



Full Business Case: ODH Microsites Programme

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1. Introduction

In December 2016, the Assets, Regeneration and Growth Committee (ARG) approved the Full Business Case for the Development Pipeline Tranche 3 affordable housing programme. A number of smaller scale sites were outside the development cost per unit set in Tranche 3 and were transferred to a separate delivery programme, known as Microsites.

The Microsites programme was approved at ARG in September 2018 and gave delegated authority to the Deputy Chief Executive, in consultation with the Chairman of the Committee, to agree the terms of the development agreement and transfer the sites to Opendoor Homes.

The P&R Committee in December 2018 approved a budget of £2.625m for the Microsites 1 programme and £5.7m for the Microsites 2 programme; the total budget envelope was £8.325m. The Microsites 1 budget was 100% funded through S106 commuted sums and Right to Buy receipts. The Microsites 2 budget was 70% funded through S106 commuted sums; gap funding was to be sought in the form of grant subsidy from the Greater London Authority, or on-lending from Barnet Council on the same terms as Tranche 3, or a combination of both.

Four sites were included in the Microsites 1 (MS1) programme, as follows. The indicative number of units is shown in brackets:

- Crispin Road
- Mayhill Road
- Quinta Drive
- Ryecroft Crescent

Five sites were included on the Microsites 2 (MS2) programme, as follows. The indicative number of units is shown in brackets:

- Back Lane (4)
- Edgeworth Avenue (2)
- Reets Farm Close (1)
- Underhill Court (4)
- Warwick Close (6)

The Microsites 1 programme entered into contract in December 2018 and work has commenced on each of the four sites. Upon demolition of the garages at Ryecroft Crescent, a large area of asbestos was discovered which could not be detected ahead of demolition and was therefore an unforeseen cost.

In February 2019 Barnet Homes agreed to withdraw Edgeworth Avenue from the Microsites 2 programme following local resident opposition.

Underhill Court had been tendered as part of Tranche 3. We have worked with the lead tenderer to review their construction logistics plan but LBB Highways have raised concerns

about the site's proximity to a main junction. We have been unable to seek a way forward therefore making the construction works undeliverable. It is therefore proposed to abort this site from the programme resulting in some abortive costs.

The remaining three sites had to be retendered, as the original tender prices had lapsed as they were originally part of the Tranche 3 programme.

The total scheme cost for Reets Farm Close is £502,233 for a single home. We do not feel that this offers best value for money and it is proposed that this scheme is aborted from the programme again with some abortive fees.

Back Lane was retendered and the new tender price is -6% lower than the original tender price.

Warwick Close was retendered and the new tender price is +11% higher than the original tender price.

It is proposed that Back Lane and Warwick Close proceed as the only two sites on Microsites 2.

For these two remaining Microsites 2 sites, the average cost per unit is £322,000. This offers good value considering the small numbers on each site and in comparison to other affordable schemes being developed through Tranche 3.

On 25 June 2019 the Capital Strategy Board approved the reduction in the overall project budget, a reduction in the total number of homes being delivered and finalised the funding streams for the overall budget envelope. This included subsidy in the form of S106 commuted sums and Right to Buy capital receipts of £4.73m and a loan of £1.72m, on the same terms as the loan for Tranche 3.

2. Reasons

2.1 Strategic case

2.1.1 Corporate Priorities and Performance

The Corporate Plan 2015 – 2020 sets out the Council's vision and strategy for the next five years based on the core principles of fairness, responsibility and opportunity to make sure Barnet is a place:

- Of opportunity, where people can further their quality of life;
- Where people are helped to help themselves, recognising that prevention is better than cure;
- Where responsibility is shared, fairly; and where services are delivered efficiently to get value for money for the taxpayer.

The 2018/19 Addendum to the Corporate Plan outlined the key areas of strategic focus for the Council for 2018/19. These included:

- Increasing the housing supply
- Delivering the family-friendly Barnet vision

Within these priority areas, the Addendum to the Corporate Plan included commitments to undertake specific activities. Specifically, the Responsible Growth priority area included a commitment to “regeneration and investment in infrastructure... delivering a pipeline of new homes on Council land.”

The proposal will help meet these objectives by providing good quality affordable homes, through well thought out and designed schemes that strengthens community relations and confidence in the Council.

The Growth Strategy for Barnet recognised that growth is vital for ensuring the future prosperity of the Borough, and maintain Barnet as a successful London suburb.

The Council’s Local Plan adopted in 2012, sets out a 15 year ‘vision’ to help shape the kind of place that Barnet will be in the future. It supports the delivery of new homes including affordable dwellings and the use of brownfield land for high quality and sustainable suburban development.

The Council’s Housing Strategy has the overarching objective of providing housing choices that meet the needs and aspirations of Barnet residents and sets out how the Council will deal with a number of challenges including high property prices, a shortage of affordable housing and the potential threats to the qualities that make the Borough attractive.

2.1.2 Local context

Barnet has the largest population of any London borough with 393,000 residents. This figure is expected to grow by 76,000 over the next 25 years; an increase of 19%. With a third of the borough designated green belt, Barnet Council has to be innovative in how more homes can be built and delivered whilst retaining the borough’s distinctive outer London character.

As detailed in the Housing Strategy (2015-2025), and in response to the need for more housing in Barnet and in London as a whole, Barnet Council has committed to increasing the supply of housing in the borough, particularly affordable housing whilst maximising the Council’s land resources.

With this in mind a Development Pipeline Programme was established identifying Barnet owned sites that could provide locations for housing development schemes. The programme directly supports the Corporate Plan objective of responsible growth and regeneration.

As a strategic housing authority, the London Borough of Barnet has considered how best to meet future housing demand based upon limited resources available in terms of land.

The London Plan and Barnet's Local Plan recognise the pressing need for more homes in the capital. Managing housing growth and the provision of new homes is the first objective set out in Barnet's Core Strategy. The Council's seeks to achieve this objective by increasing housing supply and maximising the Council's land resources to meet future housing demand whilst creating a long-term revenue stream.

The development of these sites for residential purposes will provide much needed housing accommodation on land owned by Barnet.

2.1.3 Local and Regional Need

A net increase of affordable dwellings will contribute to meeting the London Borough of Barnet's additional homes targets set by the Greater London Authority.

The LBB Housing Needs Assessment (HNA) has indicated that the Borough has a requirement for an additional 27,000 dwellings over the next 15 years and the GLA has set LBB targets of 3,134 homes per annum (or 31,340 homes by 2030).

2.1.4 Population Need and Demand Management

Barnet's population is expected to increase from 391,500 in 2017 to reach 466,500 by 2041.

The Council's Housing Strategy 2015-2025 identifies the need to increase housing supply and to deliver homes that people can afford.

The schemes will facilitate the delivery of new homes for affordable rent to meet housing need. It is currently anticipated that affordable rent will be set at no greater than 65% of the market rent, in line with Barnet Council's current affordable rents policy.

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 in Barnet that live in temporary accommodation which presents significant budgetary pressures for the Council.

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

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.

2.1.5 The cost of homelessness in Barnet: a snapshot of supply and demand

- Since 2013/14 there has been a 30% increase in homelessness applications in Barnet with a total of 1,554 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 2,600 households waiting for social housing (7th best London borough).
- There has been a significant increase (35%) in the number of households in temporary accommodation from January to March 2017.
- Barnet has the sixth highest number of households in temporary accommodation in the country.
- 68% of all the households in temporary accommodation in England are in London Authorities as of March 2018. 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 temporary accommodation are decanted and require rehousing, either to alternative temporary accommodation or social housing units.

2.1.6 The Barnet Group's business aim

In 2004 Barnet Homes was established as an Arm's Length Management Organisation (ALMO) for the London Borough of Barnet (LBB) to manage approximately 15,000 council-owned properties within Barnet. In 2012 Your Choice (Barnet) was created to receive the transfer of Adult Social Care services from LBB, and The Barnet Group, a Local Authority Trading Company (LATC) was created as the parent company to both Barnet Homes and Your Choice (Barnet).

The Barnet Group Business Plan 2019-2024 commits to deliver good services whilst supporting its customers and Barnet Council through the challenges they face. They want to continue their ambitious development and acquisition programmes in order to increase the housing supply within the borough and help to meet growing demand across different tenures. Their mission is to:

- Develop and empower people
- Provide customer-focused services
- Sustain their business through growth

2.2 Economic case

The Economic case sets out the critical success factors for the business case.

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.

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.

2.3 Commercial case

2.3.1 Land

It has been agreed 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 and Tranche 3 development agreement, between the London Borough of Barnet and Opendoor Homes (TBG Open Door Ltd).

The annual dividend per unit per year is higher than Tranche 3. Microsites 1 is providing an annual dividend per unit of £4,000 as this scheme was fully funded by the Council. As Microsites 2 is 70% funded, the annual dividend is 70% of that of Microsites 1, at £2,800 per unit per annum.

The two Microsites 2 sites were originally included in the Tranche 3 Development Agreement, so this can now be updated to reflect their inclusion for delivery.

2.3.2 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.

The Microsites 1 sites were packaged together and tendered as one contract. This exercise was completed in early 2018 and the build contract was signed in January 2019, with a contract sum of £2.6m.

The two Microsites 2 sites were tendered individually through a single stage design and build tender exercise with the most economically advantageous tenderer being appointed to deliver the contracts under a JCT Design & Build contract, subject to due diligence undertaken by The Barnet Group.

The Back Lane project was retendered and the new tender price is -6% lower than the original Tranche 3 tender price.

The Warwick Close project was retendered and the new tender price is +11% higher than the original Tranche 3 tender price.

2.3.3 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 £68,000 per annum, for both Microsites 1 and 2.

2.4 Financial case

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

Microsites 1

£2.625m has been approved for Microsites 1 in the form of Section 106 commuted sums and Right to Buy receipts.

An additional £306k is required in the form of a loan for increases in the scheme costs.

Microsites 2

A budget of £5.700m was approved for Microsites 2.

70% of the total project costs for Microsites 2 was to be funded by Section 106 commuted sums and the balance of £1.747m from a loan or grant.

With the proposed reduced programme, £1.833m is to be funded by S106 commuted sums and a loan of £1.304m.

Total budget required

The total loan amount for the Microsites 1 and 2 programme is £1.610m. This will be funded through an extension of the loan with the Public Works Loan Board (PWLB) on the same terms as Tranche 3, i.e. PWLB + 1.24%.

The cost to the council for providing the loan is estimated at £1.9m and includes £310k of interest payments (a revenue charge of approximately £90k per year), however as mentioned above, this will be repaid by OpenDoor homes plus an additional 1.24% above the PWLB loan rate estimated at £200k.

Financial appraisals for the two 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.

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.

Opendoor Homes propose the following:

- To repay the loan over 27 years, from 2019/20 to 2045/46
- Interest will start in year 1, with total interest based on 4.5% being £1,209,158
- Opendoor Homes to breakeven one year after practical completion

2.5 Management case

The programme will follow the Corporate project management guidelines, specifically around governance, reporting and risk management.

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.

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.

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

3. Aims & Objectives

The project aims to deliver the following new affordable homes:

Scheme			Number of units	Est. start on site	Est. practical completion
	1b2p	2b3p			
Microsites 1					
Crispin Road		2	2	Jan 2019	Oct 2019
Mayhill Road		4	4	Jan 2019	Jan 2020
Quinta Drive		2	2	Jan 2019	Oct 2019
Ryecroft Crescent		2	2	Jan 2019	Oct 2019
Microsites 2					
Back Lane (including 2no. wheelchair adaptable homes)		4	4	Jan 2020	Nov 2020
Warwick Close	3	3	6	Jan 2020	Nov 2020
			20		

4. Options

- 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 above the Tranche 3 targets, thus not meeting the parameters required for Tranche 3.
- 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 they each have a 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. Expected Benefits

Benefit Type	Description of the benefit	Who will benefit	Expected benefit value	Financial year that the benefit will be realised	Benefit Owner	How will the benefit be measured	Baseline value (£, % etc) and date
Benefit 1: Financial cashable Cost avoidance	A financial saving will be made through avoided costs, where Temporary Accommodation is not required for approximately 20 families.	Council	Circa £68,000 per annum	2021/22	Barnet Council	Measured by comparing the cost per year to provide Temporary Accommodation	£3,400 per annum per property

Benefit 2: Financial cashable Council tax revenue	Council tax revenue from the 20 new dwellings.	Council	Circa £26,360 per annum	2021/22	Barnet Council	Calculated on an annual basis using Council tax rates	Using estimated Council tax rates
Benefit 3: Financial cashable Homelessness dividend	Agreed homelessness dividend from Opendoor Homes to Council	Council	£68,000 per annum	2021/22	Barnet Council	Calculated on an annual basis	MS1 £4,000 per property MS2 £2,800 per property
Benefit 4: Financial cashable Wheelchair accommodation savings	Savings through wheelchair accommodation (10 total)	Council	Circa £110,000 per annum	2021/22	Barnet Council	Calculated on an annual basis	£11,000 per property
Benefit 5: Non-financial Strategic objective	Maintain the supply of social housing provision within the borough and region	Council	Provides occupation for 20 new homes	TBC	Barnet Council	Measure occupancy rates	N/A
Benefit 6: Non-financial Strategic objective	Improve the local environment	Residents / local community	Expected increase in customer satisfaction	TBC	Barnet Council	Measure resident satisfaction	N/A
Benefit 7: Non-financial Strategic objective	Integrate the proposed additional homes into the existing community	Residents / local community	Expected increase in customer satisfaction	TBC	Barnet Council	Measure resident satisfaction	N/A

6. Summary of Key Risks

Key Risks	Mitigation
Delay to funding arrangements being agreed is a risk to the received tender prices and planning consents	<ul style="list-style-type: none"> • ARG and P&R approvals in place. • Funding options available including on lending from LBB to Opendoor Homes. • Potential for GLA grant subsidy.
Risk of overspend due to the complex nature of the sites and lessons learnt from Tranche 3	<ul style="list-style-type: none"> • A contingency allowance has been included in the revised budget. • Some of the sites have had further detailed design work undertaken as part of the previous two stage process; this has helped contractors seek prices from their supply chain with fewer provisional sums and qualifications.
Details of project monitoring arrangements	<p>Reporting to the Council will include:</p> <ul style="list-style-type: none"> • Overall progress against programme including gateway reviews at key milestones in the project. • Financial progress against programme, together with appraisals • Quarterly cost update • Cash flow including S106 contributions • Risk profile updates • Cost variations
Risk of ODH delaying repayment or not being able to meet repayments	A robust business plan has been developed for Opendoor Homes illustrating that the loan is repayable, which has been independently stress tested. This is supported by a fixed rate of interest for the duration of the loan.

7. Costs/Investment Appraisal

The ODH project cashflow for Microsites 1 and 2 is as follows:

	Previously committed spend £'000	2019/20 £'000	2020/21 £'000	Total £'000
RTB capital receipts	£123	£781		£904
S106 commuted sums	£1,121	£1,445	£1,378	£3,944
Loan		£1,030	£579	£1,609
	£1,244	£3,256	£9,957	£6,457

The funding streams were approved by Capital Strategy Board on 25 June 2019 and have been adjusted to take account of the up-front payment and funding of £2,820m.

8. Timescale

A summary of the indicative project plan, including key dates and milestones, is as follows:

2019/20 Q2 July-Sep	2019/20 Q3 Oct-Dec	2019/20 Q4 Jan-March	2020/21 Q3
Microsites 1			
	Completion of Crispin Road, Quinta Drive and Ryecroft Crescent	Completion of Mayhill Road	
Microsites 2			
<ul style="list-style-type: none"> • Opendoor Homes Board approval • Land transfer from LBB to ODH • Formally appoint contractor • Contractor's lead-in period commences 	<ul style="list-style-type: none"> • Contractor's lead-in period continues • Phased start on site 	<ul style="list-style-type: none"> • Phased start on site 	<ul style="list-style-type: none"> • Phased completions

Microsites 1 is currently on site with phased completions due by January 2010.

Please note that the final programme for Microsites 2 is subject to agreement with the appointed contractor.

9. Project Assurance

9.1 Project management

The project will be managed by Barnet Homes in accordance with the LBB Project Management toolkit, which has been adopted for the delivery of this scheme. It incorporates monitoring and controls to ensure the project is delivered effectively and that budgets and programme are maintained and reported through the appropriate channels.

9.2 Project controls

The Project Board consists of LBB Commissioners and the senior members of the Barnet Homes Development Team. The project board has responsibility for:

- Design sign-off at gateway reviews
- Monitoring the project programme
- Monitoring the project budget
- Reporting and reviewing progress
- Delivering project outputs and benefits
- Reviewing on-going viability reports and assessments of the project

The project will also be reported to the Opendoor Homes Board. The Board will hear about the scheme's progress on site and handover and will monitor how the project is being managed.

The project team will be responsible for engaging with key stakeholders to ensure that all deliverables are delivered in line with service requirements and that the required quality standards are met.

10. Dependencies

Dependency	Description
Financing arrangements	The scheme requires funding from S106 commuted sums and RTB capital receipts. Any risk to the funding needs to be addressed at the earliest opportunity to prevent delay to the project.
Site assembly and legal title	The project will rely upon robust site assembly in terms of legal ownership and title.
Land transfer	The project will rely on the timely transfer of the land from LBB to Opendoor Homes.
Existing building survey and site information	The design proposals will rely upon robust survey information, such as the location of utilities and contamination.
Planning consent	Planning consents for the Microsites 2 sites have been granted but expire in February 2020. A start on site must be made before then.
LBB Highways	The schemes are reliant upon LBB Highways' cooperation, particularly around Section 278 agreements.
Stakeholder consultation and engagement	The local community and ward members have been consulted and will be engaged with throughout the process.

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¹ You should speak to your Head of Finance about any capital project you are proposing to undertake. They will help you to complete certain sections of the business case.