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THE BARNET GROUP

Tranche 3 Affordable Housing

Full Business Case (FBC)

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1. EXECUTIVE SUMMARY

- 1.1 This document is a further update of the Full Business Case for the Tranche 3 new build infill project, including the transfer to Opendoor Homes of sites from Barnet Council (LBB) for development. The sites are 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. The initial Full Business Case, approved by ARG in December 2016, make the case for the transfer and

development of 21 no. Housing Revenue Account (HRA) and General Fund (GF) sites from LBB to Opendoor Homes. This list of sites was approved in December 2016 and then updated in July 2017. Further design work has now been carried out and some of the sites approved do not provide sufficient capacity to make up the number of units proposed in the programme. The updated full business case requires the addition of two more sites to provide homes to let at affordable rents for residents of the Borough whose need for suitable accommodation cannot be met in the open market.

- 1.2 LBB can transfer the HRA and GF sites (after an options appraisal) at nil consideration to Opendoor Homes following successful registration of the RP with the Homes & Communities Agency (HCA) in March 2017

The list of sites for disposal attached to the December ARG report and updated in the July ARG report do not provide sufficient capacity for the number of units for which funding is available. Opendoor Homes has reconsidered a further two sites, which had been excluded from both the original and updated lists and wishes to bring these forward. The effect on the business plan is neutral.

- 1.3 This approach will maintain project outcomes and assures not only a strategic benefit to the Council by ensuring the delivery of affordable housing, but also maintains a positive financial benefit. The Council's subsidiary, The Barnet Group, and its secondary subsidiary, Opendoor Homes, also retain the benefits anticipated by this approach.

Benefits to London Borough of Barnet:

- Development of a higher value asset through a wholly owned subsidiary of the council
- Delivery of affordable housing
- Positive use of RTB receipts
- Consolidation of a vehicle to deliver further tranches of affordable homes

Benefits to The Barnet Group

- Diversification of TBG into viable housing developer and long term strategic partner
 - Stabilise loss of housing units and maintain economies of scale
 - Culture to enable further dynamic of growing a business
- 1.4 Tranche 3 is funded by on-lending from Barnet Council to Opendoor Homes and gifted Right to Buy receipts as grant, agreed in principle by Policy and Resources Committee at its meeting of the 16 February 2016.

- 1.5 Cost control of the programme is one of several risks to this programme which need to be managed. The substitution of sites will ensure that costs are kept within budget and programme objectives are delivered.

2. BACKGROUND

- 2.1 The cost of land is a significant factor in the provision of new homes, particularly in London. Significant savings can be made by developing on land already owned by the Council. Smaller pockets of land provide an ideal opportunity to integrate new affordable homes within established communities although we have found that they present a high proportion of abnormal development constraints, such as service diversions, unstable ground conditions and difficult access.
- 2.2 Opendoor Homes' objective is to build 320 new homes, all to be let at affordable rents, including 10% wheelchair accessible units, across circa 21 infill sites owned by the Council. This is funded by a combination of a loan, financed by the rental income stream, and RTB receipts as grant. Opendoor Homes has achieved planning permission for 16 of the sites listed in the report approved by ARG in July 2017. Nine schemes are on site and contractors are working under letters of intent or pre-contract services agreements for all other sites in anticipation of land transfer
- 2.3 Tranche 3 is funded by on-lending from Barnet Council to Opendoor Homes and gifted Right to Buy receipts as grant. Policy and Resources approved the loan in principle at its meeting of the 16 February 2016. This decision was ratified by full Council at its meeting of 1 March 2016. ARG approved details on 12 December 2016.
- 2.4 Delivery of the new homes is dependent on meeting the following targets:
- Receipt of the loan funding to progress the scheme in advance of receipt of rental income – this is achieved by borrowing from LBB
 - HCA registration – now achieved
 - Identifying sites which are suitable for residential development – 22 sites were originally identified of which 17 were put forward to ARG in December 2016. Five sites were considered too small to be viable or to have prohibitive site development costs. These are now being taken forward under the Microsites programme and are fully funded by Right to Buy receipts and S.106 off-site contributions. In July 2017 ARG approved transfer of 19 sites which were identified for development.
 - Planning permission – 16 planning permissions have now been obtained for viable schemes which contribute to the required mix

of units. Planning applications for a further 2 schemes have been submitted and are pending determination.

- Building costs within scheme parameters - Opendoor Homes has sought tenders for all schemes and is working with contractors to bring them in on budget.
- Legal transfer of land - Sites will be transferred to Open Door Homes as soon as building contracts are ready to be let and vacant possession can be given.

Site details are set out in Appendix 1 Tranche 3 Sites.

- 2.5 Opendoor Homes application to become a Registered Provider was approved on 7 March 2017. Barnet Council is therefore able to transfer the HRA and G/F sites (following an option appraisal) at nil consideration to ODH following execution of the loan agreement.
- 2.6 Opendoor Homes has set up internal procedures for assessing the practical and financial viability of each site. These procedures include consultation with housing management and maintenance colleagues to ensure that new developments will meet the needs of future residents, be efficient to manage, reduce opportunities for anti-social behaviour and minimise future maintenance costs. The Housing Options service is involved in identifying the mix of new accommodation required to meet housing need.
- 2.7 The project is managed by Barnet Homes' in-house team, who have appointed consultants from OJEU compliant frameworks. Barnet Homes has also employed independent solicitors to carry out due diligence, ensuring the sites have good and marketable title and are capable of being developed following transfer.
- 2.8 Opendoor Homes had sought to bring forward a mixed portfolio of sites to balance the disproportionate costs of the small sites with less expensive medium and slightly larger sites that will bring a more viable overall average build cost. This is particularly important given that many of the sites are complex with difficult access. Our approach to procurement has sought to help mitigate this issue by seeking to involve a range of different sized contractors suited to the size and nature of the build.

3. STRATEGIC CASE

The Strategic case sets out the rationale, business needs and constraints for the development of new homes on HRA land.

3.1 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.

3.2 The cost of homelessness in Barnet: a snapshot of demand in Barnet

- There has been a 42% increase in new homelessness applications between 2011/12 and 2016/17.
- There has been a significant increase (23%) in the number of households in temporary accommodation (numbers have increased from 2,172 in April 2012 to their current level of 2,675 at the end of September 2017).
- As of April 2016, each new household placed in 2-bed emergency temporary accommodation will cost on average an extra £3,400 per annum to the Council's General Fund;
- Future budget pressure is likely to be as much as £5.9 million over the next 5 years – a shortfall that the Council will have to potentially fund from other budgets.

Supply pressures:

- Less affordable private rented sector homes – only 1% at or below LHA rate;
- 6th largest demand for use of temporary accommodation in the UK.
- 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.
- Barnet has below levels of social housing on average compared to other London boroughs.

3.3 In July 2014, The Assets, Regeneration and Growth Committee (ARG) agreed that a development pipeline would be established, making use of council owned land to meet housing need and to enable the Council to benefit directly from any uplift in land values associated with developing sites, rather than simply seeking a capital receipt through disposal on the open market. The programme includes the development of housing for affordable rent, shared ownership, and private sale and for private rent. The homes for affordable rent built as part of this (Tranche 3) project form part of this programme of housing development. ARG approved the Full Business Case on 12 December 2016.

3.4 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. Tranche 3 represents a step change in delivery of -new homes funded through a loan from the council (plus RTB receipts and GLA funding) to be managed and owned through our new registered provider Opendoor Homes.

3.5 The following constraints were identified in the December 2016 ARG report:

- Availability of transfer of LBB sites which are suitable for residential development of small schemes at nil consideration
- Obtaining planning permission for schemes with the required mix of units before construction can commence.
- Procurement of works within the funding available. There is a limit on how far building price inflation or the cost of unforeseen abnormal construction costs can be contained within the budget.

3.6 The following dependency was identified in the December 2016 ARG report:

- A robust financial business plan must be provided, which is acceptable to both the Council and the HCA.

3.7 The key risks for the project are concerned with

- Finance – that the costs of developing the sites might be too high and cannot be contained within the business plan, even taking account of the contingency sums available
- Programme slippage - which potentially could be caused by a referral for disposal to the Secretary of State
- Planning - that planning permission is not forthcoming for the preferred scheme or are subject to challenge
- Programme delay – incurring increased loan interest costs without rental income

The business plan has been subjected to external validation and stress testing to understand the potential impact of these risks and the potential mitigations that could be brought forward to manage them.

4. CASE FOR CHANGE

The case for change sets out present circumstances and reasons for taking advantage of them.

- 4.1 LBB has available both surplus Housing Revenue Account (HRA) and General Fund (G/F) land and access to finance from the Public Works Loan Board, which it can lend on to Opendoor Homes. This provided a window of opportunity to build more housing to address the challenges described above.
- 4.2 The Council's Housing Strategy includes an objective of providing housing to support vulnerable people. All new houses and ground floor flats in the Tranche 3 programme will meet the Lifetime Homes standard and at least 10% will be fully wheelchair adapted. 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.
- 4.3 The proposals included in this business case will facilitate the delivery of new homes, which will all be let at affordable rents. They will be built to a high standard to protect Opendoor Homes' investment and reduce residents' fuel costs, as well as creating an improved environment in the neighbourhood.
- 4.4 ODH's business plan makes the following financial assumptions in respect of development.
 - Initial programme of 320 units utilising Right to Buy (RTB) receipts being gifted by the London Borough of Barnet
 - Cost per square metre
 - Administration & Development allowance

Scheme costs for the proposed substitute sites can be contained within these parameters

5. ECONOMIC CASE

The Economic case sets out the critical success factors for the decision, appraising various options and indicating which is preferred.

- 5.1 The following critical success factors have been established:

- Achievement of acceptable planning permissions, free from challenge, enabling all sites to be built out or to be sold at increased value
- Alignment of construction costs within financial appraisals to the approved business plan
- Completion of at least 320 new homes on HRA and G/F land by the end of the programme
- Delivery of net financial benefit to Barnet Council as outlined in the financial case

5.2 Opendoor Homes is the preferred vehicle for delivery as it meets all critical success factors:

- Barnet Homes' dedicated Development Team can and has worked as an independent applicant to achieve successful planning applications. Opendoor Homes' independent status allows the planning authority to consider applications with due professional distance.
- Opendoor Homes have procured 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 have been deployed to ensure robust project management and cost containment.
- Barnet Homes has long experience of managing affordable housing and knows its customer base well.

5.3 Options to maintain programme unit numbers:

5.3.1 Do nothing – the programme would not achieve the numbers of units proposed.

5.3.2 Increase numbers of units on other sites in the programme – we have either obtained planning permission on all other sites or are about to submit planning applications at maximum density. There is no capacity on other sites for additional units.

5.3.3 Identify alternative sites – there are no alternative sites available that have progressed this far through the development process and it would delay the programme if they were to be brought forward at this stage.

5.4 The preferred option is to proceed to develop the land at Mount Parade and Salcombe Gardens.

6. COMMERCIAL CASE

6.1 Opendoor Homes has obtained planning permissions for 16 sites. However, these consents cannot supply the required number of units for which funding is available. We have lost units at The Croft

because of flood risk issues, at Burnt Oak Register Office because of height restrictions and, most significantly, at Basing Way Green where the cost of diverting utilities, including a high voltage Transport for London cable, sterilises large parts of the site.

6.2 The updated list of sites is set out in Appendix 1.

The Outline Business Case was approved by ARG Committee on 17 March 2016. At that time, authority was delegated to the Commissioning Director Growth and Development to approve any site substitutions. The list of sites attached to the Outline Business Case then included Salcombe Gardens and Mount Parade; however, they were excluded from the list of sites attached to the Full Business Case in December 2016 because the Salcombe Gardens site was being used for site accommodation by the contractors working on Ansell Court and the Mount Parade site appeared to have legal constraints on part of the site which is a car park giving access to a church next door.

It is now proposed that the sites at Salcombe Gardens and Mount Parade are added to the sites to be transferred to Opendoor Homes in the Tranche 3 programme.

Salcombe Gardens has been selected for the following reasons:

- It obtained detailed planning permission for 6 units on 8 November 2016.
- .
- Legal due diligence has been carried out, establishing clean and marketable title.
- The costs of the scheme can be contained within the Business Plan.

Mount Parade has been selected for the following reasons:

- Planners have indicated that it will achieve planning permission for 6 units.
- .
- Legal due diligence has been carried out, establishing clean and marketable title.
- The costs of the scheme can be contained within the Business Plan.

6.3 Site transfer

The Development Agreement between Barnet Council and Opendoor Homes contains the contract for transfer of the sites.

ARG will be requested to arrange suitable delegation of authority to transfer the sites at Salcombe Gardens and Mount Parade from the Council to Opendoor Homes.

6.4 Awarding building contracts

Contractors have now been identified for all sites, except for Mount Parade. Contractors are working either under letters of intent or pre-contract services agreements on all schemes, which are not yet in main contract

6.5 Barnet Council and Opendoor Homes have negotiated a development agreement for the construction of the new homes and a loan facility agreement to fund the construction. These agreements will be implemented through a gateway review process (see The Management Case below).

- Barnet Council is making a loan to Opendoor Homes to be applied to the cost of carrying out the building works and associated costs such as legal and professional fees, management costs, finance and interest costs. The loan will be secured as a fixed charge against the property to be developed in the Tranche 3 programme.
- The loan will be drawn down in monthly stages in accordance with the Brixx business plan cash flow forecast, so that funding is available to pay development fees and contractor's applications for payment. On each draw down the Council will benefit from the payment of an arrangement fee. Barnet Homes will provide a schedule of payments made at the end of each quarter for reconciliation purposes. Draw-down for subsequent quarters will be adjusted to reflect variations
- Interest will be paid on a quarterly basis and the loan is to be repaid in full by 30 March 2055 or later by agreement.
- Barnet Council will transfer each site to Opendoor Homes with clean title. Opendoor Homes will make an annual payment to the Council for each completed property (subject to scheme viability) and will grant 100% nomination rights for all initial lettings and subsequent voids. Opendoor Homes is responsible for submitting planning applications, appointing professional consultants and building contractors and managing the new homes when constructed.
- A value for money statement will be prepared by an independent cost consultant including a tender report that includes benchmarked costs. At Practical Completion of each site the cost consultant will provide a forecast of the Final Account. This

procedure reflects the standard requirements of the Greater London Authority for grant claims and scheme audit.

7. FINANCIAL CASE

The financial case indicates the budgetary, financial and affordability considerations of this approach

7.1 Financing Tranche 3

A loan facility agreement is in place and will be released as required to fund the build process. The phasing will be refined to meet the needs of Open Door Homes.

- 7.2 For every new home for affordable rent completed in the Tranche 3 programme, the Council will receive an annual payment [subject to scheme viability] from Opendoor Homes to support the General Fund costs of providing the Housing Options service.

8. MANAGEMENT CASE

The management case provides the outline plans for programme management, governance, risk management and benefits realisation that will be required to ensure successful delivery.

- 8.1 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 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.
- 8.2 Programme delivery is reported at Project Board meetings attended by representatives from LBB and Barnet Homes. Barnet Council as lender and provider of land 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 loan, the gifting of Right to Buy receipts or the release of sites for Opendoor Homes to develop
- 8.3 Reporting includes:

- 1 Overall progress against programme
- 2 Financial progress against programme, together with appraisals
 - a. Quarterly cost update
 - b. Cash flow including loan and RTB
- 3 Risks
- 4 Coordination with TBG and LBB

8.4 The Barnet Group reporting

The indicative loan drawdown outlined in the HCA business case is summarised above and works with the available Right to Buy (RTB) proceeds to fund the programme, subject to two key constraints of RTB funding:

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

8.5 Gateway Review Process

There are two gateway review processes for each site

- Feasibility – when LBB offers substitute sites to Opendoor Homes. This gateway confirms that expenditure may be disbursed for the purposes of obtaining planning permission and tenders for building works
- Transfer/Building works – when Opendoor Homes' Development Planning Board has given approval to the scheme after formal scrutiny

This FBC constitutes both stages for the transfer of the Salcombe and Mount Parade sites.

Barnet Homes' project team has sought and achieved approval from the internal Development Planning Board and an initial report has been made to the Development Pipeline Programme Board.

8.6 The key benefits to be realised are outlined in the Strategic Case. Benefits will be monitored through a Benefits Tracker. Benefits include

- An increase in the supply of permanent affordable housing – 320 new homes
- Increase in Council tax receipts
- A decrease in the use of temporary accommodation –
- On-lending and arrangement fee cash
- Homelessness dividend

- An increase in asset value that may enable future development capacity
- An ongoing financial return to Barnet Council and retention of the proceeds of Right to Buy sales.
- Social value – employment, apprenticeships etc.
- Wheelchair units – 32 new wheelchair adapted homes

8.7 Financial risks will be monitored and escalated where financial impacts exceed agreed parameters, as evidenced by this updated full business case. Risk is being managed by LBB in its role as funder and OpenDoor Homes in its role as a regulated Registered Provider. Other risks will be escalated through the governance arrangement outlined in the project structure chart. High risks will be reported to LBB through regular regular highlight reports and financial returns.

8.8 Deliverables/benefits realisation – the process for managing benefits realisation

Deliverable / Product	Quality Criteria	Author	Reviewers	Acceptor
Interest on loan to be paid	Compliance with loan repayment schedule	Finance officer to make payment	Finance officer	Finance Director
Annual payment on anniversary of build completion [subject to viability]	Tenancy agreement signed by first tenant	Lettings officer to notify Finance Team	Lettings officer Finance officer	Ops Director Finance Director
Arrangement fee paid on each draw down of the loan		Finance officer to make payment	Finance officer	Finance Director

8.9 Opendoor Homes is required to provide annual returns to the HCA about the governance and financial viability of the organisation and maybe the subject of further scrutiny should there be any causes for concern arising.

8.10 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. 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 the policies 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 out of the borough the Council will consider the needs of protected groups.

Ten per cent of the homes to be built will be suitable for wheelchair users.

All houses and ground floor flats will be built to Lifetime Homes standards.

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, 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.

APPENDIX 1 Tranche 3 Sites

Basing Way
Elmshurst Crescent
Alexandra Road
Sheaveshill Court
Mount Pleasant
West Close
West Farm Place
Westbrook Crescent
Norfolk Close
Underhill Court
The Croft
Hanshaw Drive
Adamson Court
Brunswick Park Rd
Friern Court
Summers Lane
Burnt Oak Registry
Basing Way Green
Prospect Ring
Mount Parade garages
Salcombe Gardens