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THE BARNET GROUP

Microsites Programme: Phase 1 project (Public)

Business Justification Case (BJC)

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1. EXECUTIVE SUMMARY

1.1 This document is the Business Justification Case for Phase 1 of the Microsites Programme, including the transfer to Opendoor Homes of sites from Barnet Council (LBB) for development. The sites are proposed to be developed as affordable housing for Opendoor Homes, a subsidiary of Barnet Homes within The Barnet Group (TBG). LBB is the sole shareholder of TBG.

- 1.2 This report sets out a strategy for developing affordable rented housing on smaller scale infill sites in the borough, and the rationale for Phase 1 which includes developing housing on four sites using subsidy in the form of Right to Buy receipts and Section 106 commuted sums to provide 10 affordable rented homes including eight wheelchair adapted bungalows.
- 1.3 It is anticipated that further phases of microsites projects will follow as schemes are identified, either through existing schemes that cannot be delivered in the Tranche 3 programme, or for future infill sites which are identified.
- 1.4 This report follows on from the Outline Business Case for the Tranche 3 development programme that was approved by Assets, Regeneration and Growth Committee. The principle of developing these four sites was approved as part of the Tranche 3 Business Case. The four sites proposed to be part of Microsites Phase 1 are as follows;
- Crispin Road garages, HA8 9EN (Hale Ward)
 - Quinta Drive garages, EN5 3BW (Underhill Ward)
 - Mayhill Road garages, EN5 2NP (Underhill Ward)
 - Ryecroft Crescent EN5 3BP (Underhill Ward)
- 1.5 Due to the nature and scale of the sites and their associated higher development costs, the schemes were not considered financially viable for the Tranche 3 programme taking into account the nature of the loan, repayment term and required cost parameters. However, given the savings in care costs of amending schemes to provide wheelchair adapted housing, along with subsidy funding from LB Barnet, the development of these sites is financially viable and offers significant economic and social benefits to the London Borough of Barnet and the Barnet Group.

Benefits to London Borough of Barnet:

- Development of a higher value asset through a wholly owned subsidiary of the council
- Creating an ongoing General Fund revenue stream
- Delivery of affordable housing
- Positive use of RTB receipts
- Positive use of Section 106 commuted sums
- Temporary Accommodation Cost Avoidance
- Bringing underutilised garages into more productive use

Benefits to The Barnet Group

- Increasing the asset base for Opendoor Homes

- An ongoing revenue stream supporting and creating a more resilient business plan for Opendoor Homes
- Recovery of abortive costs to date for Opendoor Homes
- Reducing maintenance burden of garages and hard standing areas which attract fly tipping and anti-social behaviour.

2. BACKGROUND

- 2.1 The term “Microsites” has been coined to describe smaller scale infill development sites/schemes.
- 2.2 Due to the site constraints, in some cases, only bungalows are feasible in planning terms, which in turn makes them ideal for wheelchair adapted housing which serves a particular need in the borough.
- 2.3 These sites are due to their characteristics, disproportionately more expensive to develop than typical schemes and are likely to need a greater level of subsidy to make them financially viable.
- 2.4 Four schemes are proposed to be included in Phase 1 of the “Microsites” Programme.
- 2.5 The original intention was to develop all of these sites within the Tranche 3 development programme, funded through the loan agreement with the London Borough of Barnet. However, after competitive tendering on three of the schemes, the build costs exceeded the threshold set within the approved parameters for Tranche 3 so an alternative funding strategy is required to make them financially viable.
- 2.6 To make the business case for Microsites Phase 1 project more viable, a greater level of wheelchair adapted accommodation has been provided because this provides greater economic benefits in the form of revenue savings. Non-material amendments to the Ryecroft Crescent and Quinta Drive schemes were submitted to the Planning Authority and subsequently approved while the Mayhill Road scheme design has been amended to include 4 homes which are wheelchair accessible. Phase 1 of Microsites will therefore provide 10 homes of which 8 are wheelchair accessible homes.
- 2.7 The accommodation schedule for the four schemes is set out below. All of the homes are two bedroom homes, and eight of the ten homes will be wheelchair accessible.

<p>Table 1: Accommodation schedule for the Microsites Programme (Phase 1)</p>
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Scheme	2b3p WC	2b4p	Total
Crispin Road garages	0	2	2
Mayhill Road garages (subject to planning)	4	0	4
Quinta Drive garages	2	0	2
Ryecroft Crescent garages	2	0	2
			10

- 2.8 The ARG Committee report recommends that all necessary approvals in terms of land and funding are made for a contingency scheme at Reets Farm Close, which has planning permission for a 2-bed 4-person general needs detached house. This is to cover the event in which any of the above four priority schemes is not viable due to unforeseen site issues.

3. STRATEGIC CASE

- 3.1 This report seeks to secure approval to fund Phase 1 of the Microsites Programme, comprising the development of ten new homes, eight of which are wheelchair accessible on four different underutilised brownfield sites.
- 3.2 It is proposed that Phase 1 of the Microsites Programme is funded through subsidy in the form of Right to Buy receipts and Section 106 commuted sums that have been received through developer contributions for affordable housing on other sites in the borough.
- 3.3 The Strategic Case sets out the rationale, business needs and constraints for the development of new homes on HRA land.
- 3.4 LBB policy context
- Barnet Council's Housing Strategy 2015 – 2025 states that Barnet has the largest population of any London borough with an estimated 393,000 residents in 2015. This is expected to grow by a further 19% over the next 25 years.
- 3.5 The cost of homelessness in Barnet: a snapshot of supply and demand in Barnet
- There has been a 42% increase in new homelessness applications between 2011/12 and 2016/17.
 - There was an overall 26% decrease in letting within Council stock from 2011/12 to 2016/17 and Barnet has below levels of social housing on average compared to other London boroughs.
 - There has been a significant increase (27%) in the number of households in temporary accommodation (numbers have increased

from 2,172 in April 2012 to their current level of 2,757 at the end of March 2017)

- Barnet has the 6th highest number of households in temporary accommodation in the country
- Almost 75% of all the households in temporary accommodation in England are placed by North, East and West London Authorities. This has led to increased pressure in competition for affordable supply.
- Whilst it is positive that the regeneration schemes in Barnet are progressing in their development, this has an impact on available supply as 'non-secure' tenants placed in regeneration units as long term TA are decanted and require rehousing, either to alternative TA or social housing units. 828 households have been decanted since April 2012 and a further 383 decants are scheduled for the forthcoming two financial years.

3.6 The Barnet Group's business aim

The Barnet Group Business Plan 2016 – 2021 commits to take the organisation from “good to great” through the delivery of three core themes:

- Putting people first
- Thinking differently and challenging ourselves
- Growing our business
- There is a commitment to build or purchase 750 new homes by 2021 as part of growing our business.

4. CASE FOR CHANGE

- 4.1 The case for change sets out present circumstances and reasons for taking advantage of them.
- 4.2 LBB has available Right to Buy receipts and commuted sums from Section 106 developer contributions which it can use to support the delivery of new affordable housing in the borough. These receipts/commuted sums must be spent by the Council on affordable housing within set timescales. Right to Buy receipts have to be returned to central government with interest if not spent within certain timescales.
- 4.3 The Council's Housing Strategy includes an objective of providing housing to support vulnerable people. Eight of the ten homes in Phase 1 of the Microsites Programme will be wheelchair accessible homes designed to meet the requirements of Building Regulations Part M4(3).

This will support Adults and Communities in the financial savings required as part of the MTFs by reducing reliance on higher cost forms of care and support.

- 4.4 The proposals included in this business case will facilitate the delivery of new homes, which will all be let at affordable rents, enabling those in housing need in the borough to be housed. The homes will be built to a high standard to protect Opendoor Homes' investment, and be energy efficient to reduce residents' fuel costs, as well as creating an improved environment in the neighbourhoods where they are located.
- 4.5 A higher proportion of wheelchair accessible homes can be delivered in Phase 1 of the Microsites Programme given that eight of the ten homes are bungalows/single storey houses so there would be no requirement for a through floor lift. The opportunity to provide more wheelchair accessible housing strengthens the business case as it meets particular needs of the borough, as set out in the Housing Strategy, and helps alleviate the social care budget pressures.

5. ECONOMIC CASE

- 5.1 The Economic case sets out the critical success factors for the decision, appraising various options and indicating which is preferred.
- 5.2 The following critical success factors have been established:
- Delivery of General Fund revenue benefits (including savings) to Barnet Council.
 - Delivery of completed affordable housing units.
 - Engaging smaller contractors to support SMEs.
 - Utilising Section 106 commuted sums and Right to Buy receipts for the delivery of affordable homes.
 - Contributing to the growth of Opendoor Homes as a Registered Provider to deliver more affordable housing in the future by increasing its asset base and revenue.
- 5.3 Opendoor Homes is the preferred vehicle for delivery as it meets all critical success factors:
- Opendoor Homes will procure works in accordance with Barnet Homes' standing orders and in compliance with OJEU requirements where necessary. The lessons learnt from delivering the Tranche 0 programme will be deployed to ensure robust project management and cost containment.
 - Barnet Homes has long experience of managing affordable housing and knows its customer base well.

5.4 When considering the case for Phase 1 of the Microsites Programme, several options were considered.

- **Do nothing:** Doing nothing would not realise the significant economic, financial and social benefits set out in this report. Considering the expenditure of fees to submit planning applications and obtain planning permissions, doing nothing would result in abortive fees.
- **Include the schemes within Tranche 3:** The schemes do not meet the performance targets/parameters required for Tranche 3 due to the loan arrangement and repayment date. The terms of the loan would have to be adjusted to include these schemes within the Tranche 3 programme which is not considered a viable option.
- **Disposal of the sites with planning:** Disposing of the sites would realise a residual land value. The sites could be auctioned or marketed to private developers and would attract a premium as three out of four have planning permission. The land value obtained from disposal could come back to the Housing Revenue Account. After development costs and developer profit have been netted off, the Council might be able to achieve in the region of £500-750K based on the current schemes.
- **Development of the sites for private sale or rent:** The delivery of the schemes could be managed by Barnet Council or The Barnet Group through a standard JCT Design & Build contract with a private sale specification. The Council or TBG could take on sales risk and completed units disposed of through an agent on the open market (or retain the asset and rent out at market rents). This would increase the level of return as developer profit and residual land value/return that would come back to the Council. However, selling homes on the private market or PRS would not fulfil the objectives of the housing strategy and not provide much needed affordable rented accommodation which has numerous economic and social benefits. It is considered that the wider economic benefits of delivering affordable housing have a greater value than disposal or delivering private rented tenure.
- **Develop the sites as Council assets, with the development process managed by Barnet Homes.** This option would enable the Council to have new housing assets and deliver numerous economic, financial and social benefits. However it would not enable the growth of Opendoor Homes which has been set up as a wholly owned subsidiary of Barnet Homes to provide affordable housing and grow into an established Registered Provider.
- **Develop the sites through Opendoor Homes, funded through the use of Council subsidy for specialised affordable housing:**

This is the preferred option because it provides numerous economic, financial and social benefits, and helps achieve objectives of the Housing Strategy while successfully utilising Right to Buy receipts and Section 106 commuted sums. It also enables growth of Opendoor Homes as a Registered Provider. The Net Present Value of the annual dividend payable to the Council would exceed the likely value it might achieve through disposal, and by providing affordable tenure that in turn enables numerous economic benefits and savings to be realised which have a value of a further £100K per annum.

- 5.5 The total revenue benefits for Barnet Council in pursuing Phase 1 of the Microsites Programme expected to be over £146K p.a. This includes a dividend paid from Opendoor Homes, savings from care costs as a result of additional wheelchair accessible homes, temporary accommodation cost avoidance, and also Council tax income.
- 5.1 Economic benefits for Phase 1 of the Microsites Programme, including income generated and savings made to the Council are set out in Table 2 below.
- 5.2 The total revenue benefit inclusive of savings to Barnet Council is £146,450 per annum.

Table 2: Microsites Phase 1 Revenue Benefits and Savings							
Scheme	N.o. WC units	Total n.o. units	LBB Dividend per annum	Adult MTFS Savings per annum	Temporary Accommodation Cost Avoidance per annum	Assumed Council Tax Income	Total LBB Revenue Benefit Per Annum
Crispin Road	0	2	£8,000	£0.00	£6,800.00	£1,539.60	£16,339.60
Mayhill Road Garages	4	4	£16,000	£45,976.00	£0.00	£3,079.20	£65,055.20
Quinta Drive	2	2	£8,000	£22,988.00	£0.00	£1,539.60	£32,527.60
Ryecroft Crescent	2	2	£8,000	£22,988.00	£0.00	£1,539.60	£32,527.60
Total	8	10	£40,000	£91,952.00	£6,800.00	£7,698.00	£146,450.00

- 5.3 In the event that there are any unforeseen circumstances with the above four sites/schemes, the contingency scheme at Reets Farm

Close, a single 2-bed 4 person house would provide the following economic benefits;

- an annual dividend of £4000 to Barnet Council
- £3400 per annum in Temporary Accommodation cost avoidance
- £769.80 in Council tax revenue
- A total LBB revenue benefit of £8169.80 per annum.

6. COMMERCIAL CASE

Land

- 6.1 It is proposed that the land is transferred freehold (or long leasehold) from the London Borough of Barnet to Opendoor Homes at nil value, as per the terms of the Tranche 3 development agreement between the London Borough of Barnet and Opendoor Homes (TBG Open Door Ltd) however the proposed annual dividend per unit is higher at £4,000 reflecting a greater return for disposal of the land asset.

Procurement

- 6.2 Tendering exercises on three of the schemes has been undertaken however the tenders have technically expired given the lapse in time so a new procurement will need to be undertaken.
- 6.3 A Dynamic Purchasing System has been set up for low value residential construction contracts under £4m to enable small sized contractors to tender for the work. Smaller businesses are likely to be more competitive than larger contractors, both in terms of their margin for overheads and profits, and also preliminaries for construction works which includes site setup, security, health & safety requirements etc.
- 6.4 It is considered that there is sufficient market interest to deliver the construction contract for the Phase 1 project, and it is proposed that the four sites for which four separate schemes comprising of ten homes in total, are packaged together as a contract.
- 6.5 The contract will be procured through a single stage tendering exercise with the most economically advantageous tenderer being appointed to deliver the contract under a JCT Design & Build contract subject to due diligence undertaken by The Barnet Group.

Revenue

- 6.6 The Barnet Group will receive the rental income for the project and provide an annual dividend per unit per annum to the London Borough of Barnet. Details of the rental income is included in the exempt part of the report.

7. FINANCIAL CASE

- 7.1 The financial case indicates the budgetary, financial and affordability considerations of this approach.
- 7.1 Barnet Council has sufficient resources to deliver the project through subsidy in the form of Section 106 commuted sums and Right to Buy receipts. Based on budget estimates for the four schemes, it is currently anticipated that the total development costs of Microsites Phase 1 is £2.86m. It is proposed that this is funded by £860K of Right to Buy Receipts and £2m of Section 106 commuted sums. This will be spent during 2017-18, 2018-19 and 2019-20.
- 7.2 Financial appraisals for the four schemes in Microsites Phase 1 have been undertaken and each scheme is financially viable on the basis that it is funded through subsidy, generating a positive net present value and various revenue benefits and savings to the Council and The Barnet Group.
- 7.3 The financial appraisal is based on rents capped at the Local Housing Allowance levels to maximise revenue while enabling savings such as Temporary Accommodation cost avoidance.
- 7.4 Further information on the financial case is included in the exempt part of the report because they contain commercially sensitive information particularly due to ongoing procurement activity.

8. MANAGEMENT CASE

- 8.1 The management case provides the outline plans for programme management, governance, risk management and benefits realisation that will be required to ensure successful delivery.
- 8.2 Opendoor Homes is an independent Registered Provider regulated by the Homes and Community Agency (HCA). Opendoor Homes Board has an absolute responsibility to ensure that the Microsites programme is scrutinised, monitored and meets the requirements of the business plan including dealing with significant exceptions in line with the expectations of the Government's regulator the HCA. The Opendoor Homes programme is managed by the Group's established structures at officer level by the Development Planning Board and at Board

member level by the Opendoor Homes Board which includes suitably experienced members from a Registered Provider background.

8.3 Programme delivery is reported at Project Board meetings attended by representatives from LBB and Barnet Homes. Barnet Council as provider of land and subsidy will receive regular financial and programme monitoring information and more regular exception reporting should this be necessary. This will have particular relevance to variations to the Business Plan and any specific implications on the subsidy comprising of the gifting of Section 106 commuted sums, Right to Buy receipts or the release of sites for Opendoor Homes to develop.

8.4 Reporting to the Council will include:

- Overall progress against programme
- Financial progress against programme, together with appraisals
 - Quarterly cost update
 - Cash flow including S106 and RTB contributions

The Barnet Group reporting

8.5 Available Right to Buy (RTB) proceeds to fund the programme are subject to two key constraints of RTB funding:

- 30% limit on scheme funding
- 36 month time limit on spending the receipts

Gateway Review Process

8.6 The Phase 1 Microsites are at an advanced stage in the development process. Three of the four schemes have planning permission and the Mayhill Road Garages scheme planning application is currently being determined.

8.7 It is proposed that if the contract sum for the most economically advantageous tender is within the budget set out in this report, then authority is delegated to the Deputy Chief Executive of The Barnet Group to authorise award of the contract.

8.8 Should there be any increase above the proposed budget then it is proposed that authority is delegated to Cath Shaw to authorise any variation to the budget.

8.11 Equalities

Equalities and diversity - The 2010 Equality Act outlines the provisions of the Public Sector Equalities Duty which requires Public Bodies to **have due regard** to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Equality Act 2010.
- Advance equality of opportunity between people from different groups and foster good relations between people from different groups.

A full equalities impact assessment was completed for The Housing Strategy 2015-2025 which identified that the Strategy would have a positive impact on all sections of Barnet's Community.

Allocation of properties acquired will be made in accordance with the Council's Housing Allocations Policy. Analysis of data has shown that women and members of Barnet's black and minority ethnic communities are over represented among those living in temporary accommodation. Over 70% of households in temporary accommodation are from non-white households, compared to around 40% of the Borough's population as a whole. Of those in temporary accommodation the main applicant is female in 65% of households.

It is not expected that these groups will be adversely affected by implementing Phase 1 of the Microsites Programme as set out in this report. However the impact will be monitored to ensure that these groups are not adversely affected.

All units of accommodation that are procured will meet minimum standards and in placing households into accommodation.

Eight of the ten houses will be wheelchair accessible homes.

The new affordable housing units delivered by Opendoor Homes will be let in accordance with the Council's Allocations scheme, which has been subject to a full equalities impact assessment which included extensive consultation with residents, housing applicants and other stakeholders, including local Housing Associations and third sector organisations.

A full equalities impact assessment was completed for The Housing Strategy 2015-2025 which identified that the Strategy would have a positive impact on all sections of Barnet's Community.

The proposals in this report do not raise any negative impacts for equalities and demonstrate that the Council has paid due regard to

equalities as required by the legislation. The proposals anticipate a positive impact for residents because they:

- Underline the Council’s aim that all residents from our diverse communities – the young, old, disabled people and those on low incomes – benefit from the opportunities of growth.
- Contribute to Barnet’s commitment to fairness - to be mindful of the concept of fairness and in particular, of disadvantaged communities - which was adopted at Policy and Resources Committee in June 2014.
- Form part of Barnet’s Housing Strategy 2015-2025 which includes the objective to deliver homes that people can afford.
- Provide homes for people who are homeless and may be currently disadvantaged.
- Also reflect the Development Pipeline EQIA.

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Approvals:

By signing this document, the signatories below are confirming that they have fully reviewed the Business Justification Case for the Microsites Phase 1 project and confirm their acceptance of the completed document.

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