

Executive Summary – Public Paper

1. Overview

Following approval of the Strategic Outline Case (SOC) by Committee in June 2019, London Borough of Barnet (LBB) has progressed Hendon Hub, a mixed-use regeneration proposal in The Burroughs, Hendon, in conjunction with its key stakeholder Middlesex University (MU), to Outline Business Case (OBC). This is in alignment with LBB's growth strategy. It is also in alignment with HM Treasury Green Book which is the UK Government's recommended methodology to refine and test projects and programmes in order to deliver better outcomes for the public purse via the selection of an optimum project option.

The proposed development will provide a much enhanced locality and public realm, along with academic space, offices, student accommodation for Middlesex University (MU), a relocated, larger and improved Hendon Public Library; relocated community facilities in new fit-for-purpose space, and new affordable homes and localised retail space. In doing so, it will facilitate regeneration, place making, and reinvigoration of The Burroughs. It will also be carried out in full consultation with local residents.

2. Landed Assets

The three major sites included within the proposed development are Ravensfield, Fenella and Town Hall Car Park site ("RFC"), Meritage Centre ("MC"), and Building 9 ("B9") including the Hendon Library building. The current buildings on these sites are displaying signs of physical and functional obsolescence.

MU presently hold occupational leases of the Town Hall (with 10 years remaining, expiring March 2030), Hendon Library (13 years remaining, with tenant break clauses) and Church Farm Museum (3 years remaining, expiring August 2023). As a result, none of these assets could be redeveloped without MU's inclusion in the project.

3. Project Rationale

The regeneration of The Burroughs led by LBB is supported by the following:

- The need for a comprehensive development solution and master planning approach to an area in which many buildings are reaching the end of their useful lives.

- The fragmented nature of other ownerships and the issue of land assembly, creating difficulties for other parties developing sites due to a strong public sector presence, including the close interrelation of civic and educational uses;
- The requirement for the re-provision of facilities for users such as community organisations;
- The increased need for student accommodation as a result of the failure of the private sector to provide such purpose-built accommodation within the area due to significant LBB land ownerships.

4. Project Objectives

An established and important part of the Green Book process is the agreement of objectives in order to define a project's success. These have been reviewed since the beginning of the OBC process in light of Covid-19 and will remain relevant to LBB in the post-pandemic landscape. The project aims to deliver against the following key objectives, which have been discussed between a number of key LBB stakeholders:

- Contribute towards regeneration and place-making of the area
- Support LBB and MU housing objectives
- Minimise design, funding, and construction risk
- Maximise social returns
- Maximise returns and the pace of returns

Additionally, it should be recognised that a university campus is regarded as being significantly advantageous and prestigious, in terms of the local economy - based on the contribution of the University and its supply chain to employment and wealth, and the spending power of students and staff. It is a priority for LBB that the scheme should improve the local environment and "sense of place" in the area.

5. Project Options

The willingness of LBB to invest in Hendon Hub, as described above, is subject to a test of value for money in relation to a preferred option. Accordingly, four streams of options testing as summarised

	New Public Library (not in lease with MU; owned by LBB, rent free in perpetuity)	RFC
	Arts & Cultural Industries space, incl. student theatre (leased to MU 40 years)	RFC
	Academic Offices (leased to MU 40 years)	RFC
	Citizen's Advice Bureau	RFC
Offsite	Re-provision locally of community uses (all outside lease to MU):	Off site
	• Mencap	Off site
	• African Cultural Association	Off site
	• People's Dispensary for Sick Animals (PDSA)	Off site
	• Chinese Mental Health (&Meritage Centre community space)	Off site
	• Library SLRS	
	3 Town Houses	Burroughs car park; relocated car parking spaces
	Landscaping improvements locally	

A key principle has been that in normal markets the terms of MU's proposed lease should be institutionally fundable, whilst still acceptable to MU by being affordable into the long term and facilitating their growth aspirations. The detailed Heads of Terms are still in draft form, and it is hoped that these will be agreed shortly after OBC approval. The proposed student housing numbers have been significantly reduced from 850, in earlier iterations of the scheme, to 792 in total. According to recent demand studies, 790-800 is considered the critical mass that that MU require to make this scheme viable from their perspective.

There is no net loss of housing on the Burroughs as a result of the proposal, with the equivalent of c.260 residential dwellings being provided by the scheme through purpose-built student accommodation (the London Plan stating that 3 PBSA dwellings is the equivalent to 1 family home¹). In addition, new affordable housing is proposed.

Further to this, 25% of MU students have a term time residential address in LBB, with a significant proportion of these students living in family homes that have been converted to HMOs by private landlords in the vicinity of the main campus. For instance, 30 applications for HMOs in 2019 were

¹ Draft New London Plan Policy H17 Purpose-Built Student Accommodation, GLA, 2018

found concentrated around the Hendon area, compared to 2 applications for Finchley. It is expected that a proportion of these students that currently live in HMOs local to Hendon will be diverted to the new student accommodation, freeing up housing to be converted back to family homes.

As the new student accommodation comes on stream, and should students move from locally let HMOs, LBB will work with Barnet Homes to consider whether local residents, who previously let their properties to students in HMOS, have the opportunity to convert their properties to provide temporary accommodation for Council tenants.

6. Programme & Phasing

The development, assuming the base case scenario detailed in the above, spans 6 years, with construction lasting 4 years (projected start on site in July 2021 and project completion in March 2025).

The construction will **involve two phases to minimise disruption to university and community services**. During the development a temporary library facility will be constructed to ensure constant provision of this service across the development period. The phases are summarised as follows:

Phase 1:

- Planning applications will be submitted, in April 2021 (estimated), for the works to Library / B9, Hendon Town Hall annex, Meritage Centre and relocation sites. Further planning applications will subsequently be submitted in May 2021 (estimated) for the RFC site.
- MU relocate from the academic offices in B9
- Relocation of Hendon Library locally to temporary facilities on Burroughs Large Car Park and permanent relocation of the Schools Library Service (SLRS).
- Rebuild of Building 9 for MU, with handover expected in July 2023
- Osidge Lane (car park site adjacent to the Veterans Hall) - construction for relocation of PDSA
- Meritage Centre construction of student accommodation with expected completion March 2025

Phase 2:

- Demolition of buildings and subsequent construction of Arts and Cultural Industries (ACI) building and student accommodation on RFC site.
- RFC library construction and relocation from temporary facilities (including relocation of Citizen's Advice Bureau from MC site to RFC) expected May 2024
- Removal of temporary library facilities on large car park and construction of African Cultural Association, Chinese Mental Health Association, and Mencap facilities expected completion and relocation March 2024.

All timescales and costs estimated to deliver the scheme have been reviewed by a QS and CBRE property consultancy.

Consultation with the LBB Local Planning Authority is currently ongoing through a series of formal pre-application sessions, to refine the scheme that is finally submitted. Prior to making each planning application there will be a period of public consultation. Prior to making each planning application there will be a period of public consultation. There will also be consultation on the Environmental Impact Assessment (EIA) that will need to be prepared for the Phase 2 planning application (RFC).

A supplementary planning document (SPD) is also currently being prepared, separately, which will form the planning framework for the Burroughs, together with the emerging Local Plan. Public consultation for the SPD will commence in January 2021, with consultation for the Hendon Hub to follow thereafter.

There has been, and will continue to be, consultation with both Members generally, and Ward Members.

7. Private v Public Options

In accordance with Green Book practice, funding options include a Private option (with LBB entering into a Funding Agreement with a Funding Partner/s), and a Public option (with LBB self-funding the scheme via Public Works Loan Board (PWLb) monies). In working up the OBC the Private option has been checked using a soft market testing process arranged through LBB's consultant KPMG, via a brief that included details of the scheme, programme, cost plan, terms with MU, and proposed term. This was sent to prospective funds that are known to be active in such projects, with the capacity to finance the development.

Private Funding Option

The Private option would require MU to sign an Agreement to Lease, with the subsequent grant of a lease upon practical completion (PC) of each stage of the development. Funding Partner/s would fund the development and construction costs. This would release a deferred rental premium paid in advance from the Funding Partner to crystallise land value and pay a development profit to the Council. LBB costs spent up to that point would then be reimbursed from the Funding Partner upon receipt of planning (2021/22). At the end of the 40-year term, LBB would have the option to 'buy back' the assets for the sum of £1.

This option provides the highest returns, but there are a number of risks associated with this option that will be assessed at the next stage.

Public Finance Option

Traditionally, projects such as this have been financed through Public Works Loan Board (PWLB). In the usual manner, a 50-year term loan could be drawn down by LBB, backed by long lease with MU. Minimum Revenue Provision (MRP) at 2% would also have to be set aside throughout the term of the loan upon practical completion and when assets become operational. LBB's freehold ownership of the assets could be maintained throughout.

Under the PWLB option, if the council undertakes the development themselves, the size of construction would impact LBB's partial exemption calculation.

The PWLB rate reduced on 25th November 2020, just before publication of this paper. This can only improve the PWLB case. When the preferred model is brought back to P&R Committee as part of the Full Business Case, this will be factored in.

Analysis of the Options

It is appropriate to note some fundamental similarities between the private and the public options:

- **LBB take construction risk – and would act as developer** in both options, and would have ultimate responsibility to deliver the scheme to practical completion
- **Subject to a lease with MU**

Net Present Value (NPV) is used to assess the options and is regarded by Green Book as the true measure of the value of a project and programme. The process is undertaken by assessing all costs and receipts to be assessed under each option and expressed in terms of the value as at today. Furthermore, NPV allows for the comparison between differing approaches, an important element in this case where the Public option delivers revenue, and the Private option a rental premium at PC. Both scenarios present a significant NPV, but with the Private option performing better,, although with more risks associated which will be thoroughly assessed at the next stage.

In all scenarios LBB will retain revenue outside of the MU lease, primarily from the new proposed retail units. Rental losses throughout the construction period will also be offset, where possible.

Affordability

The affordability of the options has also been assessed in terms of the short, medium and long-term impact on the General Fund. The private funded option, with an LBB guaranteed lease, performs the

best across all terms. At this stage PWLB borrowing has the second-best ranking in the long term (54 years), returning more positive results than a private placement with MU covenant. The PWLB option starts to generate positive revenue in year 6 (the year after practical completion of the scheme). However, the PWLB option performs worse, on average, across the development's lifetime than either Private options due to the MRP requirement across the loan term.

Summary

The soft market testing results for the Private options were tested according to Green Book principles. The risks & returns need further analysis and consideration between officers and Councillors, informed by detailed advice from third party consultants, prior to the submission of an FBC.

For both funding options the proposed scheme is feasible and delivers substantial returns, both in financial and regeneration terms, to LBB and Hendon specifically. The public option delivers a positive impact to the General Fund over its lifetime (despite making a loss in years 0-5 in the General Fund). Therefore, it is recommended that the scheme proceeds with this option as the viable base case, noting the opportunity of increased returns to LBB offered from private funding sources.

It is recommended that a planning application is submitted based on the base case approach, but that an Full Business Case (FBC) containing a final recommendation on funding will be brought forward to inform a final decision at the Policy and Resources Committee (P&R), in due course.

In all scenarios, LBB will retain construction risk and, as a result, robust construction risk management measures will be developed in the preparation of the Final Business Case (FBC), including how these risks might be mitigated or transferred. These are detailed below. In addition, the soft market testing has shown that there may be an option where Funding Partners could take on construction risk in whole or in part under the Private option, which will be fully investigated prior to the submission of the FBC.

8. Options Testing Going Forward

Private v Public Funding

This OBC recommends a scheme which will regenerate The Burroughs, in order to satisfy the project objectives. It has been ascertained that the scheme can be delivered successfully if funded through PWLB, so this has been assumed as the base case going forward. Therefore, the first test brought back to a subsequent FBC will be to determine whether a Private option can better this base case in terms

of achieving the project objectives and deliver the most financially advantageous option for the Council. This will allow for the decision to be made in the light of:

- The financial return offered from the public (PWLB) and private sector (forward funding) approaches, and a comparison between the two, weighed up against:
- The general risks associated with each, and the appropriate mitigants, and
- Any conditions that are specific to a Private offer and will need to be considered in this regard.

All options will be judged against key financial principles that have been established at this stage.

Delivery

The scheme represents a significant level of investment and also potential return. The estimated construction costs at this stage are approximately £90m. Construction projects typically carry risk that can often remain unquantifiable, and in some cases unidentifiable until late in the design development process and in some cases only identifiable once construction activity has commenced on site. While surveys have taken place to build an appropriate level of understanding of construction risk associated with the in-scope sites, it should be noted that the project remains at a relatively early stage. Due to the scale of the project, the values associated with construction risk could still dramatically vary the financial model within the business case.

For these reasons, it is an objective of the project to reduce risk and transfer residual risk where possible. As part of the risk management strategy the current intention is therefore to procure and engage a construction partner early in the process, although this is subject to further analysis. The construction partner would take on design responsibility once they are appointed, which will enable the Council to transfer construction risk, obtain a robust cost plan and identify any residual risk that may require allowance.

The construction risk needs to be balanced against the overall risk of delivery certainty and the risks to benefit realisation. It is therefore recommended that the scheme design be developed up to planning submission stage, in parallel with procurement of a construction partner. A planning submission would traditionally take place at RIBA Stage 3. However, the success of the project is obviously reliant on achieving planning consent and due to the scale of the scheme, the costs of developing the design fully to Stage 3 and beyond will be substantial. Taking this into account, it is therefore considered best to seek planning consent at the earliest possible point. This approach will reduce the exposure to abortive costs in the event that the project is unable to achieve planning

consent. More importantly obtaining planning consent earlier in the process will put the Council in a stronger position should they wish to seek Private funding. The benefits of this are expected to outweigh any impact should the Council need to seek any variation to the planning consent once granted. In this case a planning application could be submitted in advance of RIBA Stage 3, as this will enable the project to confirm deliverability

In the procurement of the construction partner, the Council will first employ a suitably qualified team with relevant experience and a demonstratable track record in supporting similar developments. The selection of this team should be transparent and based on a cost benefit analysis. The team will lead on development of the tender exercise for the construction partner with a focus on effectively mitigating the Council's exposure to construction risk. Once a construction partner has been established, the team will adopt a contract administration role checking and challenging the contractors design development from a time, cost and quality perspective on behalf of the Council. The arrangement will continue through construction activity through to completion and the end of the defects' liability period. It is recommended that a Programme Manager / Employer's Agent is employed earlier in the programme, post OBC, to commence Procurement of a construction partner.

Other risk mitigants include 10% cost contingencies and programme contingencies at this stage. Further risk mitigants will be analysed in the FBC, and will be brought back to P&R Committee in due course, and will consider the following:

- Splitting the construction works up into smaller packages to keep more control and retain flexibility, for example: Building 9; ACI Building, individual contracts for the MC site etc
- Splitting the construction works into shell and core and fit-out contracts
- Investigating modular construction to reduce programme time
- Appropriate building contract/s.

As specified in the Outline Business Case a procurement strategy is to be finalised. This report therefore seeks that authorisation of the Hendon Hub procurement strategy is delegated to Deputy Chief Executive, following consultation with the Chairman of P&R to enable progression of procurement activity in support of Hendon Hub programme delivery.

There is also significant contingency in both cost budget and design fees in the development appraisal. Approval is being sought for the early appointment of a Programme Manager/Employers Agent post

FBC, with commensurate fees, in order to proceed with the procurement of a contractor partner. It is recommended that the process will be delegated to, and overseen by, the Deputy Chief Executive.

Detailed recommendations on delivery will be provided to P&R Committee in due course, supported by a Full Business Case.

Summary

All funding and delivery recommendations contained within this report will be revisited in FBC to ensure that the approach that best meets LBB's objectives is being pursued. KPMG will validate all funding options at FBC, which will form the basis of the final recommendation.

9. Acquisitions & Relocations

There are several adjacent third-party properties that will need to be purchased to facilitate the scheme. The project team have had initial conversations with most third parties and will attempt to purchase all interests via private treaty.

Due to the number of interests to be acquired, a conservative approach has been adopted for the base case programme that assumes that a Compulsory Purchase Order (CPO) will be necessary. Assuming OBC approval, the negotiations will be progressed and, at FBC, there will be a clearer idea as to whether a CPO will be required and recommendations will be brought forward at this point.

A number of the community organisations affected are either partly, or wholly, commissioned by departments within LBB. The Hendon Hub project team are in communication with these key stakeholders within LBB as well as the community organisations to ensure that re-provisioned accommodation is fit for purpose. All uses will remain local to Hendon and the relocation of the community uses will be subject to consultation with Members, town planners, key teams within LBB (including Adults & Health and Property Services), and the public.

It is proposed that the car parking spaces provided within the existing Town Hall car park will be re-provisioned in MU's main car park, within a short walking distance of the Town Hall. This will be discussed with Members before being finalised.

Subject to approval by Policy and Resources Committee (P&R), the current Hendon Public Library will be relocated and upgraded into a new facility on the RFC site, which will be provided fully fitted and rent free in perpetuity. The new facility will provide c. 200 sqm of additional gross internal space compared to the current 622 sqm GIA library provision. The project team have agreed with the Library Service the look and feel of the new facility, which will be a significant enhancement on the current facility in many aspects – including size, design, layout and accessibility to the public. There will full

continuity of the library service, with a temporary library facility provided during the construction period. The SLRS archives will be relocated out of Hendon and will have permanent homes in other LBB buildings. The archiving services will be temporarily relocated off site and then re-consolidated with the new library facility once it is complete. The Libraries team have had this approach approved at the November 2020 Community Leadership and Libraries Committee.

HRA Appropriation

There are a number of properties that will require transfer from the HRA to the General Fund in accordance with the correct statutory procedures.

Where any of these properties transfer with existing income in the short term, any income and expenditure associated with the property will transfer to the General Fund and the impact will be accounted via the General Fund / HRA Capital Financing Requirement.

Further due diligence will be undertaken by Estates (valuations), Legal, and Finance (accounting treatment) prior to a decision being recommended to the Deputy Chief Executive / s151 officer, and any formal decision will be communicated to the Secretary of State, if required.

10. Benefits

Quantitative Benefits

See section 7 within the Executive Summary above for quantitative benefits associated with the funding partner and PWLB options. In the base case Public option, there are substantial benefits to the Council, including an positive NPV return and a positive General Fund impact over the life of the project.

Qualitative Benefits

A summary of the qualitative benefits is shown below and relates to LBB, local residents, and MU.

For **LBB** the following is realised:

- Regeneration in line with LBB and MU's wider objectives and core strategies in Barnet 2024 including significant contributions to place making and providing a potential catalyst for future investment in the area
- Further spending in Hendon, via the concentration of the resulting activity
- Prestigious university facility within the Borough

- Accommodation that addresses its environmental ambitions to a BREEAM Excellent standard

The Hendon Hub proposal is intended to achieve:

- Improved synergy between uses, accessibility and the appearance of The Burroughs, benefitting residents, workers and visitors to the area
- Highways benefits include reduction in vehicle movements
- Parking improvements
- No net increase in student numbers on site and likely less student-owned cars in the area due to more restrictions and the closure of remote Halls of Residence.
- Improved community safety from increased patrols of campus security, maintenance staff and improvements to lighting
- Enhanced road safety measures including new pedestrian crossings
- Regenerated green spaces, the potential inclusion of more cycle parking and improved cycle lanes, wayfinding and walking routes.
- Refurbished playground/s
- Modern affordable housing
- New modern facilities for community uses
- A modern, improved Hendon Library
- New Citizens Advice centre
- New retail space – café, food/convenience store
- Increased usage of MU facilities by the community across campus during out of hours
- New PDSA facility, with dedicated car parking
- Likely repurposing of several / many existing HMOs to family homes

For **MU**, the Hendon Hub offers the following benefits:

- Brand new academic buildings, vastly improving those faculties in the University;
- Consolidated student accommodation adjacent to the campus;
- Cementing their future in Barnet for the long term, with all associated benefits;
- Ability to rise through the University rankings with regard to 'student experience' (a key indicator used by students when choosing a place to study for higher education)

11. Risks

Risk	Mitigant
Failure to acquire 3 rd party assets	Attempt to meet mutually satisfactory position with all owners. As a backstop, CPO expert advice sought and assumed within financial appraisals and project programme
Covid-19 uncertainty for the university sector / MU	Constant communication with MU regarding university position; Regular testing taking place through third party reporting; Review of funding approach through an extensive exercise post OBC. KPMG and CBRE Reports on university sector and MU in particular; MU performs well against the Moody's Higher Education Framework with strong balance sheet and liquidity, Affordability of rent being examined further post OBC
Construction risk from cost and programme overrun	<p>Being reviewed to mitigate through various options:</p> <ul style="list-style-type: none"> • Earlier appointment of EA and procurement of construction partner; • 10% contingency on construction costs • splitting the construction works up into smaller packages to keep more control and retain flexibility; • Splitting the construction works into shell, core and fit-out contracts • Investigating modular construction to reduce programme time and address COVID-19 issues such as social distancing • Recommendations to be made as part of FBC
Covid-19 and programme delays	<ul style="list-style-type: none"> • The project team are following the latest government advice on the pandemic, with regular online meetings; teams doubled up to cover project team illness; regular correspondence with the senior team at MU; • Project team are functioning as normal in this second lockdown; • CBRE have provided a market report on the impact of Covid-19 on Hendon Hub and "do not expect significant disruption"

Whilst those detailed above are the primary risks, there are other risks that will affect the scheme, which are reflected in the Project Risk Register that is reviewed on a weekly basis.

Another key risk is planning risk which is being mitigated by a series of pre application sessions with LBB planners and GLA.

LBB will undertake a thorough exercise to examine the risk and mitigants surrounding each funding route as part of their work leading up to a recommendation in a subsequent FBC, that will be brought back to P&R Committee in due course.

Summary

Risks associated with the current turbulent economic landscape caused by COVID-19 will be under constant review and are currently all in the risk register as 'high' risks, reflecting the current volatile economic landscape.

12. Due Diligence & Project Governance

It should be noted that the project team have received support from a number of parties, including CBRE, 31-Ten and KPMG, who have reviewed the funding options and financials on behalf of LBB. Further due diligence has been evidenced through:

- CBRE preparing valuation and inputs to the appraisal in accordance with the Red Book
- CBRE preparing a report on the University sector in light of Covid-19 and its potential impact on the scheme
- KPMG conducting a soft market testing exercise for the private funding option
- KPMG preparing a report on the structure of the deal and funding options
- KPMG report on the student sector and MU in particular
- KPMG report on tax advice
- Legal due diligence and structuring advice from Pinsent Mason and HB Public Law
- Procurement advice from Pinsent Mason and HBP Public Law
- LBB Finance and 31-Ten overseeing the financial modelling
- Recommended early appointment of Programme Manager / Employer's Agent, prior to planning, to oversee the scheme and work with the LBB procurement department to appoint a construction partner to work up the scheme
- Monthly project boards with senior officers and the project team and overview by other internal boards
- Regular project management gateway reviews

Summary

Initial due diligence has been undertaken alongside the development of the OBC. Notwithstanding that, further, extensive due diligence will be conducted throughout the development of the FBC, in order to be able to present properly considered recommendations to committee for approval, in due course.