

THE BARNET GROUP

Microsites Programme: Phase 2 project

Business Justification Case (BJC) August 2018

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1. EXECUTIVE SUMMARY

- 1.1 This document is the Business Justification Case for Phase 2 of the Microsites Programme, involving the transfer to Opendoor Homes of sites from Barnet Council (LBB) for development. The sites will be developed as 100% affordable housing for Opendoor Homes, a subsidiary of Barnet Homes within The Barnet Group (TBG). LBB is the sole shareholder of TBG. The new homes will be occupied by nominees from Barnet Homes on behalf of the council.
- 1.2 This report sets out a strategy for developing affordable rented housing on smaller scale infill sites in the Borough, following on from Microsites Phase 1.
- 1.3 Phase 2, for which this justification case is about, involves developing housing on five sites using 70% subsidy in the form of Section 106 commuted sums to provide 17 affordable rented homes including a wheelchair adapted bungalow and two accessible flats.
- 1.4 It is anticipated that further phases of microsites projects will follow as further infill sites have been identified.
- 1.5 The principle of developing four of these five sites was approved as part of the Tranche 3 Business Case. The update to the Full Business Case for the Tranche 3 development programme was approved by Assets, Regeneration and Growth Committee in July 2017 entitled 'Tranche 3 Affordable Housing'.
- 1.6 The fifth site, 22 Edgeworth Avenue, is derelict empty property that was acquired by the Council under a CPO, and has received many complaints from local residents. The five sites proposed to be part of Microsites Phase 2 are:
 - 22 Edgeworth Avenue, NW4 4EY (Hendon Ward)
 - Back Lane garages, HA8 0HS (Burnt Oak Ward)
 - Reets Farm Close garages, NW9 7HN (West Hendon Ward)
 - Underhill Court, EN5 2BD (Underhill Ward)
- 1.7 Warwick Close garages, EN4 9SF (East Barnet Ward) The breakdown of units and bedrooms can be seen below in Table 1.

Table 1: Accommodation schedule for the Microsites Programme (Phase 2)

Scheme	1b2p	2b3p	2b4p	3b5p	3b6p	Total number of units	Planning Permission Expiry
22 Edgeworth Avenue					2	2	Date submitted
Back Lane		4				4	16/06/2019
Reets Farm Close		1				1	13/06/2019
Underhill Court			2	2		4	13/03/2020
Warwick Close	3	3				6	20/05/2019
						17	

1.8 Due to the nature and small scale of the sites, and their associated higher development costs, the schemes were not considered financially viable for the Tranche 3 programme considering required cost parameters. However, given the savings in care costs of amending schemes to provide three wheelchair adapted housing, along with subsidy funding from LB Barnet, the development of these sites has become financially viable and offers significant economic and social benefits to the London Borough of Barnet and the Barnet Group outlined in section 7.

1.9 The Borough are also obliged to spend s106 commuted sums as like for like housing. These microsites schemes set at affordable Barnet rents provide a pipeline for allocating these monies and fulfilling Borough obligations.

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 – good quality new homes at affordable rents.
- Positive use of Section 106 commuted sums – avoiding the necessity of handing the funds back to central government.
- Temporary Accommodation Cost Avoidance.
- Bringing underutilised garages and land 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 potential abortive costs to date for Opendoor Homes as these schemes were worked up to Planning.
- 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 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.
- 2.3 Five schemes are proposed to be included in Phase 2 of the “Microsites” Programme.
- 2.4 The original intention was to develop four of these sites within the Tranche 3 development programme, funded through the loan agreement between Opendoor Homes and Barnet. However, after competitive tendering on the four schemes within Microsites Phase 1, the build costs exceeded the threshold set within the approved parameters for Tranche 3 so an alternative funding strategy was required to make them financially viable and the same is required for Microsites Phase 2.
- 2.5 Phase 2 has also expanded since inception and includes 22 Edgeworth Avenue. The other four sites have been granted planning permission. Only 22 Edgeworth Avenue is awaiting planning submission.
- 2.6 Reets Farm Close was a contingency scheme for Microsites 1 if one of the four schemes became unviable. Due to site constraints at Reets Farm Close only a bungalow is feasible in planning terms, which in turn makes it ideal for wheelchair adapted housing which serves a need in the Borough.

3. STRATEGIC CASE

- 3.1 This report seeks to secure approval to fund Phase 2 of the Microsites Programme, comprising the development of seventeen new homes, three of which are wheelchair accessible or adaptable across five different underutilised sites.
- 3.2 It is proposed that Phase 2 of the Microsites Programme is funded through subsidy in the form Section 106 commuted sums that have been received through developer contributions for affordable housing on other sites in the Borough and with a loan from PWLB.
- 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

- Since 2013/2014 there has been a 30% increase in homelessness applications in Barnet with a total of 1554 in 2017/18.
- There was an overall 58% decrease in letting within Council stock from 2011/12 to 2017/18.
- Barnet has below average levels of social housing on average compared to other London Boroughs, with just over 2600 households waiting for social housing (7th best London Borough).¹
- There has been a significant increase (35%) in the number of households in temporary accommodation from January to March 2017 with numbers increasing from 12.7% in 2015².
- Barnet has the 6th highest number of households in temporary accommodation in the country.³
- 68% of all the households in temporary accommodation in England are in London Authorities as of March 2018⁴. 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.

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 commuted sums from Section 106 developer contributions which it can use to support the delivery of new affordable

¹ <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies>

² <https://www.trustforlondon.org.uk/data/Boroughs/barnet-poverty-and-inequality-indicators/> figures correct as of July 2018.

³ <https://www.trustforlondon.org.uk/data/temporary-accommodation-Borough/>

⁴ Page 19, Statutory Homelessness in England, Briefing Paper 01164, 6 July 2018, House of Commons.

housing in the Borough. These commuted sums must be spent by the Council on affordable housing within set timescales.

- 4.3 The Council's Housing Strategy includes an objective of providing housing to support vulnerable people. The bungalow at Reets Farm Close will be a wheelchair accessible home designed to meet the requirements of Building Regulations Part M4(3). Two of the dwellings at Back Lane are adaptable in line with M4(2). 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 The two units at 22 Edgeworth Avenue have been designed to allow space for a lift in the future. The opportunity to provide more wheelchair accessible housing strengthens the business case as it meets the 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 Small and Medium-Sized Enterprises.
 - Utilising Section 106 commuted sums 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 as necessary.
 - Barnet Homes has long experience of managing affordable housing and knows its customer base well.

5.4 When considering the case for Phase 2 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:** Due to being smaller sites the development costs were also above the Tranche 3 targets thus not the scheme does not meet the parameters required for Tranche 3 including 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 four out of five currently have planning permission. The land value obtained from disposal could come back to the Housing Revenue Account. However, four of these sites are back land on our existing estates so will not attract high values on the open market despite having the benefit of planning.
- **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 by using 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 Section 106 commuted sums and avoiding losing these significant sums through non-utilisation. 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.

- 5.5 The total revenue benefits for Barnet Council in pursuing Phase 2 of the Microsites Programme expected to be over £152,000p.a. This includes a dividend paid from Opendoor Homes, savings from care costs due to additional wheelchair accessible homes, temporary accommodation cost avoidance, and Council tax income.
- 5.6 Economic benefits for Phase 2 of the Microsites Programme, including income generated and savings made to the Council are set out in Table 2 below.

Table 2: Microsites Phase 2 Revenue Benefits and Savings

<u>Scheme</u>	<u>WC units (adaptable and accessible)</u>	<u>Total units</u>	<u>LBB Dividend per annum</u>	<u>Adult MTFS Savings per annum</u>	<u>Temporary Accommodation Cost Avoidance per annum</u>	<u>Assumed Council Tax Income</u>	<u>Total LBB Revenue Benefit Per Annum</u>
22 Edgeworth Avenue		2	£5,600.00	£22,988.00	£6,800.00	£2,636	£38,026.00
Back Lane	2	4	£11,200.00		£6,800.00	£5,272	£23,276.00
Reets Farm Close	1	1	£2,800.00	£11,494.00		£1,318	£15,613.00
Underhill Court		4	£11,200.00		£13,600.00	£5,272	£30,076.00
Warwick Close		6	£16,800.00		£20,400.00	£7,908	£45,114.00
Total			£47,600.00	£34,482.00	£47,600.00	£22,406.00	£152,105.00

- 5.7 The suggested dividend to the Borough is explained in section 6.1 but is calculated at £2,800 per unit per year following completion, this is costed with a 70% grant in mind.
- 5.8 The adult medium term financial strategy is estimated based on figures from Microsites Phase 1 proposal regarding cost of care as confirmed by Adults and Communities.
- 5.9 The temporary accommodation cost avoidance per annum is calculated at £3,400 per unit for non-accessible units.

- 5.10 All properties except 22 Edgeworth Avenue are Council tax band C. Edgeworth Avenue will be band F or G. However, this Council tax estimate was taken from London Borough of Barnet's own website.
- 5.11 The total revenue benefit inclusive of savings to Barnet Council is **£152,105.00** per annum.

6. COMMERCIAL CASE

6.1 Land

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 Microsites development agreement between the London Borough of Barnet and Opendoor Homes (TBG Open Door Ltd) however the proposed annual dividend per unit per year is higher at £2,800 reflecting a greater return for disposal of the land asset. Phase 1 of Microsites proposed an annual dividend per unit of £4,000 but this scheme was fully funded rather than Phase 2 which is funded at 70%, hence we can now offer 70% of £4,000.

The Development Agreement, between Opendoor Homes and the Borough, will either be adjusted from the one used with Microsites 1 or a new one will be created, whichever is deemed more appropriate when necessary.

6.2 Procurement

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, as well as preliminaries for construction works which includes site setup, security, health & safety requirements etc. This approach was adapted for Microsites Phase 1.

- 6.3 It is considered that there is sufficient market interest to deliver the construction contract for the Phase 2 project, and it is proposed that the five sites will be packaged as a group two and three due to their locations, see Appendix 1 for a map and distances. One package will include the Burnt Oak and two Hendon properties of 7 units and the other will include the Underhill and East Barnet properties of 10 units.

- 6.4.1 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. We have taken the advice of our procurement consultants on this approach and they concur.

6.5 Revenue

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 which is a total of £47,600 per annum.

7. FINANCIAL CASE

- 7.1 The financial case indicates the budgetary, financial and affordability considerations of this approach.
- 7.2 Barnet Council has sufficient resources to deliver the project through subsidy in the form of Section 106 commuted sums. Based on budget estimates for the five schemes, it is currently anticipated that the total scheme cost of Microsites Phase 2 is £5.7m. This will be spent during 2018-19, 2019-20 and 2020-2021.
- 7.3 In May 2018 it was agreed by the CIL Section 106 Officer group that 70% of the scheme costs could be covered by Section 106 commuted sums. However, at the time the paper presented total scheme costs of £5,294,000 which would be £3,705,800.
- 7.4 Estimates have since increased by 7% to a total scheme cost of £5.7m which means 70% now equates to £3,990,000.
- 7.5 This Gap Funding of £1,994,200 is currently being sought through a loan as part of the original 30% (now 35% of the scheme cost) from the London Borough of Barnet on the same terms as Tranche 3, i.e. PWLB + 1.35%.
- 7.6 An alternative funding option is to be sought GLA funding but this would be capped at £70,000 per unit (£1,190,000) and so a gap will remain of £804,200 (14% of scheme costs) which will be sought through a loan.
- 7.7 Financial appraisals for the five schemes in Microsites Phase 2 have been undertaken and each scheme is financially viable on the basis that it is mostly funded through subsidy, generating a positive net present value and various revenue benefits and savings to the Council and The Barnet Group.
- 7.8 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.
- 7.9 It is important to remember that the project has not yet gone to tender and so the scheme costs are based on estimates using current market intelligence.

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. The programme will follow the Corporate project management guidelines, specifically around governance, reporting and risk management.
- 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 and Growth Board and the Affordable Housing 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 Affordable Housing Board 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 be especially relevant to variations to the Business Plan and any specific implications on the subsidy comprising of the gifting of Section 106 commuted sums, 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 contributions
 - Risk profile updates
 - Cost variations
- 8.5 Gateway Review Process
The Phase 2 Microsites are at an advanced stage in the development process. Four of the five sites have planning permission. 22 Edgeworth Avenue's planning application is about to be accepted. 22 Edgeworth Avenue was sourced at a later date hence why it is yet to gain planning permission.
- 8.6 If the contract sum for the most economically advantageous tender is within the budget set out in this report, the Barnet Group can authorise award of the contract.

8.7 Equalities

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.

8.8 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.

8.9 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.

8.10 It is not expected that these groups will be adversely affected by implementing Phase 2 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.

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

Three of the homes will be wheelchair accessible and adaptable.

8.12 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.

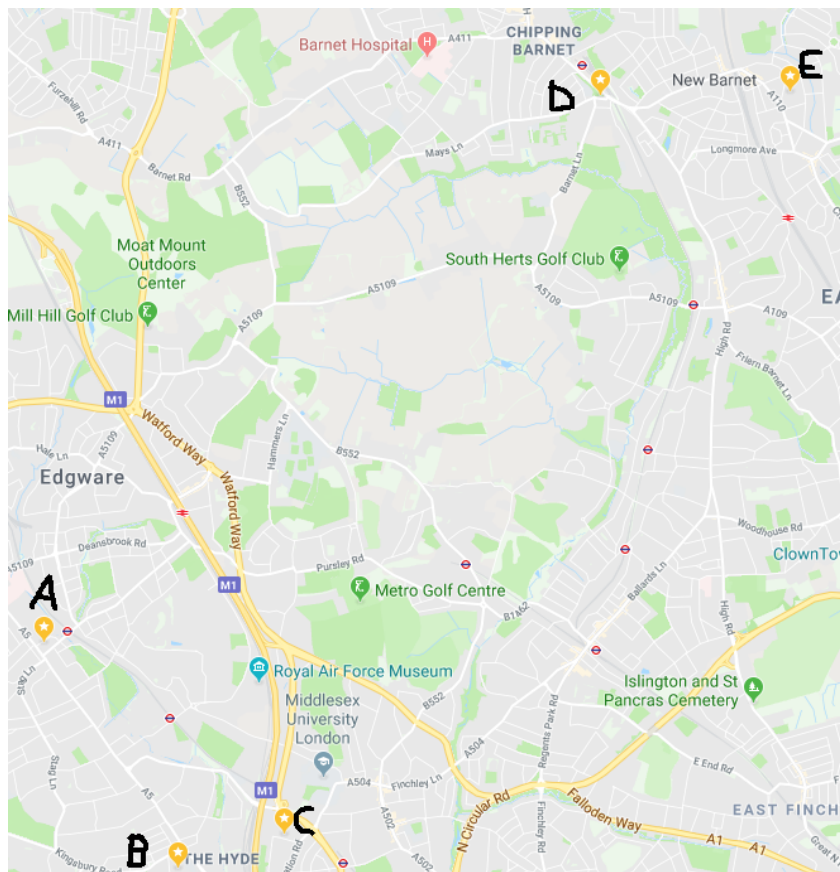
8.13 A full equalities impact assessment was completed for The Housing Strategy 2015-2025 which identified that the Strategy would have a positive impact on all sections of Barnet's Community.

8.14 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.

9. APPENDICES

Appendix 1 – Map and Distances of the 5 sites



A – Back Lane

B - Reets Farm Close

C- Edgeworth Avenue

D – Underhill

E – Warwick Close

A to B: 1.7 miles B to C: 1.5 miles A to C: 2.3 miles	D to E: 1.3 miles	A to D: 5.6 miles A to E: 6.9 miles B to D: 7.5 miles B to E: 8.7 miles C to D: 6.6 miles C to E: 7.9 miles
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Sites	Units	People
A, B, C	7	31
D, E	10	33