



Assets Regeneration and Growth Committee 17 September 2018

Title	Outline Business Case for 2-10 Hermitage Lane
Report of	Councillor Daniel Thomas
Wards	Childs Hill Ward
Status	Public with an accompanying exempt report Appendix 1 is exempt (Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended as this relates to information of a financial nature).
Urgent	Yes
Key	Yes
Enclosures	Appendix 1: Outline Business Case – Hermitage Lane, proposed Mixed Tenure with The Barnet Group Exempt Appendix 1: Outline Business Case – Hermitage Lane, proposed Mixed Tenure with The Barnet Group
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Summary

The Barnet Group (TBG/TBG Open Door Limited (“ODH”)) has been commissioned to act as development agent on behalf of the Council to develop a mixed tenure residential development scheme comprising affordable rent, shared ownership and private sale homes.

It is proposed that TBG act as Development Agent for the Council and enters into documentation with the Council and such other parties as may be appropriate to include a Development Agreement to incorporate risk and reward elements with the proposed preferred contractor to develop the Site.

Officers Recommendations

- 1. Note and approve the Outline Business Case for 2-10 Hermitage Lane development scheme, attached at Appendix 1 (public and exempt)**

1. WHY THIS REPORT IS NEEDED

- 1.1 Barnet Homes has been commissioned to act as development agent on behalf of the Council to develop a mixed tenure residential development scheme comprising affordable rent, shared ownership and private sale homes at Hermitage Lane.
- 1.2 The approval of the Outline Business Case by the Assets, Regeneration and Growth Committee is required in order to progress the Hermitage Lane development and work towards entering appropriate documentation to include a Development Agreement with the Council and the preferred contractor.
- 1.3 This report is urgent in the light of the imminent Court proceedings relating to one of the tenants on Hermitage Lane.

2. REASONS FOR RECOMMENDATIONS

- 2.1 TBG were instructed to develop a planning application with funding provided by the Council. The application was submitted in July 2018 for 56 homes. The site was identified as a potential site for development of new housing for some considerable time.
- 2.2 Subject to the approval of the Outline Business Case by the Assets, Regeneration and Growth Committee, Barnet Homes will be able to progress the Hermitage Lane development and work towards getting the scheme through Planning Committee in early Autumn and firm up costs on the scheme whilst working towards agreeing a Development Agreement with the proposed contractor.
- 2.3 Hermitage Lane is located in Child's Hill, north of Hampstead. The site is just to the east of Finchley Road and has good public transport links via buses and two stations within 15 minutes' walk. The site also enjoys close proximity to green space in the form of Elm Park to the north.
- 2.4 The existing site comprises of a poor quality mixed use block with retail uses at ground floor with 2 flats above, a further commercial premises, a builder's yard to the rear and 4 bungalows managed by Barnet Homes. The redevelopment would therefore provide an increase in affordable housing provision, significant development profit and a much-improved street scene with a high-quality design.
- 2.5 A full business case will be submitted to Assets, Regeneration and Growth Committee in due course once all costs have been firmed up and planning is determined

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 All options including 'do nothing' are listed within the Outline Business Case report (Appendix 1) alongside selling the site on the open market, and other options around developing the site for housing purposes.

3.1.1 **Do Nothing** – that is, not develop the Site and keep the commercial elements: this option would not contribute to the supply of new housing overall, or to the Council's ambition to build more homes. The Site will require investment from the Council to maximise the value of the commercial elements.

3.1.2 The 'Do nothing' option fails to recognise the development potential of the Site. It does not allow the Borough to meet any of its critical success factors which include increasing the number of new homes in the Borough in line with current identified need.

4. POST DECISION IMPLEMENTATION

4.1 Subject to ARG approval of the Outline Business Case, TBG will continue to work with architects on the design of the scheme and will pursue its current planning application for planning approval for the Site.

4.2 TBG will continue to negotiate with the proposed contractor to firm up costs in order to achieve best value on the scheme.

4.3 TBG will commission solicitors to draft a Development Agreement ensuring that the Borough's and TBG interests are protected and benefits maximised for both.

4.4 A full business case will be submitted to Committee in due course.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

The development of this Site will meet Borough priorities as follows;

- Increasing the provision of affordable and private accommodation in the Borough.
- Reducing the number of families in temporary accommodation.
- Delivering a financially viable and successful mixed tenure housing development scheme.
- Making effective commercial use of Council-owned land and buildings;

This includes recognising Council stock's potential for development, contributing to the Council's development pipeline of affordable housing as set out in the Barnet Housing Strategy 2015 to 2025 and providing a capital/and or revenue receipt to the Council whilst maintaining /retaining the freehold of the Site

5.2 Social Value

5.2.1 Expected social value from this development will be:

- The provision of a sustainable development on a brownfield site in an area with good public transport accessibility with access to local services.
- The opportunity to facilitate new products being introduced to promote first time buyers i.e. Home buy/First buy which is proposed for the private sale homes.

- Contributing to the housing needs of residents with L B Barnet.
- Making savings in temporary accommodation costs through the ability to allocate to new homes for affordable homes.
- The provision of affordable wheelchair accessible accommodation
- Helping to address the shortfall of available accommodation within the Borough
- New affordable homes which will provide a higher quality of accommodation and greater level of security for households currently living in temporary accommodation and/or in poor private rented sector accommodation
- Net increase in Council tax revenues
- A much-improved street scene with a high-quality design.
- Providing a financial return to the Council in terms of interest payments on the loan and a contribution to the homelessness budget.
- Employment opportunities to be explored with the proposed contractors and potential benefits of training and education with Boost within Barnet Homes.

5.3 Legal and Constitutional References

- 5.3.1 The Site is held by the Council in the Housing Revenue Account. It is believed that the land is held for housing purposes pursuant to Part II of the Housing Act 1985 but this will be confirmed by HB Public Law.
- 5.3.2 All statutory consents required to lawfully enter into any contractual arrangements and/or for the disposal of all or any part of the Site will be obtained so far as required. These may include consent under s 32 of the Housing Act 1985, s 19 of the Housing Act where housing land (i.e. non vacant) is appropriated to planning purposes, s 233 (3) of the Town and Country Planning Act 1990 (disposal of housing land sold at less than best) and s 25 of the Local Government Act 1988 (gratuitous benefit to a third party provider). Any requirements to undertake advertising in respect of any open space disposal will also be undertaken.
- 5.3.3 Council Constitution, Article 7.5 states that the remit of the Assets Regeneration and Growth Committee includes responsibility for asset management.
- 5.3.4 Council, Constitution, Article 10 Table A states that Assets Regeneration and Growth Committee is responsible for authorising all disposals of land for a Less Than Best transaction and any transaction which is a key decision where the value is over £500,000 (Table A- Land and Property Transactions Authorisations Authorisation Delegated Powers).
- 5.3.5 Site specific legal title matters for the sites included in the Tranche 3 Development Pipeline programme have been explored through joint working with LBB Customer & Support Group and HB Public Law. Devonshires Solicitors will report on title for The Barnet Group.

5.3.6 Where land is subject to third party rights it may be prudent to appropriate and for planning purposes to extinguish third party rights (Section 122 of the Local Government Act 1972) on the Site by engaging the provisions of s 203 of the Housing and Planning Act 2016 (“the 2016 Act”) which extinguishes third party rights and covenants. The right is commuted to a claim for compensation under s 204 of the 2106 Act subject to the claim being valid. The Council will have to prove the same economic and social benefit tests as if it were making a CPO.

5.3.7 Where land is disposed at less than market value or best consideration there is a concern about whether the State Aid provisions apply. An exemption to State Aid exists for services in the general economic interest and if The Barnet Group is letting accommodation at less than market value then the relevant exemption may apply provided always that the land is acquired and developed for social/affordable housing to qualify for this exemption.

5.4 Risk Management

5.4.1 The table below outlines the main risks that have identified for this scheme and the actions taken to mitigate against them.

RISK	PROBABILITY	IMPACT	TOTAL	ACTIONS TO MITIGATE	CURRENT STATUS
Vacant possession of commercial and residential premises	3	4	12	Legal action is already underway on securing vacant possession of the commercial premises. TBG resident liaison officer is working with the 4 residential tenants with a view to rehousing them within a reasonable time frame.	The Council has instructed lawyers with regards to obtaining vacant possession of the commercial premises. TBG resident liaison officer working with affected tenants.
Cost increases leading to budget overspend	3	4	12	A fixed price contract will be used. Value engineering will be undertaken as required with the Employer's Agent.	Scheme is currently in planning. Detailed work on costings will be produced.
Time delays –scheme delivery, impacting on revenue savings	3	4	12	The site will be delivered through a Design and Build contract and all site surveys will be carried out in advance of tenders in order to secure as firm a price as possible. TBG has engaged an	TBG has a realistic delivery programme and will continue to work closely with the contractor to monitor scheme progress.

RISK	PROBABILITY	IMPACT	TOTAL	ACTIONS TO MITIGATE	CURRENT STATUS
				experienced construction consultancy to advise on the scheme and has worked closely with the contractor to put together a realistic delivery programme.	
Planning permission	3	4	12	TBG will need to ensure that the scheme meets all planning requirements and is compliant	The scheme has recently been submitted for planning. TBG await any queries received from the Local Planning Authority.
Sales risk on shared	3	3	9	TBG will obtain suitable marketing advice early in the construction phase	Scheme still in its early stage.

5.5 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.5.1 The total revenue benefits for Barnet Council are realised through:

- A dividend paid from The Barnet Group.
- Savings from care costs due to additional wheelchair accessible homes
- Temporary accommodation cost avoidance
- Council tax income

These costs are detailed in more detail in section 3 of Appendix One, within the exempt report.

5.6 Equalities and Diversity

5.6.1 This report presents evidence on how increasing Barnet's supply of homes will benefit individuals and the Council. The report sets out the benefits of new housing provision for Barnet, based on an understanding of Barnet's population profile and population need. This document also sets out the specific benefits of delivering a scheme of 56 new homes at the Hermitage Lane site in Child's Hill.

5.6.2 Over recent years national increases in homelessness against a backdrop of welfare and benefit reform has affected all local authorities and social housing providers, but particularly those in London. The increased demand for housing has placed pressure on an already strained and limited housing supply.

5.6.3 At a local level, Barnet has experienced increased high levels of demand for affordable housing, whilst sources of supply have been limited. Demand has been exacerbated by the buoyant private rental market in the borough, which is increasingly unaffordable for those on lower incomes. Loss of private rental accommodation is now the most common reason for a homelessness application, with residents who might previously have made their own arrangements in the private rental sector approaching the local authority.

5.6.4 In Barnet, there was an 42% increase in new housing needs assessment applications between 2011/12 and 2016/17. In addition, there was an overall 21% 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.

5.7 Corporate Parenting

5.7.1 None in the context of this report

5.8 Consultation and Engagement

5.8.1 The residents of the bungalows (The Graftons) are being supported on a weekly basis by TBG's most experienced Resident Liaison Officer.

5.8.2 Public consultation events took place on (21 June 2018 and 23 July 2018). Generally, concerns aired related to the scale of the development, parking and pressure on amenity space.

5.9 Insight

5.9.1 Barnet has 393,000 residents and this figure is expected to grow by 76,000 over the next 25 years; an increase of 19%.

5.9.2 The Council's Housing Strategy 2015-2025 identifies the need to increase housing supply and to deliver homes that people can afford. The Hermitage Lane scheme will facilitate the delivery of new homes for affordable rent in the borough to meet housing need. The affordable rent will be set at 65% of the market rent, in line with the Council's affordable rents policy.

5.9.3 The delivery of new affordable rented homes will help to meet the objective in the Council's Housing Strategy to prevent and tackle homelessness, by reducing the use of temporary accommodation. There are currently in excess of 2,700 households living in temporary accommodation which presents significant budgetary pressures for the Council.

5.9.4 Barnet's Health and Wellbeing Strategy recognises the importance of access to good quality housing in maintaining Well-Being in the Community.

5.9.5 Lack of affordable housing is highlighted in Barnet's Joint Strategic Needs Assessment (JSNA) as one of the top three concerns identified by local residents in the Residents' Perception Survey.

6 BACKGROUND PAPERS

- 6.1 Assets Regeneration and Growth Committee, 15 December 2014, Strategic Asset Management Plan
<https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&MId=7886&Ver=4>
- 6.2 Assets Regeneration and Growth Committee, 15 December 2014, Local Authority New Housing Programme (Barnet Homes)
<https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&MId=7886&Ver=4>
- 6.3 Council, 20 October 2015, Report of Policy and Resources Committee – The Barnet Group – Creation of new legal entity and subsidiary
<https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=162&MId=8340&Ver=4>
- 6.4 Assets Regeneration and Growth Committee, 30 November 2015, Housing Development Pipeline- Barnet Homes
<http://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&MId=8311&Ver=4>
- 6.5 Assets, Regeneration and Growth Committee, 12 December 2016, Development Pipeline Tranche 3 - Affordable Housing Programme
<https://barnet.moderngov.co.uk/ieListDocuments.aspx?CId=696&MId=8640&Ver=4>