimum reserves as agreed by Board is £1m. The reserves are forecast to remain well above this level.

Year £k	2023/24 Fcst	2024/25	2025/26	2026/27	2027/28	2028/29
Opening Reserves	2,042	1,985	2,167	3,322	3,367	3,395
Movement in year	(57)	182	24	36	16	44
<b>Closing Reserves</b>	<b>1,985</b>	<b>2,167</b>	<b>2,191</b>	<b>2,227</b>	<b>2,243</b>	<b>2,287</b>

#### 1.4.2 5-year summary

Year £k	2024/25	2025/26	2026/27	2027/28	2028/29
Proposed budget	182	24	36	16	44

1.4.2.1 Barnet Homes financial performance continues to rely on development and acquisitions income to generate surpluses (Yr 1 & 2) and to achieve break-even in later years. External factors continue to create financial pressures on delivery of the management agreement, particularly within repairs.

### 1.5 Core Services

1.5.1 This reflects the financial performance of the original Management Agreement. The specified savings in the early years of the contract have meant that revenue reduced faster than costs; but BH protected service delivery by cross-subsiding the profits from growth to offset the core contract losses.

1.5.2 The below summarises the core contract and the revenue has been validated against the costs within the HRA. The financial pressures on the HRA from lower than planned rents over the years, additional costs from new legislation (fire safety and Building safety in particular) has meant that the HRA has limited financial capacity in years 3-5 than has been the case historically.

Core Services	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
Income	51,771	52,067	53,171	53,855	56,060
Expenditure	52,725	52,950	54,229	54,648	57,186
<b>Operating Contribution</b>	<b>(954)</b>	<b>(883)</b>	<b>(1,058)</b>	<b>(792)</b>	<b>(1,126)</b>

## 1.6 Non-Core Services

1.6.1 The below reflects financial performance of the other services provided to LBB outside of the main contract (e.g. Housing Options and General Fund housing services)

<b>Other Ad-hoc Services</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	£000	£000	£000	£000	£000
<b>Income</b>	10,174	10,431	10,639	10,852	11,069
<b>Expenditure</b>	9,436	9,697	9,891	10,089	10,291
<b>Operating Contribution</b>	738	733	748	763	778

1.6.2 The below reflects financial performance of Growth & Development, which includes acquisition income.

<b>Development &amp; Acquisitions</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
	£000	£000	£000	£000	£000
<b>Income</b>	2,593	2,435	2,652	2,397	2,791
<b>Expenditure</b>	2,195	2,261	2,306	2,352	2,399
<b>Operating Contribution</b>	398	174	346	45	392

1.6.3 Growth in development and acquisition fees is as per the table below.

<b>Income £000</b>	2024/25	2025/26	2026/27	2027/28	2028/29
<b>Identified Development schemes</b>	1,300	1,329	588	297	341
<b>Identified acquisition program- ODH</b>	1,181	1,106	964	200	-
<b>Identified acquisition program - LBB</b>	112	-	-	-	-
<b>Speculative Development fee- Unidentified</b>	-	-	1,100	1,900	2,450
<b>TOTAL G&amp;D INCOME</b>	2,593	2,435	2,652	2,397	2,791

1.6.4 The identified development schemes are all known and approved, where the risk is slippage to the project as the BH fee is fixed. The ODH acquisition income is dependent on interest rates remaining within business case parameters. Significant speculative fees are required to continue the cross subsidy of the management agreement. Alternatively significant cost reductions in these teams would reduce the value required but could also mean reduced capacity in future years. The Development Team have a good record of securing additional work, but the 'gap' is significant especially with no acquisitions program to support generating revenue.

## 1.7 Key Risks

Key risks within the budget are as follows:

### 1.7.1 Downside

- Uncertainty regarding growth and development income if targets for acquisitions and milestones for development fees are not met. Other efficiency savings will need to be found if the speculative schemes do not materialise.
- Difficulty 'containing' repairs costs.
- Increased demand and legislation on services, particularly repairs.
- The HRA business plan (and thus the BH budget) assumes £1.2m reduction in repairs costs in year 2 from lower damp & mould and disrepair; this needs to be achieved.

### 1.7.2 Upside

- Additional development income from new opportunities
- Additional management fees from higher growth in Open Door and/or Bumblebee
- Greater contribution from TBG Flex surpluses
- Less demand on repairs, particularly disrepair.

## 1.8 Your Choice Barnet

Due to the commercial sensitivity of the Your Choice (Barnet) budget, the detail of this company budget has been included under Appendix A

## 1.9 Open Door

### 1.9.1 5-year summary

The following table shows the current draft budget.

Year £k	2024/25	2025/26	2026/27	2027/28	2028/29
Proposed budget- 2024/25	(3,819)	(4,479)	(4,977)	(4,990)	(4,758)

### 1.9.2 Assumptions

Assumptions in addition to 1.3 above:

#### 1.9.2.1 Rent

For the affordable rents, increases of 7.7% then CPI+1%.

Acquisition units which are used for temporary accommodation, is at Local Housing Allowance. An increase of 4.5% for year 1, Nil increase for years 2&3 and then 3% for years 4&5 have been assumed.

#### 1.9.2.2 Breakdown of units in management

Management	Forecast	2024/25	2025/26	2026/27	2027/28	2028/29
New Build	356	356	356	356	356	356
Aquisitions	269	372	462	568	600	600
Acquisition 155	155	155	155	155	155	155
Touchpoint Leases	0	73	73	73	73	73
Shared ownership	6	6	6	6	6	6
<b>Total units</b>	<b>786</b>	<b>962</b>	<b>1,052</b>	<b>1,158</b>	<b>1,190</b>	<b>1,190</b>

The new build programmes have completed and there are no new schemes identified. The current acquisition program will stop at 300 units, but a new program of 300 units to be acquired and buying the Touchpoint portfolio of leases has been approved by the Board. No growth is forecast for 2028/29.

### 1.9.2.3 Loan Interest Rate

The current acquisition program is fully funded. The new program has assumed interest rates of 5.75% for the acquisitions and 5.25% for the Touchpoint acquisition.

### 1.9.2.4 Bad Debt Provision

3% bad debt provision has been assumed for both new build and acquisitions in line with the business plan.

## 1.9.3 Risks

### 1.9.3.1 **Downside**

The budget is subject to uncertainties, as the assumptions are based on the business plan.

- Additional rent changes vs the rent standard and/or additional LHA freezes beyond the assumptions in future years.
- A worsening of debt collection, particularly with the additional acquisition units; similarly higher repairs volumes and costs than assumed.
- Changes to legislation resulting in additional works and costs to buildings or governance.
- Accounting treatment under IFRS16 for the Touchpoint lease may impact the financial performance (though not cashflow)

### 1.9.3.2 **Upside**

- Any future rent increase or LHA increase above assumptions will benefit the plan.
- Interest rates being below the assumed 5.75%

## 1.10. TBG Flex

### 1.10.1 5-year summary

Year £k	2024/25	2025/26	2026/27	2027/28	2028/29
Proposed budget-2024/25	11	13	11	16	14
Surplus transfer	610	680	750	810	880

The overall position for TBG Flex is that it will be in surplus throughout the 5-year period, this is due to the 4% margin charged on all seconded staff. Tax advice has been received on the need for TBG Flex to make a margin and options to 'recycle' excess surplus to entities within the Group as the surpluses are internally generated.

### 1.10.2 Risks

Both downside and upside risks relate to volume of staff employed via TBG Flex. If less staff, this would generate less surplus in Flex but potentially marginally improve BH or YCB surplus.



## 1.11 Bumblebee

### 1.11.1 Key Assumptions

1.11.1.1 The business model has changed with the market and there is more lease management than leases, Bumblebee is now also selling properties.

#### 1.11.1.2 Income and cost increases

All costs are budgeted to move in line with CPI unless long term leases.

### 1.11.2 5-year summary

Based on the above assumptions the 5-year summary is as follows:

Year £k	2024/25	2025/26	2026/27	2027/28	2028/29
Proposed budget- 2024/25	281	256	294	340	397

### 1.11.3 Key risks

#### 1.11.3.1 Downside

- Management and letting numbers may not be achieved if the economy changes
- Sales targets may not be achieved.
- In the current economic climate costs could be incurred on evictions.
- Bad debts

#### 1.11.3.2 Upside

- Client mix may lead to lower bad debts
- With fewer leases repairs costs should be lower
- Lease income could be higher if a higher than budgeted rent per tenant is achieved
- Higher than budgeted management leases could be achieved resulting in higher revenue

## 1.12. The Barnet Group Company

### 1.12.1 5-year summary

Year £k	2024/25	2025/26	2026/27	2027/28	2028/29
Proposed budget- 2024/25	(41)	(44)	(45)	(46)	(47)

The budget is for a loss each year, this is due to the entity only incurring costs, mainly director fees, insurance and audit fees relating to the entity, less some interest income.

### **1.13 Recommendation**

It is recommended that Cabinet approve The Barnet Group 5-year business plan.

## **2. Alternative Options Considered and Not Recommended**

2.1 No other options were considered as the annual income and rate of increase for Barnet Homes is defined within the 10-year Management agreement and equates to the costs included in the Council's Housing Revenue Account and applicable sections of general fund budgets presented to Cabinet previously. Increases within Your Choice (Barnet) are negotiated annually.

## **3. Post Decision Implementation**

3.1 These budgets have already been included with the Councils overall budget (apart from final agreement on the Your Choice (Barnet) increase in rates). The Barnet Group is already delivering these services and plans to continue delivering quality, value for money services in the 2024/25 financial year are already being implemented.

## **4. Corporate Priorities, Performance and Other Considerations**

### **4.1 Corporate Plan**

Delivery of The Barnet Group budgets will support Council in delivering its Corporate Plan 2023 – 2026 priorities as follows:

- Caring for people – Barnet Homes is responsible for the management of the properties and customer experience of residents of the Council's social housing. Your Choice (Barnet) is providing adult social care services within the borough and Bumblebee lettings is a source of properties for those who may otherwise be homeless.
- Caring for our places – Barnet Homes is managing the social housing homes and the communal areas around the homes.
- Caring for our planet – Barnet Homes is maintaining properties and reviewing options to enhance energy efficiency ratings and reduce the impact on the environment.
- An engaged and effective council – tenant and service user services are adapted based on the feedback and inputs of these groups.

### **Corporate Performance / Outcome Measures**

4.1 The Barnet Group Board has two Councillors on its Board who monitor performance.

4.2 The Barnet Homes Delivery Plan is agreed annually by Cabinet

### **Sustainability**

4.3 The council has set ambitious targets to become net zero as an organisation by 2030 and net zero as a borough by 2042. To achieve this, the council recognises the importance, and necessity, to embed sustainability considerations into all decision making and council activity. By accepting this report, the properties in the portfolio will

have the required long-term investment to enhance their energy efficiency ratings and achieve a minimum C rating.

### **Corporate Parenting**

- 4.4 The annual financial performance is reported back to officers as part of the financial year-end.
- 4.5 Where possible Barnet Homes work closely with relevant Council departments to ensure that care leavers make a successful transition to independent living where.

### **Risk Management**

- 4.6 The Barnet Group Board manages risks for the Group. Any specific risks relating to The Barnet Group performance is included within Councils risks register.

### **Insight**

- 4.7 The performance of the Group is monitored by The Barnet Group Board and on a quarterly basis by Council Officers including the Deputy Chief Executive.

### **Social Value**

- 4.7 The services provided with The Barnet Group all have a social value or any profits generated from commercial operations are utilised to deliver or subsidise the delivery of social value services.
- 4.8 Procurement with The Barnet Group includes requirements of suppliers to contribute to social value activities within the borough.

## **5. Resource Implications (Finance and Value for Money, Procurement, Staffing, IT and Property)**

- 5.1 The financial performance of The Barnet Group will form part of the final annual financial statements of the Council.

## **6. Legal Implications and Constitution References**

6.1 This report satisfies the requirements of clause 2.6 of the Shareholder agreement. The shareholder agreement requires business plans in respect of each company within the group, to cover an annual operating revenue plan and capital expenditure requirements including funding source, balance sheet forecast, minimum 5-year term financial strategy plan, a plan for the use of any surpluses, an annual profit and loss account for each service delivered and further information if requested. TBG's business plan is to include the business plans of all the companies in the same group. This includes the business plan of Barnet Homes, which is to be in accordance with the management agreement made between the Council and Barnet Homes and to be approved by the Strategic Housing Board required by the shareholder agreement.

6.2 Under the Council's Constitution, Part 2D, the terms of reference of Cabinet states that the Executive will exercise all of the local authority functions which are not the responsibility of any other part of the local authority, whether by law or under the Council's Constitution and includes the following responsibilities:

- Development of proposals for the budget (including the capital and revenue budgets, the fixing of the Council Tax Base, and the level of Council Tax) and the financial strategy for the Council;
- Monitoring the implementation of the budget and financial strategy;

- Recommending major new policies (and amendments to existing policies) to the Council for approval as part of the Council's Policy Framework and implementing those approved by Council;
- Approving policies that are not part of the policy framework;
- Management of the Council's Capital Programme; and all key decisions.

## **7. Consultation**

7.1 Not applicable.

## **8. Equalities and Diversity**

8.1 Under the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

- a) Eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under this Act.
- b) Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

8.2 The 'protected characteristics' referred to are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, and sexual orientation. It also covers marriage and civil partnership with regards to eliminating discrimination.

8.3 The Council is committed to improving the quality of life for all, and wider participation in the economic, educational, cultural, social, and community life in the Borough.

8.4 It is not envisaged that there will not be any disproportionate impact on any individuals or groups as a result of the business plans mentioned in this report.

## **9. Background Papers**

9.1 None.