

Hendon Hub Development Proposal

Full Business Case

July 2021



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Glossary

Crown Commercial Services (CCS) – the UK’s largest public procurement organisation

Discount Rate – the rate to express future income and costs as at today

Discounted Cashflow – a valuation method used to estimate the value of an investment based on its expected future cashflows, discounted by the HM Treasury Green Book approved rate

HM Treasury Green Book – sets out the best practice approach for how major public sector investment projects should be assessed

Income Strip (IS) - A funding arrangement where the financier buys a long leasehold interest in the site, develops the buildings and enters into a long lease to LBB or Middlesex University (MDX) for a 40-year period. LBB or MDX are liable for the rent, which is fixed and subject to annual increases linked inflation measures. At the end of the lease term LBB has the right to acquire the asset back for £1.

Net Present Value (NPV) – an assessment of all costs and receipts under each option, expressed in terms of the value as at today

Place making – a multi-faceted approach to the planning, design and management of public spaces, reinventing the heart of every community and strengthening the connection between people and the places they share

Private Placement (PP) –unlisted debt securities offered directly to a limited group of institutional investors rather than through the public markets. In the proposed structure, a special purpose vehicle (SPV) would issue 40-year debt to a financier, use the proceeds to develop the asset and lease the asset to MDX for 40 years, using rents received to repay the debt. LBB would have reversionary rights to the asset for £1.

Public Works Loan Board (PWLB) – Central Government lending opportunity available to support local authorities in service delivery, regeneration, and housing

Red Book Valuation (RBV) – valuation of assets designed to ensure that high standards of inspection, investigation, analysis, definitions, and justification and presentation are met

Retail Price Index (RPI) – a measure of inflation used to calculate the cost of living escalation, indexing the price of various goods and services in the market

Royal Institution of Chartered Surveyors (RICS) – a professional body promoting and enforcing the highest international standards in the valuation, management, and development of land, real estate, construction, and infrastructure. Issuers of the RBV guidance.

Value for Money (VfM) – the utility in terms of minimum purchase price, maximum efficiency, and effectiveness, derived from a particular purchase/investment

Yield – earnings generated on an investment over a particular time period, expressed as a percentage based on invested amount or current market value

Abbreviations

LBB: London Borough of Barnet

MDX: Middlesex University

RFC: Ravensfield, Fenella, and Car Park

MC: Meritage Centre

B9: Building 9

SOC: Strategic Outline Case

OBC: Outline Business Case

FBC: Full Business Case

Executive Summary

1. Overview

Purpose

Following approval of the Strategic Outline Case (SOC) in June 2019, and Outline Business Case (OBC) in December 2020, London Borough of Barnet (LBB) has progressed Hendon Hub: a unique opportunity for a mixed-use development on The Burroughs, Hendon. The scheme is being developed in conjunction with its strategic partner Middlesex University (MDX) and community operators across the sites.

The FBC has three functions: (1) it highlights proposed changes to the project since OBC for approval; (2) provides a clear recommendation for approval on the funding approach, delivery vehicle for the project to proceed, and further clarity on the construction procurement strategy; and (3) requests approval for various matters including delegations to advance the project. It primarily concludes that:

- Proposed changes to the scheme, as a result of public consultation and further analysis, continue to align with the wider strategic policy context and economic demand
- A private financing option is modelled as the most financially advantageous to the General Fund and should be pursued in lieu of a public funding option
- A private placement funding route using the Middlesex University (MDX) covenant is the recommended financing solution for LBB
- It is recommended that the procurement for the contractor be undertaken via an existing framework
- It is recommended that LBB use a Special Purpose Vehicle (SPV) as part of the structuring of the transaction. This will be the most beneficial for the financing deal, the procurement, and the tax affairs of the venture.

Opportunities

The Hendon Hub scheme (as detailed in the Strategic Case section of this FBC) has been designed to provide modern community facilities, fit for purpose academic space, and student accommodation. The provision has further been enhanced through the addition of affordable residential accommodation. The proposed development has been prepared in alignment with LBB's Growth Strategy and Corporate Plan (Barnet 2025), and the HM Treasury Green Book guidelines.

Hendon Hub is designed to strengthen The Burroughs' position as a thriving space within Hendon, create inspirational public spaces that promote health, happiness, and well-being, and reinvigorate the area.

In addition to this, the scheme has the **opportunity to deliver:**

- Improved services for Middlesex University (MDX) to **further enhance the university's reputation and further integrate itself into and invest in the local economy**
- **Contributions to affordable housing demand** in the area through improved access to student accommodation, affordable housing, and homes for independent living, fulfilling the strategic objectives of LBB
- A more **integrated, user-focused and unified community offer**, and a **new state of the art modern Library**
- **Improvements to the public realm**, green spaces, and overall connectivity across The Burroughs
- Fulfilling central Government's One Public Estate (OPE) objectives by **promoting economic growth** through new homes and jobs

Community Infrastructure Levy (CIL) contributions from the scheme will secure funding for local infrastructure.

Consultation and Scheme Changes Since OBC

Since the OBC was approved, there has been a 14-week public consultation period, commencing 27 February 2021, concluding on 7 June 2021, with the aim to obtain feedback from local residents and stakeholders with regard to the proposals. A project website was set-up (www.hendonhub.co.uk) to allow people to find out more about the consultation and feedback via the online survey. A total of eight online presentations were held via Zoom and an additional four in-person events were held at the Scholars Courtyard at Middlesex University (MDX) during the week commencing Monday 17 May 2021.

The project team has sought to consult and engage with neighbours and local community groups prior to the finalisation of the project and the submission of planning applications. As well as meetings held with Council planning officers, extensive stakeholder and public consultation has been undertaken, and meetings with members of the public. In addition to the feedback from the virtual and in-person consultations a total of 341 feedback forms were completed with feedback also received via phone and email.

The feedback from consultation has significantly influenced the proposed scheme and how the consultation process has evolved. However, it is appreciated that, for some residents, the proposed changes will not sufficiently address all concerns raised. All the concerns have been carefully considered. In some cases, however, it has been considered that there are strong rationales for maintaining the original proposals. Where possible, concerns have been mitigated - - for example maintaining some public access to the existing listed library building.

Once planning applications have been submitted, interested local residents and stakeholders will have a further opportunity to provide comments and feedback as part of the statutory consultation that is undertaken on all planning applications.

The recommended changes, since the OBC approval, offer improved placemaking opportunities, including a reduction in the quantum of student accommodation units and further changes intended to mitigate resident concerns and provide further benefits to the local community in Hendon. The suite of scheme changes recommended for approval in the FBC are:



• **Reduction of student accommodation unit numbers by 26% (from 792 to 583)**, with the introduction of 61 affordable accommodation units in its place. Reducing the number of student accommodation units gives LBB the opportunity to develop more much-needed affordable housing both for young adults who need support in beginning to live independently and, likewise, for individuals who may find their income may not enable them to live locally. Note that the exact number of units may change slightly as the design is finalised.



• **Retention of car parking provision**, with 2 car parks removed from the scheme (The Burroughs car park, and Osidge Lane Car Park), and 100% re-provision of the Fuller Street car parking spaces. Removing the Burroughs car park from the scheme means residents and visitors can still access this public car park for school drop-offs, and for visiting local businesses and places of worship. Similarly, keeping the Osidge Lane Car park means dog walkers wishing to access Brunswick Park, parents dropping of children to the local school, or residents needing to shop locally, can still access this parking facility. With re-provision of parking within the Fuller Street estate, residents will still have access to the same quantum of parking locally.



• **MDX to provide residents' access to the current historic Hendon Library building coupled with the delivery of a brand new Library building which will be designed for multi-generational use.** Some public access to the ground floor will be preserved and enhanced access will be facilitated to the 1st floor, and the ornate 2nd floor reading rooms in the existing library, meaning that residents can obtain more access to the architecture and heritage of the building.



• Introduction of a **health and wellbeing building** (subject to advancing discussions with the local Clinical Commissioning Group (CCG)). It is hoped that this will include a GP surgery which would provide improved access to primary care services in the local area.



• The veterinary centre, PDSA, are to be relocated locally to Fuller Street Car Park with the parking spaces lost re-provided on the estate. Moving PDSA to Fuller Street, rather than to Osidge Lane, will mean the service to local residents will continue, with the additional benefit of enhanced landscaping and play spaces within the Prince of Wales estate.



• The Metropolitan Police Service's **Safer Neighbourhood Team** have been offered a facility adjacent to the proposed new Library to help **improve public safety in the area**. Public safety will be further enhanced by improved lighting and enhanced CCTV presence across that area.

It should also be noted that:

- Middlesex University (MDX) are **reinforcing their commitment to further engage with residents** to share their facilities where possible, and properly address concerns raised by the public about some student behaviour
- There has been a **reduction in building height on the MC Site**, improving views of St Mary's Church
- There is **no net loss of public parking** from the Hendon Hub development - the 31 existing car parking spaces on the Fuller Street site will be re-provided through reconfiguration and landscaping in the Prince of Wales estate. The proposals include dedicated parking for the PDSA facility on the Fuller St car park. In addition, the University will be requiring students to sign an agreement in their accommodation contracts asking them to not bring cars to the University campus nor the new accommodation, unless they have exceptional reasons for doing so (to ensure MDX meet their own equalities requirements). This should mean that car usage by students will show some reduction as a result. It is also proposed that there is an extended controlled parking zone (CPZ), which will be the subject of a separate CPZ consultation.
- The Council's Town Hall car park spaces will be **re-provided in the Middlesex University (MDX) main car park**.
- LBB have listened to the substantial concerns locally, including those voiced in a petition, about the relocation of the library services to a new position on The Burroughs. The Council have taken this very seriously however, on balance still believe that these **new facilities will create a substantial opportunity** to provide a modern building that will best serve all generations. As a result, this FBC still recommends proceeding with a new, relocated library facility.
- The phasing of the scheme has been reconfigured to eliminate the need for the **relocation of the existing library to a temporary site**, pending the move to the new location. If it transpires that this is not possible, any temporary relocation will not go ahead without further committee approval.
- **None of the listed elements in the existing library building will be demolished**, internally or externally, with the Library building fully retained save for the 1970s extension. Enhancements are proposed in rooms that have previously lost their original features.
- The University recognise that, whilst the majority of students are respectful of the local area, there is a minority of students who do not uphold these standards. MDX is **working to address the significant concerns about student behaviour that have been raised during the feedback from the consultation**, by implementing various measures including:
 - **Increased security patrols** across the campus, student residences, and the wider area

- **Increased CCTV monitoring** on campus to detect and address any antisocial behaviour, and working with LBB to improve CCTV coverage and tackle antisocial behaviour in the wider Hendon area
- Close working with the **Metropolitan Police Service** and LBB Community Safety Team

The changes to the scheme proposed in this FBC are intended to reduce the amount of student accommodation relative to that proposed in the OBC, increase the quantum of community benefits, alleviate car parking concerns, ensure access to valued heritage assets is maintained, and provide much needed affordable accommodation to the area.

The major themes that were raised during the consultation and how they have been addressed are as follows:

Consultation Objection	How Addressed in FBC Scheme Changes
Loss of parking due to development proposals on car parks where no alternative parking provision was to be made	Osidge Lane Car Park and The Burroughs car park removed from scheme; all Fuller Street parking spaces replaced; proposed CPZ; MDX to control the use of cars by students.
The scale of proposed student accommodation with the concern this might lead to a rise in an increase in anti-social behaviour locally	26% reduction in the number of student accommodation units; Proposed Met Police Safer Neighbourhood base adjacent to new Library; increase in CCTV on MDX grounds and locally; Improved lighting; Proposed development has been configured to design out crime in conjunction with the relevant teams at LBB and Met Police
The scale and mass of the development	Reductions in height to the rear of the RFC site; separation of RFC into 3 buildings to reduce the mass of the development; reduction in student numbers; Meritage Centre building height adjacent to Church End Road to be reduced;
Comments that the scheme has many benefits for Middlesex University (MDX) but few community benefits; concerns that MXU are 'taking over the local area'.	Significant reduction in student accommodation numbers since OBC; inclusion of affordable housing; inclusion of prominent community hub; more green spaces and public realm improvements proposed; some public access to be maintained to the current Hendon library building, to include access to listed features not currently accessible to the public; new modern library building; continued and access to MDX facilities by the local community where possible; introduction of a health and wellbeing centre / GP surgery; PDSA now retained locally.
Library services moving from the existing listed library building to a new modern building	The objections have been carefully considered; LBB Library Service officers believe that there is strong rationale to move the library to allow

located on the opposite side of The Boroughs; a petition has been submitted in this regard.

improved service provision. Public access will be maintained to the current Hendon library building, to include some access to the second floor, containing listed features not currently accessible to the public

Structure of the FBC

This Full Business Case (FBC) has been structured using the 5 Case Model comprising of the following sections:

- **Strategic Case** – reviews the strategic context from OBC to ensure there remains a strong alignment between the proposal and LBB’s ambitions, in addition to substantiating changes to scheme composition since OBC
- **Economic Case** – determines which funding option is the best Value for Money (VfM) solution and revisits the demand for the assets delivered through the scheme
- **Commercial Case** – discusses whether the financial recommendations are market proven, making commentary on the results of soft market testing as performed by KPMG post OBC and details the procurement strategy and preferred delivery vehicle
- **Financial Case** – analyses whether the project is capable of being financed, and how, outlining affordability implications, sensitivities, and quantitative benefits
- **Management Case** – investigates the capacity within LBB to manage and develop the project and highlights any potential risks, dependencies, and constraints

A summary of the findings of each of these 5 sections is found below, together with the recommendations and next steps which details the decisions and delegations sought upon sign off of the FBC. The detail can be found in the subsequent chapters.

2. Strategic Case

The Scheme

The three major sites remain the same as those proposed in the OBC:

- Ravensfield, Fenella and Town Hall Car Park site (“RFC”)
- Meritage Centre (“MC”),
- and Building 9 (“B9”) which includes the Hendon Library building.

Additional third-party ownerships will need to be acquired. These are as presented at OBC. The figures below show the updated red line boundaries for the scheme and the masterplan for the development. The most up to date scheme designs can be found attached as Appendix 1.

Community Relocations

The PDSA is proposed to be moved circa 170 yards away from where they are currently located with their new building proposed to be located on the current Fuller Street car park just to the rear of their current facility. The time to walk from the existing to the proposed facility is likely to be less than three minutes for a person without mobility issues. The new facility will be modern, fit for purpose accommodation with dedicated car parking spaces and has been designed to PDSA’s specification and requirements. It is proposed that a long lease of the site is provided to PDSA.

The African Cultural Association (ACA), Meridian and the community hall are proposed to be relocated to a community hub that is to be located approximately 0.3 miles away from their existing facilities, on the RFC site. The time to walk from the existing to the proposed facility is likely to be circa 6 minutes for a person without mobility issues. The new facilities will be located adjacent to the proposed library building and will occupy a prominent location on The Burroughs. It is recommended that the Committee agrees to the use of the Community Benefit Assessment Tool (CBAT) on the grant of the new leases in respect of the following units. All these uses are currently assessed on the CBAT tool for their existing units. The Citizens Advice Bureau (CAB) will also be located in the same ‘community hub’ on the RFC site.

The MENCAP unit is proposed to be relocated to 154 Station Road, Hendon, which is a council-owned building located approximately 0.6 miles away from their current facility on the Meritage Centre (a circa 14 minute walk for a person without mobility issues, or a 5 minute drive). MENCAP have a proposed change in service offer that this building will better facilitate, and this relocation site has

been worked-up in tandem with them. It is recommended that the Committee agrees to the use of the Community Benefit Assessment Tool (CBAT) on the grant of the new lease in respect of this unit.

ACA, CAB, Meridian and the community hall will all require temporary facilities, whilst the development is taking place, with the earliest being required by May 2022. It is proposed that these are located locally to the existing facilities to ensure minimal service disruption. The project team are actively working on finding temporary relocation sites either on Brent Street, on the Burroughs or in other local facilities. The team are working with Middlesex University and also looking at the programming of the development, to ensure that the users who currently use the community hall can be fully facilitated during the development. Equalities Impact Assessments will be undertaken for both the temporary and permanent moves.

The proposed library is proposed to move across the road on The Burroughs circa 110 yards away (a circa 2-minute walk away for a person without mobility issues). It is proposed to include an improved disabled access, better planned space to take into account equalities for all users with the addition of 100 sqm for the use of the community and local groups. The library will be rent free.

The Schools Library Service (SLS) is proposed to be relocated to the Quinta Club, which is located circa 6.3 miles away from its current facility in Hendon Library (or a circa 16-minute drive, depending on traffic). It is a destination use as it will be used specifically by schools and will not be a facility that is generally open to the public. It will provide a far superior facility for the Schools Library Service, who currently operate in cramped conditions in Hendon Library. It will provide larger, fit for purpose accommodation for the SLA as a designated facility, with better car parking and access for local schools. The accommodation is a Council owned facility and as such will be rent free for the service.

Equalities Impact Assessments will be undertaken for all proposed moves, in conjunction with the individual uses.

The red line boundary plan for the scheme is:



Capita Property and Infrastructure Limited TIA ESA, Reg'd in England & Wales (Co. No. 02018542) at 30 Berners Street, London, W1T 3LR, UK

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Project
Hendon Hub
Drawing Title
Combined Site Redlines

Client
LBB Barnet

Drawing No. **SK 170621** FOR INFORMATION
Revision No. **CS/097063**

Scale: 1:500 Date: 17/06/21
Site Classification: Document Template Number: 1.00



The revised scheme proposed for Committee approval is summarised as:

Deliverable	Area GIA
Ravensfield, Fenella, and Car Park (RFC)	
Retail	415 sqm
Arts and Cultural Facility	4,450 sqm
Student Accommodation	388 units (8,623 sqm)
Middlesex University (MDX) Estates Office	100 sqm
Affordable living accommodation	28 units (2,329 sqm)
Proposed new library	830 sqm
African Cultural Association (ACA)	65 sqm
Meridian and Community Hall	400 sqm
Citizen's Advice Bureau (CAB)	340 sqm
Parking and external works	35 spaces
Meritage Centre (MC)	
Student Accommodation	195 units (5,704 sqm)
Health provision (potential GP Surgery)	470 sqm
Independent Living Units	33 units (1,556 sqm)
Building 9 (B9)	
Academic Space	3,490 sqm

Library ground floor conversion for Middlesex University (MDX)	689 sqm
Library upper floor conversion	880 sqm
New Town Hall Lease	N/A
Offsite	
MENCAP to move to 154 Station Road	65 sqm
PDSA to move to Fuller Street Car Park	510 sqm
Schools Library Resources Service (SLRS) to move to Quinta Club, EN5 2AP	332 sqm
Landscaping Improvements to: <ul style="list-style-type: none"> • Land to rear of Sunnyfields Sports Pitch • Land to West of Almhouses, The Burroughs • Land to East of Almhouses, The Burroughs • Prince of Wales Estate / Fuller Street Playground 	N/A
Total GIA	31,248 sqm

All relocation sites have been agreed with the relevant operators, including: MENCAP, PDSA, SLRS, Hendon Library, ACA, CAB, and Meridian.

Concept Visual: RFC Site (Work in Progress)



Concept Visual: B9 Site (Work in Progress)



Concept Visual: MC Site (Work in Progress)



Equalities

A full description of the potential impact of the proposed development on protected characteristics¹ can be found in the appended Equalities Impact Assessment (EQIA, Appendix 2), which details how any negative impacts will be mitigated across the project's lifetime. The impact on equalities has been assessed collaboratively amongst the project team and key stakeholders through a series of workshops across the FBC development period. At this stage, the Hendon Hub development is not seen to have a significant impact on the protected characteristics identified. It is important that this status is consistently monitored across the course of the project and, if need arise, mitigations and changes are made to ensure no group is negatively impacted. It is considered that the adjustments proposed within the Hendon FBC improve the equalities position since OBC, with inclusions such as a potential GP Surgery, local relocations of community services, zero loss in parking provision, and gender-neutral bathrooms providing benefits to some service users that were not previously available.

Third-Party Acquisitions

To facilitate the scheme, a number of third-party acquisitions are required, which remain as described in the OBC. The project team continue to make progress to secure these properties via private treaty. Whilst LBB are attempting to avoid the need for Compulsory Purchase Orders (CPOs), this process remains available to the Council. This is in the base case development programme, and CPO timescales and costings are included within all financial modelling. Responding to specific resident concerns, it is confirmed that there is no requirement to acquire parts of any garden land in Egerton Gardens to facilitate the proposed development.

As part of the approvals sought through this FBC, it is requested that the community groups, currently located on the Meritage Centre, are transferred to proposed new locations on the RFC site, directly adjacent to the proposed new library building, creating a hub for the local community. Commercial arrangements for these uses will be similar to agreements currently in place. African Cultural Association (ACA) and Meridian currently occupy rent free space as these organisations have been previously assessed using the Community Benefit Assessment Tool (CBAT) and meet the LBB criteria to receive rent free accommodation going forwards. This will also apply to MENCAP in their new relocation site at 154 Station Road, NW4 3SP. As part of the approvals sought through this FBC, it is requested that consent is provided for the use of the CBAT tool on these premises.

¹ Referring to the specific aspects of a person's identity defined by the Equality Act 2010. The 'protection' relates to protection from discrimination

Strategic Justification and Rationale

It is considered that the proposed development is supported by local and regional strategic policy, and is justified based on:

1. The Placemaking Opportunity

Hendon Hub provides the opportunity to further enhance the environment of Hendon, improve the local community's assets and create public spaces that are intended to promote people's health, happiness, and wellbeing.

The existing community buildings on the MC site are approaching the end of their functional life. These buildings have poor energy efficiency. Hendon Hub provides an opportunity to re-provide more efficient space for community facilities currently in the Meritage Centre, and to provide new energy efficient buildings on the MC site.

The relocation of the library to the modern facilities on the RFC site follow the recommendations of the independent evaluation of the library service conducted by The Activist Group in 2016, due to:

- The opportunity for an open frontage, bringing a light-filled and welcoming facility that will attract a larger footfall, inspire a new generation, and provide access to 21st century technology
- The opportunity for more flexible and efficient spaces to deliver a more dynamic set of services to the community and improved Local Studies Service
- The return to a three-storey library offer not being deemed economically viable within Hendon due to the high operational, staffing, and security costs which would have to be met by a restricted libraries budget. Hendon Library does not occupy the most well-connected and busiest location within the borough and, therefore, is not an appropriate location for a central library
- The high operational costs of the existing facility and its inflexible layout

A detailed rationale for the library relocation is provided in Section 1, starting on page 57 of the main FBC report.

Place making is also important to the University through an enhanced campus. Similar to other Higher Education Institutions (HEIs), the attraction of students to MDX will be enhanced by having much improved academic facilities, together with student accommodation near its main campus. An associated benefit will be a reduced carbon footprint as students will be able to walk to the University, and there is a potential reduction in vehicle emissions.

2. Investment Opportunities and Land Ownerships

As noted at OBC, LBB have the ability to make the greatest impact on the local area and invest in and revitalise the area, as the majority of the sites included in the scheme are within its ownership, a large proportion of which are currently occupied on short term leases by MDX. As a result, it has a pivotal role in enhancing The Burroughs and creating a sustainable and well-connected sense of place.

Most of the buildings being considered within the Hendon Hub scheme are approaching the end of their design life in terms of reduced functionality, efficiency, and environmental standards. This means that retention of the current built environment would offer little return, as established at OBC. The current community facilities are beyond their design life and require further investment.

3. Benefits of Scale

The Hendon Hub scheme provides a unique opportunity to deliver a comprehensive development that will secure investment that delivers on the core objectives.

These include:

- Optimising the opportunity to improve the character and appearance of the area by providing distinct buildings, each with their own architecture according to their purpose, whilst relating to the surrounding architecture. In this way, the proposals extend the historic feature of the current built environment with a family of distinct but related buildings.
- The overall massing is broken up by spaces to allow for appropriate buildings of scale to be introduced to the Burroughs without detracting from an appreciation of the existing historic buildings which will continue to remain important features in the streetscape
- Carefully considered building height variations across the development, with heights tiering downwards to a residential scale to the rear
- Enhancing views along The Burroughs and Church End
- The proportionate saving in costs that can be gained from including all three of the core sites in a single development, maximising value for money, while also creating a unified design across the developments

4. Strategic Partnership between LBB and Middlesex University

LBB remains committed to working closely with Middlesex University (MDX) and supporting their strategic objectives of enhancing student experience. The Council is aware that the public

consultation has raised concerns and comments from some local residents about various aspects of the University as part of the development. There have been comments made that there is a perception that MDX contribute little to the local area, and a number of residents have expressed concern about intensification of the university's presence and student behaviour.

Since COVID, there has been limited opportunity for outreach by the University into the local community, however it is important to highlight the many benefits and contributions the University makes to Hendon and the local area:

- **COVID Response:** MDX has made a very important and significant contribution to supporting local residents and the healthcare system during the pandemic:
 - The University host one of Barnet's testing centres on campus, in addition to training over 2,000 nurses and other practitioners to carry out COVID vaccinations and other front-line services to the local population
 - The Design Engineering and Mathematics Department and fashion students have been developing PPE equipment such as visors and making scrubs for key workers
- **The University is one of Barnet's largest employers**, employing c.1,500 local and London-based staff
- Students provide a potential pool of local labour, which can benefit students and local businesses alike
- **Increased footfall and spend** in the local economy helps sustain local business
- Residents have **access to the university cafes and open spaces**, in addition to a range of sports facilities including the gym, football pitches, and tennis courts
- **Outreach to local secondary schools** in the borough, providing workshops to raise aspirations and get students thinking about skills and careers
- **Hosting public events²** such as the North London Careers Fair, annual science festival, and sports summer camps for children
- The University has set-up a residents' panel to help strengthen relationships between the university and local residents

Further to this, the objective to enhance the existing facilities and student experience rather than expand greatly. There is no planned increase in overall student numbers as a result of this development and, whilst it is appreciated that some students may be in Hendon for more hours of the

² These events have, unfortunately, been unable to go ahead in the past year due to COVID restrictions and the need to protect the safety of students and staff but the university are keen to restart public events when it is safe to do so.

day than they are at present, many students do currently live in Houses in Multiple Occupation (HMO's) locally due to the shortage of local student accommodation.

Objectives

The agreed objectives established at OBC remain constant, with the project aiming to deliver against the following:

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

3. Economic Case

Market Viability and Lease Arrangements

The Hendon Hub development will be largely facilitated by 40-year lease arrangements with the University over the new academic space, offices and student accommodation, that will then facilitate the development of the additional properties including the retail, residential accommodation, facilities for community organisations, and public realm improvements.

The economic context remains in line with that detailed at OBC, with a high demand for student accommodation from MDX, and the need for improved academic space to enhance teaching facilities for students. Over the 40-year life of the new buildings, it is expected that the demand for accommodation will remain broadly consistent, despite the current impact of Covid-19. The vaccination roll-out and the easing of social distancing restrictions are already helping to restore the economic landscape. Demand in the market for the services proposed from the scheme is detailed further on page 74.

The introduction of affordable accommodation and homes for independent living into the proposed scheme since OBC fulfils a core strategic priority for LBB.

Income Commitment by Middlesex University

The economic case for the development remains robust, with most of the projected rental income guaranteed by Middlesex University (MDX), subject to the final Agreement for Lease (AfL) being

signed. Whilst there maintains a risk this will not proceed, MDX have now obtained Governor’s approval to move forwards and sign the AfL at the currently proposed rents. The AfL is progressing well, with final commercial negotiations ongoing to approve the recent scheme alterations. The key terms remain as highlighted in the OBC, although the academic term length has reduced from 42-weeks to 40-weeks. Terms of the leases with MDX are between 40-42 years and are co-terminus, all concluding in the same year despite differing dates of completion.

The reduction in the number of student accommodation units in this FBC has resulted in a reduction in income from the MDX lease arrangements with consequential impact on the funding deal. However, this is mostly replaced by an increased annual income payable to LBB from the proposed affordable accommodation above the new Library, as well as the homes for independent living and the health and wellbeing centre that have now been introduced into the scheme. MDX remain satisfied with the quantum of proposed student accommodation units within the scheme.

61 affordable housing units replace c.190 student accommodation units (that were included at OBC). This significant drop in units is primarily due to the average size per affordable unit being significantly larger (see table below). In addition to this, factors such as self-contained kitchen and living space, and outside amenity space further increase the space requirements.

Student Accommodation	Homes for Independent Living	Affordable Accommodation
11.5 sqm	23sqm	Between 37 - 70 sqm

The difference in accommodation space provided between OBC and FBC is summarised in the table below:

Gross Internal Area	OBC	FBC
Student Accommodation	(792 units) 19,764 sqm	(583 units) 14,327sqm
Independent Living for Young adults	N/A	1,556 sqm
Affordable Accommodation	N/A	2,329 sqm
Total Space	19,765 sqm	18,212 sqm

There has been a decrease in the overall area to be provided for accommodation and residential living due to a reduction in building heights since the scheme proposed at OBC.

Council officers will procure users for the following units, as necessary:

- The retail units on the RFC site

- The 33 homes for independent living for young adults on the MC site
- The 28 key worker accommodation units above the new Library
- The health and wellbeing centre on the MC site

The predicted rental assumptions for these assets have been validated by CBRE.

Discussions are also ongoing with the Metropolitan Police Service regarding a proposed Safer Neighbourhood facility being incorporated within the new library complex which would provide a base of operations for the police within Hendon, and with the local Clinical Commissioning Group (CCG) for the potential introduction of a health facility, such as a GP surgery.

It is anticipated that the affordable housing provision will be leased by Barnet Homes or through a separate tender to a third party, with conversations ongoing to secure an appropriate provider. As part of the soft market testing exercise undertaken by KPMG (detailed further in the Commercial Case), potential investors agreed with the principle that the capitalisation of the Middlesex University rental income in the proposed development will also provide circa 4,770 sqm of new debt free income producing assets and circa 2,032 sqm of new debt free income community assets (including the proposed new Hendon Library). The construction of the non-Middlesex University accommodation in the development will therefore be funded by the private placement funding solution. All third-party rents have been verified by CBRE.

The economic case based on MDX income remains strong, with c.90% of the overall rents on the scheme, resulting from the proposed MDX lease agreements, with interest in the market for the remaining assets.

New accommodation is being re-provided for the existing community uses that are being displaced from the Meritage Centre by the new development. The project team are finalising heads of terms for these units and new CBAT leases will be put in place in due course, subject to approval. A memorandum of understanding is also being agreed with the Library services.

Options Assessment

The OBC detailed the options available to fund the scheme, concluding that financing through borrowings from HM Treasury's Public Works Loan Board (PWLb) was suitable as the base case. It was proposed that a final recommendation would be brought forward for decision at FBC stage on the basis of whether the private funding approach could better this financially, taking into account any additional risk following further analysis and soft market testing.

The FBC confirms that the private funding approach continues to outperform the PWLB route based on returns and risk profile (detailed further in the commercial and financial case), based on the following issues with the PWLB option:

- Poor affordability implications for the General Fund in the short term, generating a loss in the first five years
- Relatively low financial return based on a comparison of Net Present Value (NPV)³ against the most prudent private funding solution
- LBB bearing risk across the 40 years post scheme completion, being wholly beholden to the financial performance of MDX as its tenant

The PWLB value for money (VfM) and affordability implications are detailed further in the financial case and support this funding route now being dismissed as an option.

The impact on equalities across all funding routes is assumed to remain the same. Council officers will undertake due diligence on all potential funding partners to ensure this remains the case.

4. Commercial Case

Soft Market Testing

The recent soft market testing with potential funding partners confirmed that there continues to be strong interest from private markets to finance the transaction. This could be structured as a private placement (PP) or an income strip (IS) as discussed at OBC, and subject to a 40-year leases with MDX as tenant:

• **Option 1: Private Placement** – Unlisted debt securities offered directly to a limited group of institutional investors rather than through the public markets. In the proposed structure, a special purpose vehicle (SPV) will issue 40 year debt to a financier, use the proceeds to develop the asset and lease the asset to MDX for 40 years, using rents received to repay the debt. LBB would have reversionary rights to the asset for £1.

• **Option 2: Income Strip** - A funding arrangement where the financier buys a long leasehold interest in the site, develops the buildings and enters into a long lease to LBB or MDX for a 40 year period. The rent is fixed and subject to annual increases linked to RPI or CPI (inflation measures). At the end of the lease term LBB has the right to acquire the asset back for £1.

³ **Net Present Value (NPV)** is the difference between the present value of cash inflows (e.g. rental income) and the present value of cash outflows (e.g. capital outlay and operational costs) over a period of time.

The OBC considered two potential options for each financing instrument:

- **Middlesex University Covenant:** Whereby LBB would exchange an agreement for lease (Afl) with Middlesex University (MDX) and then sell the right to receive the income agreed in that Afl to an investor(s). The investor(s) pays a premium to LBB for its interest and the right to receive income over the term of the leases. LBB would be required to guarantee the construction phase of the scheme, drawing down money from the fund(s) throughout the build period to pay for the development costs. Upon practical completion, LBB's liability would end and MDX would continue to have a contractual relationship with the investors for the length of the funding agreement. At the end of the 40-year leases, LBB would have reversionary rights to acquire the asset for a nominal price – usually for £1. The total funding amount raised from a funding partner in this scenario would be directly related to the credit strength of the MDX.
- **LBB Guarantee:** The transaction could be structured as above, but LBB would 'guarantee' the transaction during the construction period and over the 40-year lease. In this scenario, should MDX default on their rental payment then LBB would be required to step in under the guarantee and meet any payments due to the funder.

At OBC, the soft market testing in May 2020 found that funding institutions did not have the appetite to fund the MDX. This was in part due to that the impact of Covid-19 on the higher education sector which meant they had restricted appetite to lend to higher education institutions outside of the top 40 HEIs in the UK.

Since OBC approval, another round of soft market testing has been undertaken by KPMG on behalf of LBB. The soft market testing was primarily conducted to inform the structural solution of the transaction and understand what is deliverable (especially MDX v LBB Covenant). The soft market testing confirmed:

- That there is a strong appetite for the LBB covenant as either private placement or an income strip. There was greater interest from UK funds in the LBB covenant option due to its credit strength as a government entity.
- A single UK fund from the income strip market and a US investor from the private placement market stated their interest to finance the transaction with the MDX covenant.

The intention of this soft market testing was not to test every possible provider of finance comprehensively or to run a structured process to get the best terms. It was simply to understand the deliverability of each solution. As such, final offers from funding partners could vary from those

presented at FBC. While none of the UK funds have expressed interest in the MDX covenant for a private placement deal, the market conditions may change by the time of financing. Current trends suggest that the financing market is becoming more comfortable with UK higher education sector risk post COVID-19 pandemic.

The soft market testing highlighted that the cost of debt will be materially lower for the LBB covenant than the MDX covenant. As such, LBB would receive a higher upfront cash receipt. However, LBB is exposed to the long-term risk of MDX making payments under the occupational lease. The financial case provides commentary on the relative risk versus return for each covenant in further detail.

Private Placement vs Income Strip

There has been an improvement in offers since the expressions of interest stage at OBC on the MDX covenant where previously no private placement (PP) funding solution was possible. Both private placement results show strong gross development values (GDV). Alternatively, the offers receiving on an income strip (IS) basis would return lower financing returns.

In addition to return, PP versus IS can be differentiated based on:

Factor	Private Placement	Income Strip
Financing Cost	Generally cheaper due to its greater liquidity and a larger pool of investors.	Generally, more expensive due to its limited liquidity and investor pool.
Investor Pool	One or more investors could fund the transaction.	Typically, only one investor would fund the transaction.
Liquidity	More liquid meaning that the debt securities can be traded. This increases value for the investor.	Limited liquidity, i.e. an investor would need to sell the title to the asset (including resultant transaction costs) to reduce their exposure to the transaction.
Financier repayment profile	The repayment profile can be structured to match the income profile of the asset. The transaction can be structured as fixed rate, index-linked or a combination of both.	The rent is fixed at the beginning of the lease and subject to annual increases typically linked to RPI or CPI.
Delivery Vehicle options	Could be used as a financing instrument for various structures.	Limited options available.

The value for money and affordability for PP is greater than that of IS and should offer increased flexibility of terms of the deal and timings. Currently, PP is a more attractive financial proposition for funds in the market. In the current market, the PP route is recommended as the preferred funding route, and the IS model is recommended to be dismissed at this stage, owing to its limited economic

return and flexibility. This approach has been agreed with the S151 Officer, following analysis by internal Treasury teams and the financial consultants, 31-Ten.

Delivery Vehicle and Construction Risk

Tax and structuring advice have been obtained from KPMG, and a Special Purpose Vehicle (SPV) is recommended due to the ringfencing of risk for the Council, plus additional accounting and tax benefits.

The options for delivering and funding the Hendon Hub project have been narrowed down to the following:

- Using MDX's covenant through an 'orphan' (or stand-alone) SPV; or
- Using LBB's covenant through either a wholly owned LBB SPV or an orphan SPV.

An orphan SPV is a separate legal entity that is a stand-alone entity not under the control of another, i.e. it is not a subsidiary of the Council nor any other entity. The use of orphan SPVs is common in structuring finance transactions. Any proposed orphan SPV would have a governing document which would include requirements on how the SPV should act and contract with various parties. The shareholder of the SPV would typically be a Trust, where a corporate trustee would be appointed to oversee this. The trustee would be a professional organisation, such as a bank or a legal firm, that undertakes this service for clients. At the appropriate point in the process, advice from appropriate parties would be sought, and a shortlist of potential trustees prepared who will be assessed on their experience, level of fees and other matters. The trustee would be appointed during the financing process. LBB, the funding partner, and the trustee would agree a 'Governing Document' which sets out the terms of reference for the Special Purpose Vehicle (SPV) which will include the various responsibilities and obligations of the parties.

Once the funding transaction is completed the Governing Document will commence, and the trustee will start undertaking their responsibilities under it.

Middlesex University (MDX) Covenant

The proposed structure is as detailed in the diagram below, with the current intention to use the orphan SPV to enter into agreements with relevant third parties to:

- Borrow money from a financier;
- Enter into a construction contract to carry out the development works; and

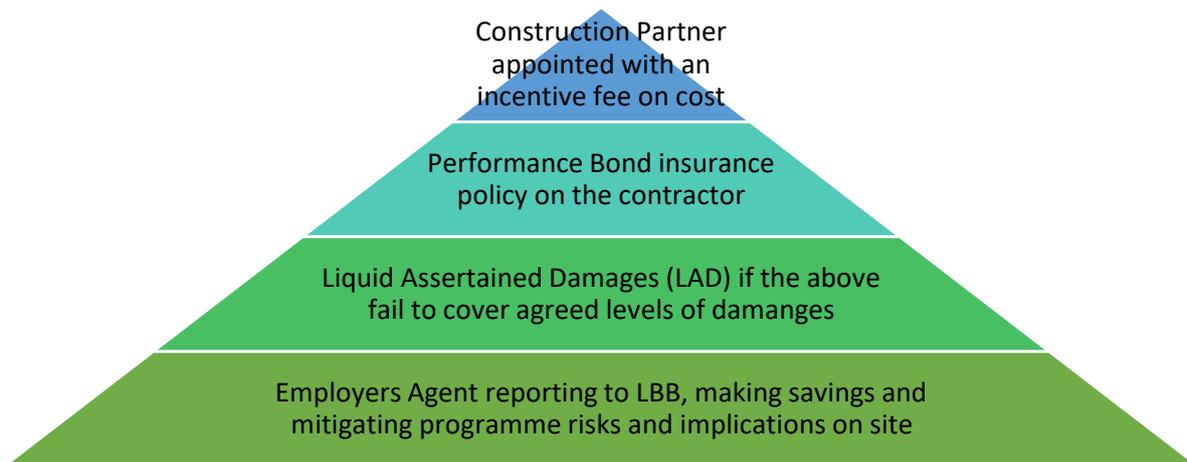
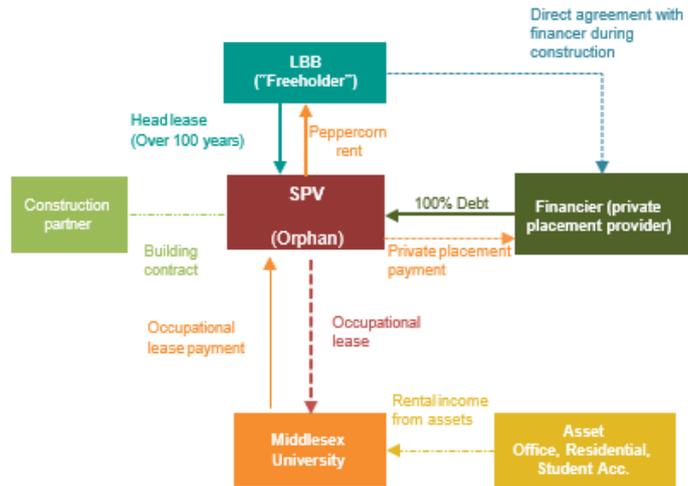
- Enter into the occupational leases with MDX.

Once the development is completed, the SPV would receive rental payments from MDX, as set out in their occupational leases, which would in turn be used to repay the funding partner.

Upon expiry of the MDX leases, providing the financiers have been fully repaid as expected, LBB would have the right to buy the asset for £1.

In all scenarios, LBB would be required to provide a guarantee to any financier until practical completion, ensuring the construction project is properly delivered. This will mean that LBB is exposed to the risk of debt payments to the financier during any period of delay to practical completion. It is considered that this risk can be principally backed off to the construction contractor through a fixed price contract with a robust security package (liability caps, liquidated damages for delay, performance bonding, substantial contingency on cost and design, etc), summarised in the diagram below.

Standalone SPV Structure: MDX Covenant



It is recognised that currently, there are many factors creating construction cost uncertainties such as the normal construction risks as well as Covid, and high construction material inflation rates, and labour shortages. The Council have hence wanted to ensure there are adequate construction cost contingencies for general construction risks as well as for inflation. Hence at this stage of the project

design development, suitable contingency allowance has been carefully applied which include a 15% general risk contingency and a blended cost inflation rate of 9%.

Once practical completion is achieved, the LBB guarantee over the construction period will expire, meaning LBB has no further exposure to the finance for the transaction, i.e. if MDX fail to make lease payments then this will be a loss to the Financier, not LBB.

Subject to the cost of finance achieved, a cash receipt will be payable by the SPV to LBB upfront (how much of this is payable on contract signature and how much at practical completion is to be determined, but would likely be a combination of the two). It has been advised that this receipt will be a revenue receipt that can be drawn down annually over the life of the SPV and until the expiry of MDX's leases.

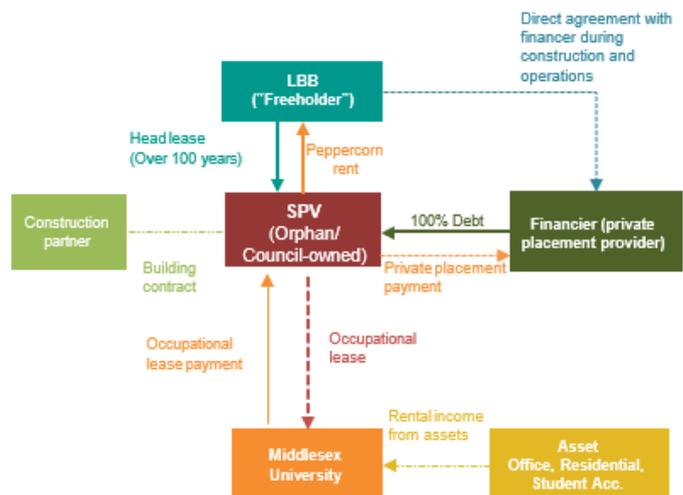
LBB Guarantee

In the LBB guarantee option, the SPV could be either be wholly owned by LBB or an orphan SPV. As with the MDX covenant above, the SPV would:

1. Borrow money from a financier;
2. Enter into a construction contract to carry out the development works; and
3. Enter into the occupational leases with MDX.

The principal difference under this option is that LBB would continue to guarantee the service of the debt from the SPV to the funding partner(s) for the duration of the debt period (the 40-year leases). In simple terms, this means that LBB would be guaranteeing MDX's performance under their occupational leases. As local government is considered to be a highly desirable covenant and hence less risky, the cost of debt will be materially lower and LBB would receive a substantially higher upfront cash receipt. Importantly, however

SPV Structure: LBB Guarantee



LBB would be exposed to the long-term risk of MDX continuing to make payments under the occupational leases over the term.

In this scenario, the SPV would receive rents from MDX to repay the funding partner(s) and LBB would continue to have reversionary rights to the asset (for the payment of £1) at the end of the leases between the SPV and MDX after the full repayment of the debt to the financier.

As noted earlier, a Council-backed SPV would form part of the Council's group accounts and the single entity may be exposed if MDX defaulted on rental payments, with the Council under the requirement to raise provision for the remaining rental. Suitable risk mitigation measures would be put in place should this option need to be pursued, including retention of receipts covering c.3 years of rental payments to cover potential losses. Risk modelling in the event of MDX default has been conducted and continues to provide positive returns to LBB due to the larger cash receipt receivable on the LBB guaranteed approach but could place significant pressures on LBB.

Tax advantages, in the case of the LBB guarantee option, arise as the SPV acts as a subsidiary within the LBB tax group so no Stamp Duty Land Tax (SDLT) is payable by LBB or the SPV. In the Middlesex University covenant option, SDLT is payable but restricted to a proportion of the cash receipt to LBB, net of the cost of the scheme.

Summary and Approvals

In conclusion, the recommendation in this paper is that the private placement private financing route is pursued with a strong preference for the lower risk MDX covenant structure. If this route is not available at the time of going to market for final funding bids, the LBB Guarantee route will be pursued, but only with the appropriate further approvals.

KPMG have been advising on the transaction to date, specifically on the structuring, and seeking indicative funding offers through the two soft market testing processes that have been undertaken. In order to seek final funding offers, and final structuring advice, a procurement of an advisor will be required to be undertaken under an approved framework due to the size of the potential fee in this regard. This fee will be netted off the final financial settlement from a fund(s). The Committee is requested to approve this procurement. The development of the procurement process, including the negotiation and completion of legal agreements, is requested to be delegated to the S151 Officer, in consultation with the Chairman of P&R.

Construction Procurement

The procurement route for the development is yet to be formally agreed but conversations are ongoing between the project team and board members to ensure that the most appropriate solution is chosen.

At this point in time, the preferred approach is to utilise the Crown Commercial Service (CCS) Framework Lot 4 (£30m-£80m) with a view to appointing a Top 100 Contractor on a JCT 2016 Design and Build Form of Contract via a single stage selective Tender process.

The two procurement options that have been considered by the Team are via public procurement tender or the CCS framework. The advantages and risks of both options are outlined in the table below:

Public Procurement Tender	CCS Framework
Strengths	
Can be tailored to suit the needs of the contract	Reduced resource costs
Open to increased competition as not named by set suppliers	Procurement value supported through engagement with named Top 100 contractors and assisted CCS audits for financial stability
Requirement delivered through competitive negotiation	Pre-qualified contractors on the framework
Weaknesses	
Vulnerable to the market demand	Non-framework suppliers cannot participate in the competitive exercise

Following market engagement (Expression of Interest) the CCS Framework has been identified as the preferred option due to the reduced resource cost and access to pre-qualified Top 100 contractors, which supports procuring in line with the programme timeline.

An outline of the tender process and market engagement findings can be found in Section 3 of the main body of this FBC.

The Project Team have presented details of the preferred procurement route to the Project Board and a final recommendation and decision will be made by the project board regarding the procurement route, with involvement and agreement of council members through presentation to the Policy and Resource Committee and Governance Board both of which will be presented at a similar time to FBC sign off and will be reported separately.

Delegations

Delegation of the procurement strategy was provided to the Deputy Chief Executive in consultation with the Chairman of P&R, at OBC stage, and members are asked to note the recommended route set out in this paper.

5. Financial Case

The financial case presents the value for money and affordability implications of the proposed funding routes. PWLB's performance, whilst ruled out in the Economic Case, is presented as a comparison to Private Placement (PP).

Five financial principles which were agreed at OBC sign-off have been modified to best suit the FBC recommendation on the funding route, and are as follows:

•The General Fund to be protected from costs during the term of the lease to MDX insofar as it is practically possible, recognising there may be losses of income in the early years to be managed; and the overall scheme is to generate a long-term financial return to support service delivery.

•Where a recommendation to access Private funding is made, it is preferable the deal should stand on the MDX covenant where it is fundable in the market and subjected to a full risk assessment.

•As part of the overall risk assessment, investigations will be undertaken to consider how to protect LBB from financial risks, through adoption of the MDX covenant where possible

•Where a recommendation to access Private funding is made, the mitigation of construction risk is a priority, with appropriate mitigation methods in place.

•Any leases signed with MDX through the deal are to be full repairing and insuring leases.

Outputs

An assessment has been made on the basis of the:

- **Gross Development Value (GDV):** the sum the funder offers to the Council for the 40-year leases underwritten by MDX on a PP basis, as reported in the soft market testing

- **Net Present Value (NPV):** the difference between the present value of cash inflows and the present value of cash outflows over a period of time (54 years⁴). The NPV allows comparison between PWLB and PP funding models
- **Total Return:** the total revenue return to the Council being the sum of the GDV less development and fund costs in the form of a final amount - in accounting terms the total return is taken as deferred income across the 40 year lease term.

The five financial principles outlined above prioritise the reduction of risk and the protection of the general fund. The recommendation made in the economic case to dismiss PWLB as a funding route is considered to be sound in light of the above, with PWLB outcomes delivering significantly lower NPV and a negative impact on the general fund in the short term.

A PP based on either the MDX covenant or LBB guarantee has the ability to deliver significant returns and a strong NPV. Both routes also have a positive impact on the General Fund across the period. Further, and importantly, in both scenarios LBB's costs spent to date in working up the scheme would be recoverable from the funding partner(s) as part of the net proceeds from the scheme.

However, a private placement deal (PP) based on the MDX covenant is the least risky option for the Council and is the preferred route recommended in this FBC.

Covenant

The decision between which covenant is preferable is requested to be delegated to the S151 Officer, in consultation with the Chairman of Policy and Resources Committee. The decision will be based on a clear set of criteria that are detailed below.

Market engagement will be monitored post-FBC on both covenant options. Five criteria have been agreed with LBB Finance to guide this decision:

1. **Financial Return to LBB** – the relative financial performance of each covenant in terms of GDV and NPV, and total return to LBB post completion
2. **Terms** – the extent to which the terms from the funding partner(s) are agreeable and flexible to LBB
3. **Financial Risk** – the potential impact of MDX's failure to meet rental payments during the operational period of the assets during the 40-year leases

⁴ Modelling has been performed over a 54-year period to account for the 40-year lease with MU, in addition to the construction period and repayment of the 50-year loan in the PWLB option. This has been applied in the private option to ensure like-for-like comparison across all options.

4. **Reputational Risk** – funding partners will be checked carefully to ensure that they do not engage in activities that may affect public perception of LBB or impact the Council’s reputation.
5. **General Fund Impact** – the relative affordability of both options, determining which approach performs best in LBB’s accounts

A discussion on the current position against these criteria is as follows:

Deciding Criteria	LBB Guarantee	MDX Covenant
Financial Return to LBB	The LBB covenant is more highly regarded than the MDX covenant by the market, use of the LBB covenant generates the highest financial return	A lower financial return is generated but with a different risk profile
Terms	Soft market testing has demonstrated more competition and interest in the market due to the strength of the LBB covenant. This would be likely to provide LBB more influence over the terms of the deal	At present, only a US investor is interested in a PP deal on the MDX covenant, so the terms are not as strong as with the LBB offers. However, there is evidence of a greater appetite for the MDX covenant since OBC signalling this may further improve
Financial risk to LBB	There is a significantly increased risk in this scenario as there would be a requirement for LBB to cover rental payments over the 40-year lease in the event of an MDX default until another occupier took over the leases, e.g. another university.	Significantly lower financial risk as LBB would have to provide a guarantee across the construction period only, after which their guarantee would end
Reputational risk to LBB	Due diligence would have to be undertaken on funders in both scenarios. Any potential default by MDX has the ability to impact LBB’s covenant in the future.	Overseas investors are more unknown regarding reputational risk. Detailed investigation of ethical investment policies and full due diligence will be undertaken in both scenarios. UK investors may improve in the market by the time final funding offers are sought
General Fund impact	More positive across the term years	Still positive, with a significant contribution across the term years

The strong preference is to fund the deal based on MDX’s covenant due to the balance of risk and return. At the point of seeking final funding offers, the market may decide that it does not wish to

fund university covenants. In that case there may be no alternative but to pursue the LBB guaranteed option, but this decision will be made at that time, and with the particulars of each deal to hand. Further investigation as to the mitigation of risk would be further modelled in that scenario.

LBB Treasury officers have approved the principle of the proposed financing route and relevant delegations requested.

Quantitative Benefits

The financial case also discusses the quantitative benefits expected to be delivered by the scheme in relation to construction and operational jobs, and gross value added (GVA). These are summarised below:

Quantitative Benefit	Measure
Gross/Net construction jobs	67 FTEs/ 40 FTE ⁵ s
Gross/Net construction GVA	£33.308m
Gross/Net Operational Jobs	24 FTEs/12 FTEs
Net Operational GVA	£315,267 p.a.
Jobs Safeguarded	476 FTEs
Space Developed	33,550sqm

As such, the Hendon Hub development is anticipated to generate substantial value, employment opportunities, and improved space to the local area.

Approvals Sought

In order to proceed with the scheme, authorisation for an additional capital funding of £4.53m is requested, which will be offset in the GDV payment from a fund. These are forecast costs to be spent prior to obtaining funding in March 2022. Should the funding date move out, an additional bid for fees may be required.

⁵ FTE = Full Time Equivalent employee

6. Management Case

Timescales

Key dates and milestones for the construction phase of the development are detailed below⁶.

Milestone	Target Completion Date
Quinta Club Construction	August 2022
Fuller Street Construction	March 2024
RFC Cultural Building	April 2024
RFC Retail/Accommodation	Jan 2025
MC Block 1 & 2	October 2024
MC Block 3	May 2025
MC Block 4	October 2024
RFC Library	October 2024
B9 & Library	June 2025
Landscape Areas	June 2025
Development Practical Completion	June 2025
MDX Relocation Completion	August 2025

Governance

The project team are adhering to LBB's project management toolkit, have regular internal reporting, and hold regular governance reviews.

Project Assurance

A Project Assurance Plan is in place that outlines key milestones. This includes the phase acceptance criteria for the next stage of the project, along with the controls in place for quality assurance of the project management products.

Deliverable	Milestone	Approvals	Actions / Recommendations	Expected Implementation Date (calendar year)
FBC Approval	P&R Committee to consider FBC	P&R Committee	Prepare Full Planning Application if FBC approved	20th July 2021

⁶ These are correct as at today but may change due to market conditions and some of the key dependencies of the scheme changing.

Agreement for Lease	Middlesex University Sign-off	Delegated at OBC stage to Deputy Chief Exec, in consultation with the Chairman of P&R; Middlesex University Board of Governors	Prepare agreement for lease and sign	Q2 2021
Planning Application	Submission to LBB as Planning Authority	Delegated at OBC stage to Deputy Chief Exec, in consultation with the Chairman of P&R;	Pre-apps now completed. Prepare planning application and submit	Q3 2021
Planning Committee & Satisfaction of Conditions	Planning Committee	Deputy Chief Exec in consultation with Chairman of P&R;	(To be determined by Local Planning Authority)	Est. December 2021
Funding Competition	Receive best and final offers	Proposed to be delegated to the s151 Officer, in consultation with the Chairman of P&R;	Post-planning	Post-planning
Contractor Procurement	CCS Framework (recommended)	Deputy Chief Exec in consultation with Chairman of P&R;	Engage with CCS Framework (see procurement section in the commercial case for process)	Post-planning
Project Completion	TBC	Reporting to H&G Committee	TBD	TBD

Dependencies

The successful progression of the proposed Hendon Hub programme is dependent on:

- The recommended sign off of this FBC
- The continued commitment of MDX to the project
- The acquisition of land and rights from third parties, and surrender of necessary leases
- Planning approval from the Local Planning Authority
- Receipt of consent from the Greater London Authority (GLA) for the RFC development, and listed building and conservation area consent from the National Planning Casework Unit (NPCU) on behalf of the Secretary of State
- An acceptable financial offer from a funding institution(s)

- The ability to procure a construction partner to deliver the scheme within the construction cost estimates

Due Diligence

Due diligence has continued by:

- CBRE regularly reviewing valuation and inputs to the appraisal in accordance with the Red Book
- KPMG preparing a report on the structure of the proposed deal and funding options
- KPMG updating soft market testing for the private funding option
- Construction cost estimates being prepared and validated by Capita student housing specialist QS team
- Legal & structuring advice from Pinsent Mason and HB Public Law (HBPL)
- Governance overview from HBPL
- Procurement advice from Pinsent Mason and HBPL
- LBB Finance and 31-Ten consultancy validating the financial modelling and FBC preparation
- Informal discussions with potential delivery partners about the delivery of the construction
- Internal governance
- Regular Project Management Gateway Reviews

Risks

A fully comprehensive risk register is updated regularly across the project team. The master risk register for the FBC is in accordance with HM Treasury’s Orange Book and can be found in the attached Appendix 4, with a summary of the key risks summarised below:

Risk	Mitigant
MDX Financial Risk	General
	Higher Education Institutions’ (HEI) performance and reputation in the market have seen an improvement since OBC, with greater confidence in the covenants in the higher education sector as vaccinations are rolled out and in-person lectures begin to resume. Although funding institutions have shown a preference for the top 15 Universities, including the Russell Group of HEIs, it is considered that the position of others appears to be more secure as the risks from Covid etc, have become known and are mitigated.

At present, no agreement to lease has been signed with MDX. There still remains a risk that this will not be achieved, albeit good progress is being made on agreeing this document and it is anticipated that it will be in a position to be signed shortly. Similarly, this does expose LBB to risk of the rentals not being achieved as predicated in this paper and in the business case. In the case of the deal being aborted it has been agreed that MDX agree to bear half of LBB's costs incurred from March 2020 until the date they withdraw. However, Middlesex University [have approval from their Board of Governors to sign an agreement for lease, subject to LBB receiving the same approval.](#)

There is, understandably, concern over the strength of university covenants considering the Covid-19 pandemic. MDX's financial year ends on 31st July and it is understood that that they will report a loss of circa £12m for 2020/21.

However, £9m of that will be attributable to pension deficits and the University has maintained its cash position. Take up of courses for the 2021/22 financial year appears to be strong, and they are forecasting that they will return to making operating surpluses. In addition, MDX have £85m in cash reserves (140 days cash) so there are no insolvency issues, with predicted operations surplus this year expected to be £5m so MDX finance remains strong. This situation will be monitored carefully in conjunction with MDX.

Should MDX default the consequences would depend on the structure of the funding deal that is pursued and the conditions at the time.

Middlesex University (MDX) Covenant

LBB could release its guarantee to the SPV at practical completion (PC) of the development.

LBB Covenant

Should MDX fail at any point over the 40-year term of their leases, and another university did not take over MDX and its assets and liabilities, the flexible nature of the building design could facilitate relatively swift conversion to other use types if necessary. Both circumstances have been modelled and assume a 2-year loss of rental, in addition to 12 months' rent-free allowance as an incentive to achieve maximum occupancy of the new space. These are estimated to continue to return a favorable NPV to the PWLB option and further modelling will take

	place post-FBC if it becomes clear that it is necessary to consider using the LBB covenant.
Programme Delays	<p>Should this occur, necessary adjustments to key workstreams could be made to mitigate any slippages. A workstreams action plan is regularly reviewed in conjunction with the Master programme to ensure all timescales are achievable. The project team provide weekly updates regarding progress. A CPO has been factored into the programme should this be required.</p> <p>There are various conditions that need to be satisfied in order to appoint a funding partner(s) at the desired time, including 3rd party rights or acquisitions, receipt of planning permission and finalization of lease arrangements. These have been identified as key workstreams within the programme. Should delays occur, it has been advised by KPMG that there is likely to be some flexibility in negotiating a restructuring of payments from the fund, with some phasing of funding being introduced.</p>
Construction Risk	<p>As mentioned previously, the following are to be implemented post-FBC:</p> <ul style="list-style-type: none"> • Commence procurement of a contractor • 15% contingency on construction cost, 0.5% design reserve contingency maintained • Incentive fee with construction partner and performance bond in place • Recommended early appointment of an Employer’s Agent to oversee the scheme and work with the LBB procurement department to appoint a construction partner to work up the scheme
Public Opinion	<p>Public consultation has been carried out, with changes made to the scheme as a result, and engagement with local stakeholders and residents will continue throughout. Listen to public concerns and continue to work closely with the local community to mitigate any impacts on, and maximise benefits for, local residents. Proposed FBC scheme updates respond to some public concerns and are aimed to increase community benefits. Minimise any negative impacts locally during construction by providing method statements and plans coordinated with the local community</p>

Benefits

In addition to quantitative benefits, as detailed in the financial case, the scheme would also benefit key stakeholders in the following ways:

Benefits

To Local Residents:

- Improvements to the public realm, green spaces, and overall connectivity across The Burroughs
- MDX reinforcing their commitment to engage with residents to share their facilities where possible and properly address concerns raised by the public about student behaviour
- The Met Police's Safer Neighbourhood Team are interested in locating to a unit adjacent to the proposed new Library, which will improve safety in the area. This will be amplified by improved lighting and CCTV across the local area focusing on key crime 'hotspots'.
- Contributions to affordable housing demand in the area, through improved access to student accommodation, key worker housing, and homes for independent living, fulfilling the strategic objectives of LBB
- Retaining PDSA facility locally - on Fuller Street, with dedicated car parking
- Access will be facilitated to the current Hendon Library building, including some access to the second floor, meaning that residents can obtain more access to the architecture and heritage of the building
- Reduced negative impact on car parking since OBC, with 2 car parks removed from the scheme, and 100% replacement of one car park proposed (Fuller Street relocation)
- New and modern retail units
- Public access to MDX facilities where possible, including performance in the proposed new arts and cultural building
- An improved community offer and a new state of the art modern Library

To LBB:

- Enhancing the Hendon area in accordance with LBB and MDX's wider strategic objectives, as well as the core strategies in Barnet 2025, including significant contributions to placemaking and providing a potential catalyst for future investment in the area
- Significant contributions to affordable housing demand in the area, through improved access to student accommodation, key worker housing, and homes for independent living, fulfilling strategic objectives of LBB, helping to fulfil environmental ambitions to a BREEAM Excellent standard
- Prestigious, and strengthened, university facility within the Borough with all commensurate economic benefits this provides the Borough

- Value for money for LBB and general fund benefits
- Core OPE objectives by creating economic growth through new homes and jobs, and generating efficiencies through revenue receipts

To Middlesex University:

- Opportunities to redevelop older inefficient buildings
- Allow MDX flexibility to adopt a blended learning model, adapt the use of its estates and facilities to implement its ten-year strategy with a focus on practice-based learning and training.
- Consolidated student accommodation adjacent to the campus
- Allow MDX to build its reputation, improve student experience and continuation

7. Recommendations and Next Steps

A comprehensive development of The Burroughs is recommended as the most suitable option to meet LBB's strategic objectives. There is some public concern over the proposed development which the Council take very seriously and have tried to mitigate any perceived harmful effects through the scheme changes proposed. This FBC makes the case that this project should continue, with the relevant scheme changes recommended in this paper. Council officers will continue to engage with local stakeholders.

Approvals and decisions sought for the scheme are in the main report, to which this FBC is appended. In summary, it is recommended that the development, as detailed in this FBC, is to be delivered with a private placement funding solution using MDX's covenant, via an SPV structure. It is further recommended that contractor procurement is pursued via the CCS framework.

Proposed Key Next Steps

1. Agree and sign Agreement to Lease with Middlesex University
2. Submit a planning application during Q2 of LBB's 2021 financial year (Q3 of calendar year)
3. Procure a construction partner during Q2 and Q3 of the financial year (Q3 and Q4 of the 2021 calendar year) and implement other risk mitigation measures
4. Procure a funding partner post planning and monitor the market on an ongoing basis
5. Continue to monitor Middlesex University's financial performance and the appetite from funding partners for their covenant
6. Continue to negotiate with third party interests to attempt to purchase them by private treaty
7. To consider use of CPOs if absolutely necessary

Section 1 – Strategic Case

INTRODUCTION

- 1.1 London Borough of Barnet (LBB) has progressed a unique opportunity for a mixed-use development in Hendon's The Burroughs. The Strategic Outline Case (SOC) was approved by Assets and Regeneration Committee (ARG) (since renamed Housing and Growth Committee (HaG) in June 2019, with the Outline Business Case (OBC) approved by Policy and Resources Committee (P&R) in December 2020.
- 1.2 This Full Business Case (FBC) expands on evidence presented in the OBC and updates the Committee on the scheme, plus seeks further approvals. The report follows the HM Treasury Green Book best practice process, as agreed post-OBC sign off.
- 1.3 The Green Book is the recommended standard guidance for assessing spending proposals for public and private bodies, by establishing a clear case for intervention and determining the best Value for Money (VfM) option. It adopts the 'Five Cases Model' which, specific to this project, refers to:
 - **Strategic Case** – reviews the strategic context from OBC to ensure there remains a strong alignment between the proposal and LBB's ambitions, in addition to substantiating changes to scheme composition since OBC
 - **Economic Case** – determines which funding option is the best Value for Money (VfM) solution and revisits the demand for the assets delivered through the scheme
 - **Commercial Case** – discusses whether the financial recommendations are market proven, making commentary on the results of soft market testing as performed by KPMG post OBC and details the procurement strategy and preferred delivery vehicle
 - **Financial Case** – analyses whether the project is capable of being financed, and how
 - **Management Case** – investigates the capacity within LBB to manage and develop the project and highlights any potential risks, dependencies, and constraints
- 1.4 This purpose of this FBC is to:

Highlight proposed changes to the project since OBC for approval

• Provide a clear recommendation for approval on the funding approach and delivery vehicle for the project to proceed and give further clarity on construction procurement

• Request approval for various matters including delegations to advance the project (detailed in the covering paper to this report).

- 1.5 The Strategic Case revisits the current situation and the strategic policy context concerning The Burroughs. It ensures the rationale for intervention remains strong, and that the objectives established by Council members at the OBC continue to be relevant. It also outlines the project description, developed from the preferred option at OBC.

PROJECT DESCRIPTION

The Scheme

- 1.6 The proposal is to develop a mixed-use development on The Burroughs, Hendon. The three principle sites remain consistent with those detailed at OBC, namely: Ravensfield, Fenella and Car Park (collectively known as the “RFC” Site); Meritage Centre (“MC” Site); and Building 9 (“B9” Site, which includes the existing Hendon Library building). Other, ancillary, sites are also included, and some land assembly is required in order to progress the development.
- 1.7 The current buildings on these sites are reaching the end of their designed life and detracting from the visual and functional value of the area.
- The old B9 single story building (also known as “the clinic”) currently has poor internal circulation space and is not well laid out and hence inefficient. The whole B9 site as also underutilised.
 - The RFC site has a weak and fragmented urban form, comprising of poor quality and dated buildings.

- The MC Site is made up of poor-quality dated buildings, with poor external spaces and limited sense of place. There is potential to improve links and relationships to surrounding heritage buildings by opening-up key views and landscaping.

Consultation

- 1.8 Since the OBC was approved, there has been a 14-week public consultation period, commencing 27 February 2021, concluding on 7 June 2021, with the aim to obtain feedback from local residents with regard to the proposals. A project website was set-up (www.hendonhub.co.uk) to allow people to find out more about the consultation and feedback via the online survey. A total of eight online presentations were held via Zoom and an additional four in-person events were held at the Scholars Courtyard at Middlesex University during the week commencing Monday 17 May.
- 1.9 The project team has sought to consult and engage with neighbours and local community groups prior to the finalisation of the project and the submission of planning applications. As well as meetings held with Council planning officers, extensive stakeholder and public consultation has been undertaken through several virtual and in-person consultation events, the use of a dedicated virtual consultation platform, regular briefings for local councillors and other stakeholders, and meetings with members of the public. In total, 341 feedback forms were completed with feedback also received via phone and email.
- 1.10 In addition to this, the Library Service has also commenced a programme of library customer engagement aimed specifically at informing the design of any future library provision in the area. This engagement started with a short design survey, for which 112 responses were received.
- 1.11 An overview by type of response is documented in the table below and further expanded within the Consultation Report, attached as Appendix 3 and details of the Library Responses are attached as Appendix 6.
- 1.12 The feedback from consultation has significantly influenced the proposed scheme and how the consultation process has evolved. However, LBB realise that for some residents the proposed changes won't sufficiently address all concerns raised. All objections have been carefully considered and discussed. In some cases, however, it has been considered that there are strong rationales for maintaining aspects of the original proposals. LBB has attempted to

mitigate concerns where possible - for example maintaining public access to the listed library building.

1.13 Once planning applications have been submitted, interested local residents and stakeholders will have a further opportunity to provide comments and feedback through the Council's public access system as part of the statutory consultation that is undertaken on all applications.

1.14 As a result of feedback from the consultation, a suite of scheme changes are recommended for approval through this FBC, which include: the removal of two car parks from the scheme, a significant reduction in the quantum of student accommodation proposed, and the introduction of further community benefits including a health and wellbeing centre, a Safer Neighbourhood Team unit, affordable housing and homes for independent living accommodation for local residents and young adults, respectively. The key changes to the project are described below:

Change description	Site	Justification
Removal of the Large Burroughs Car Park and Osidge Lane Car Park from the scheme & 100% re-provision of the Fuller Street Car Parking spaces (see below)	Large Burroughs Car Park and Osidge Lane	Removing The Burroughs car park from the scheme means residents and visitors can still access this public car park for school drop-offs, and for visiting local businesses. Similarly, keeping the Osidge Lane Car park means dog walkers wishing to access Brunswick Park, parents dropping of children to the local school, or residents needing to shop locally, can still access this parking facility. With re-provision of parking within the estate, residents will still have access to the same quantum of parking locally.
Removal of the temporary library relocation site from the scheme	N/A	As a result of the early vacation of buildings by MDX and the rephasing of the programme, the need for the relocation of the existing library to a temporary site is highly unlikely. Whilst it is unlikely, there may be a requirement for the temporary relocation of the library due to programme delays. In this eventuality, further approvals will be sought.
Veterinary clinic, PDSA, to relocate to Fuller Street Car Park, with reprovision of all parking spaces lost to Prince of Wales estate	Fuller Street Car Park	Osidge Lane Car Park is proposed to be removed from the scheme due to public concern about loss of parking and the desire to retain the PDSA service within the community. Relocating to Fuller Street Car Park, with the parking spaces lost re-provided on the estate with enhanced landscaping, will allow services to continue to be provided to local residents with the additional benefit of enhanced landscaping and play spaces within the estate.

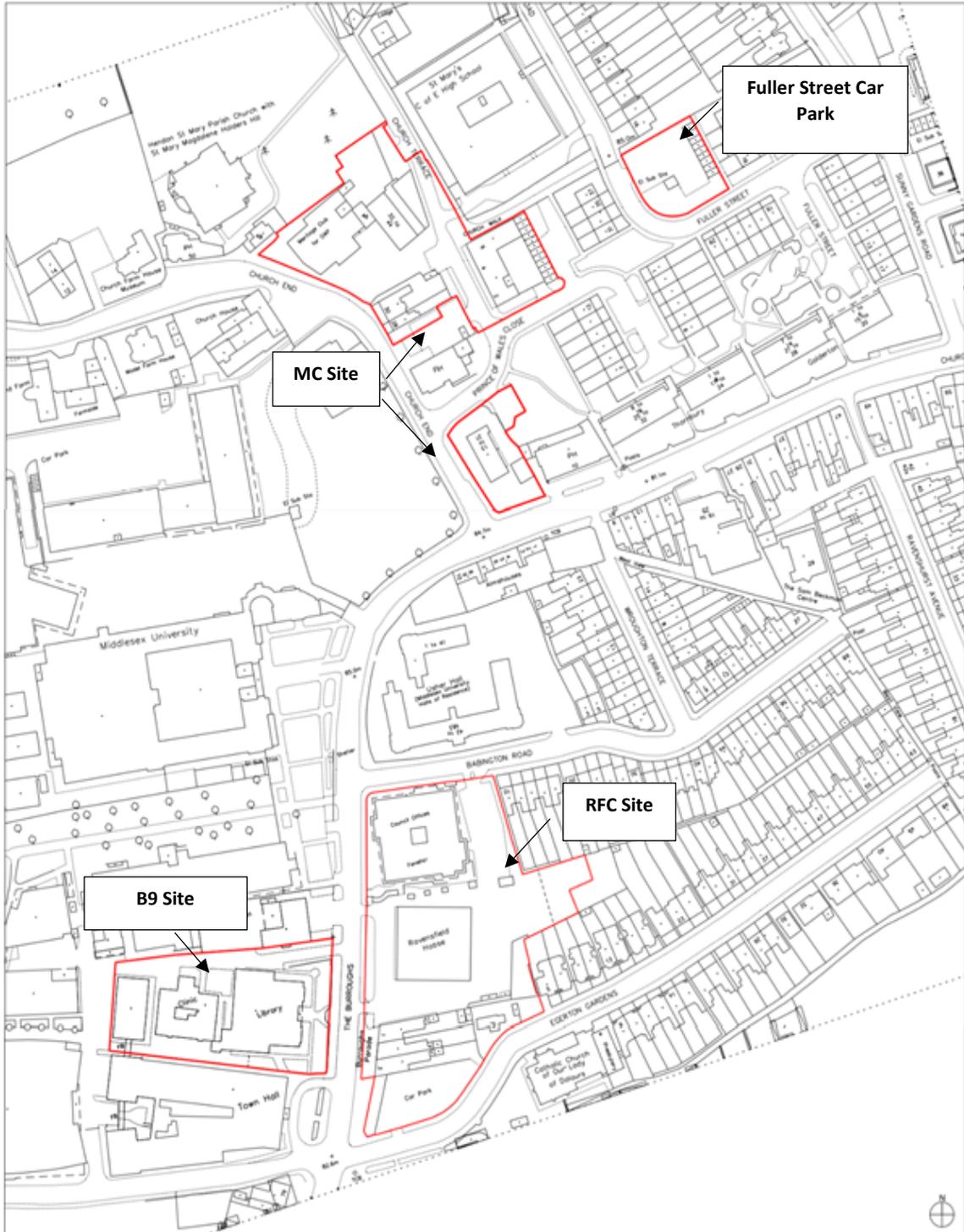
<p>Reduction in the number of student accommodation units from 792 to 583 units (reduction of 26%)</p>	<p>RFC and MC Site</p>	<p>Addresses, to some degree, the concerns of the public raised via consultation regarding the proposed number of students living locally. Reducing the number of student accommodation units gives LBB the opportunity to develop more affordable housing.</p>
<p>Health & wellbeing centre replacing student accommodation</p>	<p>MC Site</p>	<p>Subject to conversations with the local Clinical Commissioning Group, the team are hoping to be able to provide a GP surgery which would provide improved accessibility and additional health services, based from the Meritage Centre site.</p>
<p>Replacement of student accommodation with new homes for young adults to live independently. This would comprise approximately 33 apartments for Young adults</p>	<p>MC Site</p>	<p>To provide additional benefits to the wider community and deliver against a priority for the Council. These dwellings will provide much-needed accommodation, with 24-hour support on site, to help young adults leaving the care system to begin to live independently while they work.</p>
<p>Replacement of 110 student units above new library with c.28 new affordable homes</p>	<p>RFC Site</p>	<p>To provide additional benefits to the wider community and diversify the age of occupants, providing local affordable housing.</p>
<p>Community hub on the RFC site, including space for:</p> <ul style="list-style-type: none"> • Meridian (formerly Chinese Mental Health Association (CMHA)) – currently in facilities on the Meritage Centre site • African Cultural Association (ACA) – currently in facilities on the Meritage Centre site • Citizens Advice Bureau (CAB) - currently in facilities on the Meritage Centre site • Community hall • Retail • MDX marketing suite for student accommodation • Safer Neighbourhood Team base • New Library building to include archives • MENCAP to move to 154 Station Road 	<p>RFC Site</p>	<p>To address the concerns of the public raised via consultation to provide further services and facilities to the local community.</p> <p>Local reprovision will maintain existing services.</p> <p>A prominent community hub will be created on the RFC site that will maximise service usage and promote community collaboration between organisations with a new public community hall being accessible to the local community for events.</p> <p>The Metropolitan Police Service’s Safer Neighbourhood Team have been offered a facility adjacent to the proposed new Library, to help improve public safety in the area. This will be amplified by improved lighting and CCTV, especially concentrated around crime hotspots locally.</p>

Access to MDX Facilities	B9 Site	<p>MDX to provide public access to the current historic Hendon Library building, including some access to the ornate 2nd floor reading rooms. Those who appreciate the architecture and heritage of the existing library building can continue to gain access to the building and enjoy its surroundings.</p> <p>MDX are also exploring the opportunity to make performances open to the public for collaboration in the new theatre suite to be provided by the scheme.</p> <p>MDX will continue to offer access to many of their facilities to the public, including their atrium, sports facilities and meeting rooms where possible</p>
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1.15 The figure below shows the masterplan of the proposed scheme, with scheme designs found attached as Appendix 1.



Red Line Boundary, Hendon Hub FBC



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Project
Hendon Hub
Drawing Title
Combined Site Redlines

Client
LBB Barnet

Drawing No. SK 170621	FOR INFORMATION
CS/097063	
Issue	Client
Date	Drawn/Checked
Scale	Document Template Version No. 1.00

1.16 As such, the revised scheme proposed for Committee approval is summarised:

Deliverable	Area GIA
Ravensfield, Fenella, and Car Park (RFC)	
Retail	415 sqm
Arts and Cultural Facility	4,450 sqm
Student Accommodation	388 units (8,623 sqm)
Middlesex University Estates	100 sqm
Affordable living space	28 units (2,329 sqm)
New library	830 sqm
African Cultural Association (ACA)	65 sqm
Meridian and Community Hall	400 sqm
Citizen's Advice Bureau	340 sqm
Parking and external works	35 spaces
Meritage Centre (MC)	
Student Accommodation	195 units (5,704 sqm)
Health provision	470 sqm
Independent Living Units	33 units (1,556 sqm)
Building 9 (B9)	
Academic Space	3,490 sqm
Library ground floor conversion for Middlesex University	689 sqm
Library upper floor conversion	880 sqm
New Town Hall Lease	N/A
Offsite	
MENCAP to 154 Station Road	65 sqm
PDSA to Fuller Street Car Park	510 sqm
Schools Library Service (SLS) to Quinta Club, EN5 2AP	332 sqm
Landscaping Improvements to:	N/A
<ul style="list-style-type: none"> Land to rear of Sunnyfields Sports Pitch Land to West of Almhouses, The Burroughs Land to East of Almhouses, The Burroughs Prince of Wales Estate / Fuller Street Playground Other landscaping improvements, as necessary 	
Total GIA	31,248 sqm

Community Relocations

1.17 The PDSA is proposed to be moved circa 170 yards away from where they are currently located with their new building proposed to be located on the current Fuller Street car park just to the rear of their current facility. The time to walk from the existing to the proposed facility is likely

to be less than three minutes for an able-bodied person. The new facility will be modern, fit for purpose accommodation with dedicated car parking spaces and has been designed to PDSA's specification and requirements. It is proposed that a long lease of the site is provided to PDSA.

- 1.18 The African Cultural Association (ACA), Meridian and the community hall are proposed to be relocated to a community hub that is to be located approximately 0.3 miles away from their existing facilities, on the RFC site. The time to walk from the existing to the proposed facility is likely to be circa 6 minutes for an able-bodied person. The new facilities will be located adjacent to the proposed library building and will occupy a prominent location on The Burroughs. It is recommended that the Committee agrees to the use of the Community Benefit Assessment Tool (CBAT) on the grant of the new leases in respect of the following units. All these uses are currently assessed on the CBAT tool for their existing units. The Citizens Advice Bureau (CAB) will also be located in the same 'community hub' on the RFC site.
- 1.19 The MENCAP unit is proposed to be relocated to 154 Station Road, Hendon, which is a council-owned building located approximately 0.6 miles away from their current facility on the Meritage Centre (a circa 14 minute walk for an able bodied person, or a 5 minute drive). MENCAP have a proposed change in service offer that this building will better facilitate, and this relocation site has been worked up in tandem with them. It is recommended that the Committee agrees to the use of the Community Benefit Assessment Tool (CBAT) on the grant of the new lease in respect of this unit.
- 1.20 ACA, CAB, Meridian and the community hall will all require temporary facilities, whilst the development is taking place, with the earliest being required by May 2022. It is proposed that these are located locally to the existing facilities to ensure minimal service disruption. The project team are actively working on finding temporary relocation sites either on Brent Street, on the Burroughs or in other local facilities. The team are working with Middlesex University and also looking at the programming of the development, to ensure that the users who currently use the community hall can be fully facilitated during the development. Equalities Impact Assessments will be undertaken for both the temporary and permanent moves.
- 1.21 The proposed library is proposed to move across the road on The Burroughs circa 110 yards away (a circa 2-minute walk away for an able-bodied person). It is proposed to include an improved disabled access, better planned space to take into account equalities for all users

with the addition of 100 sqm for the use of the community and local groups. The library will be rent free.

1.22 The Schools Library Service (SLS) is proposed to be relocated to the Quinta Club, which is located circa 6.3 miles away from its current facility in Hendon Library (or a circa 16-minute drive, depending on traffic). It is a destination use as it will be used specifically by schools and will not be a facility that is generally open to the public. It will provide a far superior facility for the Schools Library Service, who currently operate in cramped conditions in Hendon Library. It will provide larger, fit for purpose accommodation for the SLA as a designated facility, with better car parking and access for local schools. The accommodation is a Council owned facility and as such will be rent free for the service.

1.23 Equalities Impact Assessments will be undertaken for all proposed moves, in conjunction with the individual uses.

Equalities

1.24 A full description of the potential impact of the proposed development on protected characteristics can be found in the appended Equalities Impact Assessment (EQIA, Appendix 2), which details how any negative impacts will be mitigated across the project's lifetime. The impact on equalities has been assessed collaboratively amongst the project team and key stakeholders through a series of workshops across the FBC development period. At this stage, the Hendon Hub development is not seen to have a significant impact on the protected characteristics identified. It is important that this status is consistently monitored across the course of the project and, if need arise, mitigations and changes are made to ensure no group is negatively impacted. The adjustments proposed within the Hendon FBC improve the equalities position since OBC, with inclusions such as a potential GP Surgery, local relocations, zero loss in parking provision, and gender-neutral bathrooms providing benefits to some service users that were not previously available.

Third-Party Acquisitions

1.25 To deliver the scheme, a number of third-party acquisitions are required. These have been kept to a minimum and remain as set out in the OBC, and the EQIA also considers the impacts for these assets. The project team continue to make progress to secure these properties based on private treaty agreements with owners and occupiers. Whilst the Council are attempting

to prevent the need for Compulsory Purchase Orders (CPOs), this process remains available to the Council, should it be required. CPO timescales and costings are included within all financial modelling to demonstrate that the project and timescales are achievable.

1.26 Responding to specific resident concerns, it is confirmed that there is no requirement to acquire parts of any garden land in Egerton Gardens to facilitate the proposed development.

1.27 the proposed development

1.28 As part of the approvals sought through this FBC, it is requested that the community groups, currently located on the Meritage Centre, are transferred to proposed new locations on the RFC site, directly adjacent to the proposed new library building, creating a hub for the local community. Commercial arrangements for these uses will be similar to agreements currently in place. African Cultural Association (ACA) and Meridian currently occupy rent free space as these organisations have been previously assessed using the Community Benefit Assessment Tool (CBAT) and meet the LBB criteria to receive rent free accommodation going forwards. This will also apply to MENCAP in their new relocation site at 154 Station Road, NW4 3SP. As part of the approvals sought through this FBC, it is requested that consent is provided for the use of the CBAT tool on these premises.

1.29 Further public realm improvements are being investigated as an integral part of the scheme, with aspirations to:

- Retain and increase the number of trees on the streets
- Improve access to green spaces
- Improve the public realm – reducing clutter, improving materials, general greening
- Extend the existing positive landscape character
- Improve connectivity across The Burroughs
- Increase biodiversity

Concept Visual: RFC Site (Work in Progress)



Concept Visual: B9 Site (Work in Progress)



Concept Visual: MC Site (Work in Progress)



Lease Arrangements

1.30 Middlesex University (MDX) have agreed to occupy the academic facilities and student accommodation under occupational leases, subject to final approval of the Agreement for Lease. All the other space is proposed to be leased by the Council to other occupiers, as appropriate.

1.31 Currently, MDX lease the Town Hall (including the Town Hall Annex) and Hendon Library⁷ from LBB. As part of the proposed transaction, it has been agreed that these leases will be surrendered, and new ones issued for a 40-year term. LBB occupy part of the Town Hall under an underlease granted from MDX and this will also be re-granted.

1.32 In summary, the lease arrangements for the development with MDX are as follows:

⁷ Note that Church Farm Museum has been removed from the lease arrangements since OBC, with lease discussions ongoing and to be addressed upon lease renewal in 2026.

- The Town Hall/Town Hall Annex/Clinic (B9)/Library leases between LBB and MDX to be surrendered with the regrant of new leases for each building for a 40-year term. The following is proposed:
 - **Town Hall Annex (THA)** – remain as existing, to abut proposed B9
 - **Town Hall** – remain as existing, current lease surrendered and added to MDX 40-year leasehold
 - **New B9 building** – constructed in place of the clinic
 - **Existing Hendon Library** – relocation and current library building to be refurbished for MDX's for academic teaching and learning space (Middlesex University to provide some public access)
- On the RFC Site MDX's existing leases for Fenella and Ravensfield will be surrendered, with a new 40-year lease to MDX being granted covering a new Arts and Cultural Facility, student accommodation, in addition to a new accommodation marketing suite.
- On the MC site, there are currently no existing leases between LBB and MDX. There will therefore be the grant of a new 40-year lease for the proposed new student accommodation units.

1.33 Council officers will procure, as necessary, tenants for the following units:

- The 3 retail units on the RFC site
- The 33 homes for independent living for young adults on the MC site
- The 28 key worker accommodation units above the new Library
- The health and wellbeing centre on the MC site

1.34 All rental assumptions on these units have been validated with CBRE.

1.35 Discussions are also ongoing with the Metropolitan Police Service regarding a proposed (free of charge) Safer Neighbourhood facility to be incorporated within the new library complex, and also with the local Clinical Commissioning Group (CCG) for the potential introduction of a health facility, such as a GP surgery. As part of the soft market testing exercise undertaken by KPMG, potential investors agreed with the principle that the capitalisation of the Middlesex University rental income in the proposed development will also provide circa 4,770 sqm of new debt free income producing assets and circa 2,032 sqm of new debt free income

community assets (including the proposed new Hendon Library). The construction of the non-Middlesex University accommodation in the development will therefore be funded by the private placement funding solution. All third-party rents have been verified by CBRE.

ADDRESSING KEY CONCERNS

- 1.36 Following the 14-week public consultation period, it is considered that the recommended scheme changes respond to some significant community concerns raised, within the confines of the business case justification for the scheme. The design elements retain the placemaking objectives and fulfil the ambitions already set out in OBC.
- 1.37 LBB has carefully considered all the feedback obtained during the public consultation process and has been concerned to see the negative comments made by some residents and members of the local community. Changes to the scheme have been made as a result of some of the key concerns, as follows:

Library Relocation

- 1.38 Proposals to create a new building for Hendon public library was a key part of the phase 1 Hendon Hub consultation conducted by GL Hearn, with library users encouraged to complete the online form or contact the Hendon Hub team via email or phone and/ or attend the virtual and face to face events to register their views.
- 1.39 Since the OBC, the council was sent a petition on 9 June 2021 in relation to the proposal to relocate Hendon Library. This was submitted for Barnet Council's Policy & Resources Committee for consideration and discussion at the meeting on 16th June 2021. The lead petitioner started the petition in response to the recent SPD consultation. The petition is for "Hendon Hub Library to stay as and where it is" and was signed by 1,382 signatories.
- 1.40 In addition to formal consultation, the Library Service has also commenced a programme of library customer engagement aimed specifically at informing the design of any future library provision in the area.
- 1.41 As mentioned, this engagement began with a short design survey. Of the 112 respondents to the library service's survey, many were generally supportive of the suggested improvements, particularly the provision of larger spaces and a more diverse range of books. However, many

wanted these new and improved services to be provided in the current library building. The Council have taken this very seriously and have carefully assessed these concerns against the benefits of moving the library to a new location as explained below.

Open Frontage and Flexibility

1.42 Much like retail spaces, public libraries benefit from open frontages that can easily showcase the services provided within and which have the capacity to draw the attention of passers-by including those previously unfamiliar with the library offer. Whilst the exterior frontage of the current library is architecturally striking there is little scope for outward promotion and library users are required to enter a long way into the building before they have visibility of any library services. Again, the Activist report references the challenge that this poses particularly within self-service opening (SSO) hours. They comment that ‘some of the older buildings have exteriors that don’t reveal much of what is inside...and this may make customers reluctant to enter these libraries during SSO hours⁸. A more open frontage would therefore increase both the Library Service’s capacity to attract new users into the building and would improve security during SSO hours. Both are factors in increasing use of the library.

Current Hendon Library – Internal View



Footfall and Usage

1.43 Footfall to a library is generally increased after provision of a new facility, often quite significantly. For example, the issuing of books and other library materials increased by 38% following the move of East Barnet Library into the new facility in New Barnet (Q3 2018 compared to Q3 2019). This trend is also borne out in other parts of the country. In Altrincham, for example, visits to the library rose by 41% and membership by 109% following a recent move to a new building.

1.44 The current Hendon Library building was constructed in 1929 around the needs of an early twentieth century library service. The internal space occupied by the Library Service poses a

⁸ Activist Report, p.49

number of operational challenges which inhibit the range of services that can be provided. Specifically, the footprint is inflexible, dissected by the internal staircase, lobby and landings which leave significant amounts of the floorspace at the front of the library building largely unusable in terms of the provision of services. The shared entrance and the inability to automate the main door requires a set of internal front doors which compound the challenges of the closed frontage and push services further back into the building.

1.45 Hendon Library is a particularly complex building with the overall footprint of the upper floors split into a series of very separate and distinct spaces. This makes the management and supervision of those spaces more resource intensive in both staffed and SSO hours. Hendon Library is currently open for 69 hours per week (non-pandemic opening hours) of which 53 are self-service. It is much more complex and expensive to deliver SSO hours across a multi-floor library. A greater number of CCTV cameras are required and the task of monitoring the individual spaces becomes significantly more complex for CCTV operators. Accessibility also becomes a factor where services are placed on floors that necessitate the use of stairs or lifts. Again, this becomes more complex in SSO hours.

1.46 Public consultation raised the desire of some members of the public for the library to return to its previous 3-storey occupancy. However, the council is clear that that the cost of operating the three floors of the current building is not economically viable.

Operational Costs

1.47 The current site is an old building, with a complex infrastructure that is difficult and expensive to maintain. Reactive maintenance is often required to address the failure of the heating and hot water systems, burst pipes, lighting and electrical issues, leaks, drainage, and roofing repairs. Efficiencies from the new development would help to improve sustainability of service delivery and reduce running costs for the main library building.

Improved Services

1.48 The new library offers an opportunity to significantly improve access and visibility to the Local Studies service (LCS) also based within Hendon library. The LCS holds a wide range of unique resources relating to the history of the borough and is currently housed in a set of small rooms behind the public library footprint. Exhibition space is limited to two small cabinets and there is no dedicated area in which residents can consult the resources held by the service.

- 1.49 In addition to this, the new library provides further opportunity to enhance and increase the size of the children's library, which is in high demand and well-used in Hendon.

Demand

- 1.50 Unlike many areas, Barnet does not have a single geographical town centre in which a main or central library is located, supported by a series of satellite libraries. Instead, Barnet has a comparatively large number of mid-sized sites spread throughout the borough's various town centres. The Burroughs is not the largest or busiest area within Barnet today and therefore does not represent the most appropriate location for a central library operation over multiple floors. As a result, it is considered that the size and fit of the proposed space is suitable for its required usage.

- 1.51 A new library building offers the opportunity to create more flexible and efficient spaces which can be adapted to provide both the traditional library offer and deliver a more dynamic set of services. Many successful new library buildings have included flexible spaces that can be used by a range of council and community partners to deliver additional services such as technology sessions, adult and community education and career support. Some successful library based examples include: Fab Lab Devon in Exeter Library and Glass Box in Taunton Library which have incorporated technology 'Makerspaces' and The Explore Centre in York which includes a Community Hub.

- 1.52 Whilst it is certainly not the case that all information available is all online, the way in which information is stored and used has changed considerably over the last 90 years. The need for and provision of large reference libraries has changed in line with this.

Wider Support

- 1.53 In March 2020 the Community Leadership and Libraries Committee considered a report by the Activist Group who had been commissioned to undertake an independent evaluation of the Library Service in Barnet. This report advocated using development opportunities to improve the quality of library buildings and made specific reference to the Hendon Hub project. In their summary of recommendations, they advocate developing 'a 'library regeneration' list with officers in planning and regeneration to help identify long-term opportunities for improved

sites as part of redevelopment plans⁹. In respect of the Hendon Hub scheme they state that ‘future development of the Hendon Library, in partnership with Middlesex University, may offer a further opportunity¹⁰ to revitalise the Library offer across Barnet. The historic library building will remain, with the library service improving in its new facility on the RFC Site.

Summary

- 1.54 The relocation of the library services is deemed necessary in order to provide a sustainable library provision within Hendon, in line with modern demands.
- 1.55 The Council is aware of the concern over the loss of public access to a heritage site and, as such, have agreed with MDX that the most attractive parts of the building will be opened to the public. No heritage elements of the current building will be demolished but will instead be renovated or restored, subject to obtaining listed building consent.



Car Parking

- 1.56 To address the parking issues raised through consultation, the large car park on the Burroughs and Osidge Lane car park have now been removed from the scheme. The Fuller Street car park

⁹ Activist Report, p.72

¹⁰ Activist Report, p.51

is now proposed as the new location for the PDSA, with all parking spaces lost from this car park will be relocated very closely nearby within the Prince of Wales estate.

- 1.57 Further, MDX accommodation contracts will state that students cannot bring cars to the University campus or student halls. They will be unable to apply for parking permits in Car Parking Zone (CPZ) area, unless students have exceptional circumstances, such as medical conditions, whereby they require their own vehicle. Necessary parking spaces will be provided for individuals living in the affordable accommodation.
- 1.58 There is no net loss of public parking from the Hendon Hub development - the 31 existing car parking spaces on the Fuller Street site will be re-provided within the Prince of Wales estate, and the proposals include dedicated parking for the PDSA facility on the Fuller St car park.
- 1.59 The Council’s Town Hall car park spaces will also be re-provided within the main Middlesex University car park.
- 1.60 Removing the Burroughs and Osidge Lane car parks from the scheme means that these car parks will continue to be used as they are at present.
- 1.61 It is therefore considered that the car parking provision of the scheme is deemed appropriate for the location. Any negative impacts to the public are being attempted to be mitigated as far as is possible.

Scale of Development

- 1.62 There have been discussions with LBB’s Planning Department through a formal pre-application (pre-app) process and they have been consulted as the design development of the scheme has evolved, with the ability to comment on the design proposals as they have developed.
- 1.63 Concerns around the scale and mass of the developments were raised during the consultation process. The following table provides a commentary on this by site:

Site	Commentary
B9	<ul style="list-style-type: none"> • The development on the B9 Site is considered to be at an appropriate scale as determined by the scale of surrounding buildings. • The current one-storey clinic is disjointed from the surrounding area, providing difficult access arrangements to the site.

	<ul style="list-style-type: none"> • The new buildings aim to resolve these issues
MC	<ul style="list-style-type: none"> • The current buildings are at the end of their useful life and are in need of redevelopment. • The project team has worked collaboratively with Planning and Heritage Officers, as part of the formal pre-app process, to employ traditional architectural treatments which will enhance the area. • The part of the site immediately adjacent to the St Marys church yard includes proposed buildings of a lower height and to aims to improve the special relationship between the Church yard and St Marys Church beyond. • Enhancements to the public realms are included in the design changes. • The east of the site will have a new street frontage which improves natural surveillance of the current ‘back of house’ space and enhances links to Sunny Hill Park and much improves the environment of St Marys and St Johns School.
RFC	<ul style="list-style-type: none"> • The proposed building design has been informed by a detailed understanding of these existing buildings, their importance, their setting, and the way that they are appreciated from the street. • The site provides the opportunity to improve the character and appearance of the Burroughs generally and enhance its facilities. • The scheme reflects the existing character of the Burroughs by providing three distinct buildings, each with their own architecture according to their purpose. In this way, the proposals extend the historic idea of a family of distinct but related buildings. The townscape gaps between the buildings reflect the layout of the buildings opposite, and the materials and general form of the buildings have been designed to reference those buildings. • The opening up of the space on the southern corner adjacent to the proposed new Library will create a new public space and a gateway to the Burroughs.

1.64 The project team have consulted with Historic England on various aspects of the scheme.

1.65 It is considered that the scheme provides a unique opportunity to maximise placemaking benefits and synergise the offer provided across The Burroughs. These include:

- Unified design via a cohesive concept scheme for The Burroughs, but that maintains the character of the area

- Ability to create a community hub by refocusing relocations of assets into prominent locations onto the redeveloped RFC site
- Delivery of proportionate saving in costs gained from including the three core sites, maximising value for money

Middlesex University Presence

1.66 Middlesex University (MDX) have a strong presence in The Burroughs. The University recognise that, whilst the majority of students are individuals who are respectful of the local area, there are people who do not uphold these standards. MDX is working to address the significant concerns about student behaviour that have been raised during the feedback from the consultation, by implementing various measures including:

- Increasing security patrols across the campus, student residences, and the wider area
- Increasing CCTV monitoring on campus (and off campus with LBB) to detect and address any inappropriate behaviour
- Providing support to students who are exhibiting inappropriate behaviours and other preventative measures
- Promoting the use of their 24-hour phone line to report instances of anti-social behaviour

1.67 In addition, conversations are ongoing with the Metropolitan Police Service for the opportunity to include a Safer Neighbourhood Team base of operations in a section of the new library to increase security presence in the area and offer a resident drop-in service. In addition to the placemaking improvements, such as street lighting and open spaces, the presence of anti-social behaviour 'hot-spots' are expected to decline through the new building design and the other measures being implemented. LBB and MDX will monitor other concerns should they arise.

1.68 LBB remains committed to working closely with MDX and supporting their strategic objectives to enhance student experience. The Council is aware that the public consultation has raised some concerns and comments that there is a perception that MDX contribute little to the local area, and a number of residents have expressed concern about intensification of the university's presence.

1.69 Since COVID, there has been limited opportunity for outreach by the University into the local community, however it is important to highlight the many benefits and contributions the University makes to Hendon and the local area:

- **COVID Response:** MDX has made a very important and significant contribution to supporting local residents and the healthcare system during the pandemic:
 - The university host one of Barnet's testing centres on campus, in addition to training over 2,000 nurses and other practitioners to carry out COVID vaccinations and other front-line services to the local population
 - The Design, Engineering, and Maths Department and fashion students have been developing PPE equipment such as visors and making scrubs for key workers
- The University is one of **Barnet's largest employers**, employing c.1,500 local and London-based staff
- Students provide a potential **pool of local labour**, which can benefit students and local businesses alike
- **Increased footfall and spend** in local business helps sustain local business
- Residents currently have **access to the University cafes and open spaces**, in addition to a range of sports facilities including the gym, football pitches, and tennis courts
- **Outreach to local secondary schools** in the borough, providing workshops to raise aspirations and get students thinking about skills and careers
- **Hosting public events**¹¹ such as the North London Careers Fair, annual science festival, and sports summer camps for children

1.70 There will be no net increase in student numbers as a result of this development and, whilst it is appreciated that some students may be in Hendon for more hours of the day than they are at present, many students do currently live in HMOs locally.

STRATEGIC CONTEXT

1.71 The OBC highlighted the following policy documents that are relevant to the proposed development, providing detail on each and its potential to impact to shape the scheme. The

¹¹ These events have, unfortunately, been unable to go ahead in the past year due to COVID restrictions and the need to protect the safety of students and staff but the university are keen to restart public events when it is safe to do so.

table below provides a brief description of each document and assesses whether there have been any material changes to the strategic context since OBC stage.

Policy Document at OBC	Date	Brief description	Material changes since OBC?
One Public Estate	Ongoing	An established programme seeking to support public bodies to make better use of their assets in partnership with other public sector bodies. LBB was successful in its application for OPE Phase 6 and 7 in 2017 and 2018 to unlock the potential of the council's assets in the Hendon area, in partnership with MDX.	N/A
Barnet 2024	2019	LBB's corporate 5-year plan to make Barnet a "pleasant, well-maintained borough that everyone protects and invests in", ensuring decent quality affordable housing, investing in community facilities, and deliver major regeneration schemes to create better places to live and work.	The Barnet Plan 2021-2025
New London Plan	2018	Strategic document produced by Greater London Authority (GLA) establishing policies regarding use of land across the region. Plan estimates the need for 3,500 purpose-built student accommodation units to be provided annually, with 50% of all developed units to be affordably rented when on council-owned land (35% if non-council land).	The London Plan 2021
LBB Housing Strategy	2015	LBB's housing strategy suggests a need to deliver an additional 27,000 dwellings between 2015 – 2025, with population expected to grow by 19% over the next 25 years.	2019 Housing Strategy Review Published
Middlesex University Strategic Priorities	2017-2031	Middlesex University's future is built upon a foundation of excellence in practice-oriented education and impactful research and engagement. The University creates knowledge and puts it into action to develop fairer, healthier, more prosperous and sustainable societies.	N/A
Community Strategy	2010	The 10-year community strategy establishes the core values and priorities of Barnet's communities for a strong safe community, healthy and independent living, investing in young adults and their families, and a successful London suburb. The strategy stresses the importance of involving communities in relocation through engagement. There are several community uses reaching obsolescence within the project boundary that are to be relocated by the scheme. The project team are currently in communication with Adult Services to ascertain whether the current provisions are fit for purpose and are working closely to determine current need, with the target for all community uses to remain within the Hendon locale in suitable, fit for purpose, accommodation.	N/A

Barnet's Covid-19 Recovery Framework	2020	<p>As a means to address the substantial impacts of Covid-19 LBB have mobilised resources to plan for recovery in a post-pandemic environment. The focus is to restore, reinvent and retain, with the aim of:</p> <ul style="list-style-type: none"> • facilitating social and economic recovery • taking opportunities for council and civic society to enhance and improve the borough • ensure effective, co-ordinated cross-sector approach • restore council services, project delivery and financial sustainability 	<p>Little change since OBC – the teams are constantly improving and developing the strategy but the core principles and objectives remain constant</p>

1.72 From this, there have only been minor changes since the OBC strategic context assessment was conducted, namely:

The Barnet Plan 2021-2025

1.73 An update to LBB's Corporate plan was issued earlier this year and continues to support the delivery of quality, affordable housing and community services. Making Barnet a thriving space is central to the proposed development.

1.74 Relevant policies for the Hendon Hub scheme contained within the plan include to create:

- A space to help residents, especially young people, into work
- A place that allows growth of a connected, entrepreneurial, and thriving borough, with fantastic facilities for all ages, enabling people to live happy and healthy lives
- A place fit for the future, where all residents, businesses and visitors benefit from improved sustainable infrastructure and opportunity
- Adopting preventative measures to help people remain healthy, happy, and independent in all aspects of life
- A strong cohesive community, where diversity is celebrated, and everyone has equal opportunity regardless of their background to access fantastic facilities

1.75 The improvements across Hendon are intended to encourage the further development of a sense of community locally, improving the existing facilities and providing safe and affordable accommodation for valued residents and vulnerable people. The improved university offer will

provide state of the art accommodation and facilities – many of which will be made available to local residents.

The London Plan 2021

- 1.76 The New London Plan was formally adopted on 2 March 2021 and policy H15 aligns with the previous policy H17, in relation to Purpose-Built Student Accommodation (PBSA) development. There is no significant change between the two versions, and a continued commitment to 50% affordable housing provision for PBSA development on public-owned land.
- 1.77 There is significant continued support for student accommodation and facilities with “London’s higher education providers making a significant contribution to its economy and labour market. It is important that their attractiveness and potential growth are not compromised by inadequate provision for new student accommodation.”
- 1.78 As such, the published London Plan for 2021 continues to support PBSA accommodation developments and stresses the importance of adequate provision on the success of universities and their contributions to the local economy.

LBB Housing Strategy Review 2019

- 1.79 The recent review¹² of the evidence base supporting the 2015 strategy identifies a continued trend for increasing housing demand (the need to provide c.3,060 dwellings per year) in Barnet, within a difficult financial environment. The revised strategy focuses on a need for regeneration and growth plans to be delivered in a responsible and sustainable way. In response, all buildings at Hendon Hub will be delivered to BREEAM¹³ Excellent standards (increased from ‘very good’ at OBC), with sustainable development practices adopted as priority.
- 1.80 Other key findings from the 2015 review remain consistent, and the overall strategy is in line with the scheme and the provision of a wide range of accommodation, contributing to regeneration and growth in the area and supporting the rising population.

¹² Housing Strategy 2019, LBB, 2019

¹³ Building Research Establishment Environmental Assessment Method (www.breeam.com)

RATIONALE

- 1.81 The rationale remains consistent with that outlined in the OBC, with private sector developers and MDX alike having previously lacked the ability to realise development in this area, despite demand being present for new accommodation and placemaking improvements. As stated at OBC stage, this has been due to:
- Significant LBB land ownerships that are currently in use that prevent development
 - The fragmented nature of other ownerships and the issue of complicated land assembly
 - The uncertainty of re-provision of uses such as community organisations
 - The need for a comprehensive development solution at scale to ensure synergy across Hendon and value for money
- 1.82 The above continues to be evidenced by the failure of the private sector to redevelop or construct additional student accommodation or other facilities within the area.
- 1.83 Consequently, intervention by the council is considered as being justified on the basis of the market failure, LBB's extensive local land ownerships, and the opportunity to optimise the use of valuable landed assets, plus the opportunity to deliver affordable housing and community benefits through the viability of other land uses on the sites.

1.84 A holistic development programme in Hendon would deliver:

- Significant contributions to affordable housing demand in the area, through improved access to student accommodation (50% of which will be at affordable rents), key worker housing, and homes for independent living, fulfilling strategic objectives of LBB
- An improved community offer and a new state of the art modern Library
- Improvements to the public realm, green spaces, and overall connectivity across The Burroughs
- Core OPE objectives being achieved by creating economic growth through new homes and jobs, generating efficiencies through cash receipts, and reduced running costs
- A cash injection into LBB finances, providing the best value for the Council, enabling it to maintain frontline services
- Reinforcing LBB's strategic partnership with MDX, improving the university's reputation and stimulating investment in the local economy, with MDX increasing their commitment to further engage with residents to provide further local benefits to the community and address concerns raised by the public about student behaviour
- Continued public access to MDX facilities such as their gym, and the new Arts and Cultural building for cultural events, in addition to access to the listed elements of the current library building, including the ornate 2nd floor reading rooms.
- A potential free of charge local base for the operations of the Met Police's Safer Neighbourhood Team to improve safety to local residents, amplified by improved lighting and CCTV to the area
- No net negative impact on car parking, with 2 car parks removed from the scheme, and 100% replacement of one car park proposed for the PDSA

1.85 Community Infrastructure Levy (CIL) contributions from the scheme will secure funding for local infrastructure.

OBJECTIVES

- 1.86 The project-specific objectives remain the same as discussed in the OBC and are informed by LBB's development objectives, alongside Barnet 2025 and the defined market failure.
- 1.87 Changes to the scheme to maximise community benefits have resulted in the total number of student accommodation units reducing below the 600-figure stated in Objective 4 below. However, the scheme continues to be fundable, with the additional placemaking benefits improving the proposed development as a whole.
- 1.88 These objectives are:

Objective 1 - Placemaking

To assist towards a people-centric approach to design, planning and delivery of public spaces, demonstrating: 1) take-up of underused and underemployed land within The Burroughs, 2) sustainable construction producing flexible buildings that will endure the lease term of 40 years and beyond, and 3) the buildings can achieve BREEAM Excellent status as a minimum, 4) excellent design and an improved campus for MDX, 5) green space improvements plus more greening of the main thoroughfares

Objective 2 - Maximising Returns

To maximise returns on investment (either capital receipt, or revenue, or both) ensuring that, as a minimum, annual revenue returns to the Council are in excess of the c.£1m current rent roll that will be extinguished by the proposed development.

Objective 3 - Maximising Pace of Returns

To phase the development to maximise the pace of returns, with the first release no later than 3 years post expiry of judicial review (JR) period on Phase 1 planning.

Objective 4 - Support Housing Objectives

To support the Council's housing objectives by constructing approximately 600 student accommodation units (equivalent to 200 new homes) plus 61 affordable housing units

Objective 5 - Minimise Risk

To minimise design, funding, and construction risk via, for example: 1) delivering development in phases, 2) the use of contingencies, and 3) the employment of a delivery partner and with incentives to control costs 3) Use of contracts to manage risk

Objective 6 - Maximise Social Returns

To maximise social return on investment through the provision of procurement opportunities for local companies and the creation of apprenticeships as part of construction process, as well as enhancing existing community uses. Improved and modern library facility.

Section 2 – Economic Case

INTRODUCTION

- 2.1 The economic case assesses the market demand for the proposed project in addition to revisiting the third stage of optioneering from the OBC, assessing Public Works Loan Board (PWLB) versus private funding mechanisms to finance the development.

ECONOMIC CONTEXT

Introduction

- 2.2 The economic context for Hendon Hub is predicated on harnessing the existing resources of MDX to deliver substantial returns to the local economy and ensuring that affordable residential accommodation is available to local people and students alike. This sub-section reviews the context identified in the OBC, providing an understanding of the economic gain and the consequent need for the proposed intervention.

OBC Review

- 2.3 A summary of the analysis follows, identifying any changes since the OBC where applicable:

LBB's Strategic Partnership with Middlesex University

- 2.4 The OBC identified that:
- The higher education sector contributes £1 in every £24 of UK GDP¹⁴
 - The University is one of Barnet's largest employers, employing c.1,500 local and London-based staff
 - MDX contributes c.£289m to Barnet's GDP via employment and local business reach¹⁵
 - The proposed rents for student accommodation, 50% of which is affordable, is suitable given the proximity to the main campus

¹⁴ The Economic Impact of Universities in 2014-15, Oxford Economics, 2017

¹⁵ Financial Statements 2019-2020, Middlesex University London, 2019

- Students provide a potential pool of local labour, which can benefit students and local businesses alike
- 2.5 Improved MDX facilities would also facilitate economic benefits such as increased footfall and spend in local business to sustain their local business to sustain their local presence.
- 2.6 University performance is improving since the onset of Covid-19, with turnover estimated at £40bn p.a., and more than 500,000 people employed nationally. The number of university applicants is continuing to rise from within the UK and outside the EU in all universities, creating demand for improved sustainable facilities and accommodation.
- 2.7 Middlesex University are 3rd in the UK in the Times Higher Education Young Universities rankings and 92nd in the world. Middlesex University maintained its ranking top 750 the 2022 and 2021 QS World University Rankings, compared with its ranking in the top 1000 in the 2020 rankings. This improvement follows a consistent fall between 2016 and 2019. Sustaining this improvement requires investment that the university are unable to carry out on their own due to land ownership limitations identified previously.
- 2.8 Middlesex University's vision of its future includes:
- Becoming a global university with a strong sense of community
 - Directly and indirectly supporting over 4,000 jobs
 - Continuing to support the local economy, with staff and students currently spending over £70m in Barnet per annum
- 2.9 LBB recognises that MDX has a vital role to play in providing educational opportunities in Barnet and providing new state of the art teaching, learning resource, and research facilities.

Student Accommodation – Supply

- 2.10 The need for additional student accommodation within proximity of the MDX main campus has been justified within the OBC and is reiterated here.
- 2.11 The supply of student accommodation in the proximity to The Burroughs is limited. The figure below shows the existing accommodation offer available to MDX students¹⁶. Usher Hall, located on The Burroughs, is the most accessible to main campus users but is only able to

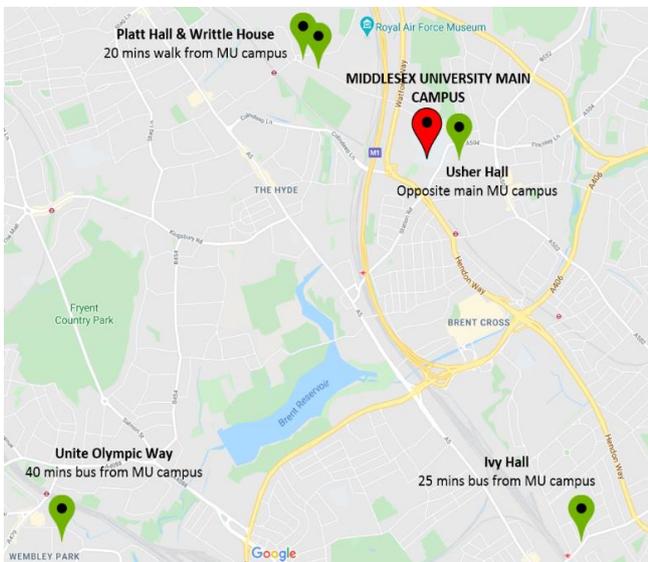
¹⁶ Accommodation, Middlesex University London Web Page, 2020

accommodate 182 students. Other provision is more remote and, as a result, many 2nd and 3rd year students have taken up private rental agreements in the surrounding residential area.

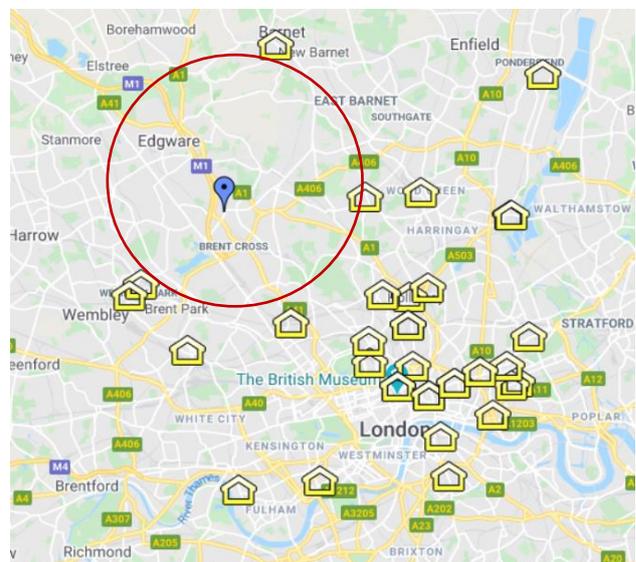
2.12 The location of private student accommodation halls, reflecting the supply available to MDX students across London, is also shown below. There is a clear absence of accommodation in a large radius around the main MDX campus, meaning the private halls offer is also extremely limited.

2.13 This limited and remote provision is detracting from student experience and creating the need for students to use cars to visit campus.

Current MDX student accommodation distribution



Private Student Halls Accommodation Offer, London



2.14 MDX are seeking to close these remote halls at Wembley as travel is very difficult for those students to the campus and the remoteness detracts from the student experience. There is therefore an additional requirement to relocate those spaces (c. 600-800 units) to Hendon.

Student Accommodation - Affordability

2.15 Providing an affordable student accommodation offer is essential for the success of the scheme as student incomes rising at a lower rate than the inflation of rents within the scheme could impact MDX's overall ability to adhere to the terms of the 40-year lease.

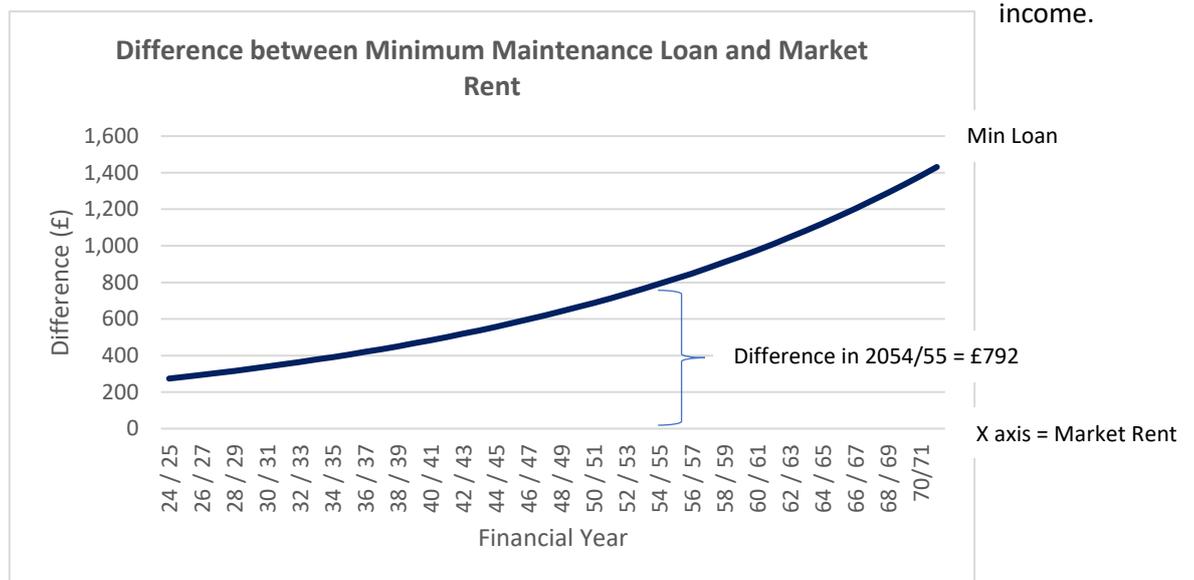
2.16 The rent payable by students for the open market student accommodation in the scheme is deemed appropriate, with a small premium over comparable accommodation being achieved due to the proximity to the main campus, which could yield savings from travel costs of c.£18p.w.¹⁷. Further to this, the rents are sustainable in the future in line with student incomes. The 50% affordable rented units are lower than comparable rents in the area, increasing affordability. All rents agreed with MDX are considered as affordable and sustainable into the long term.

2.17 Student maintenance loan amounts for students living in London are increasing annually by c.3%. The rent charged for the accommodation within the scheme is set to increase by a similar rate (cap and collar of 1-5%), so Bank of England RPI rates of 3.07% have been assumed.

Year	Minimum (>£70k parental income p.a) ¹⁸	Maximum (<£25k parental income p.a.) ¹⁸
2020/21	£5,981	£12,010
2021/22	£6,166	£12,382
% change	3.09%	3.10%

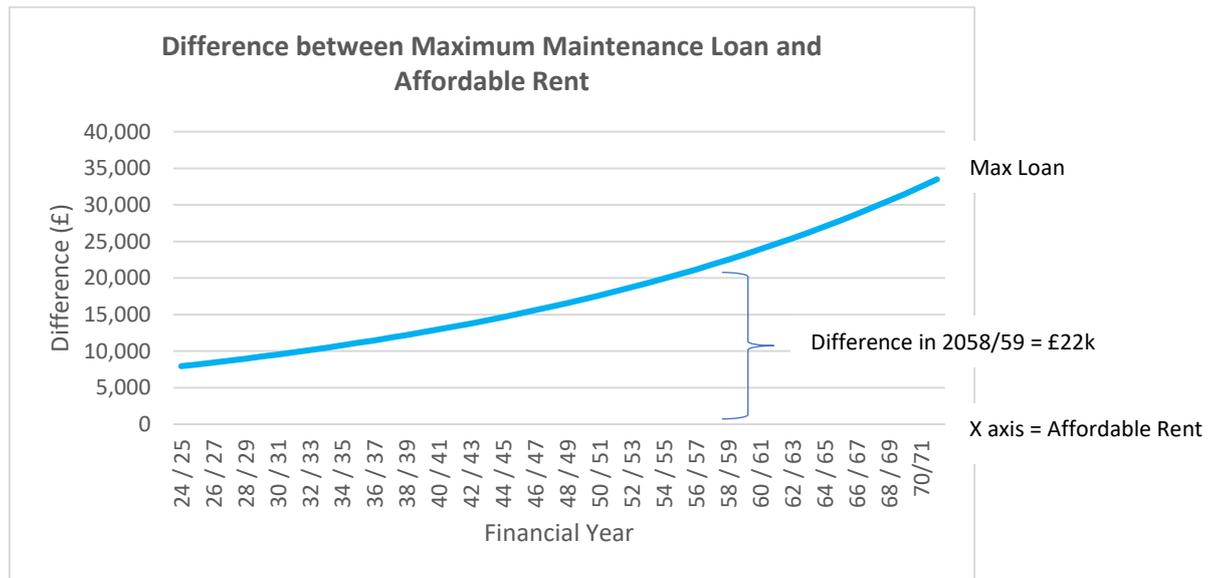
2.18 The affordability of the student accommodation element of the scheme has been forecast against student income from maintenance loans to demonstrate that this is sustainable. The difference (student loan minus rent) is modelled below.

2.19 It has been assumed that those receiving the minimum student maintenance loan would rent at market level, with those receiving the maximum renting at affordable level due to parental income.



¹⁷ The cost of a weekly travel card from current accommodation in Wembley

¹⁸ <https://www.gov.uk/student-finance/new-fulltime-students>



2.20 The assessment detailed above demonstrates that for the duration of the MDX leases, student maintenance loans will be consistently above the rent levels projected for Hendon Hub. Furthermore, this does not include additional student incomes such as part time work and support from families, meaning the affordability is likely stronger than reflected in the above.

2.21 The affordability of other elements of the scheme, including community services and academic facilities have been validated by CBRE and are agreed in principle with service providers through Heads of Terms and memorandums of understanding.

Other Scheme Elements

2.22 Additional commentary is provided to further justify the development based on market support.

Affordable Accommodation and Homes for Independent Living

2.23 A new element to the scheme since OBC is the replacement of some student accommodation on the MC site with homes for independent living. This housing provision will support young adults who have recently left the care system to live independently and affordably while they work. Similarly, affordable accommodation has also been introduced to the scheme since OBC and will help support those who often find their income does prohibits them from living locally.

2.24 61 affordable housing units replace c.190 student accommodation units (that were included in the OBC). This significant drop in numbers is primarily due to the average size per unit being

significantly larger for the new affordable accommodation proposed (see table below). In addition to this, factors such as self-contained kitchen and living space, and outside areas further increase the space requirements.

Student Accommodation	Homes for Independent Living	Affordable Accommodation
11.5 sqm	23sqm	Between 37 - 70 sqm

2.25 The difference in accommodation space provided between OBC and FBC is summarised in the table below:

Gross Internal Area	OBC	FBC
Student Accommodation	(792 units) 19,764 sqm	(583 units) 14,327sqm
Independent Living for Young adults	N/A	1,556 sqm
Affordable Accommodation	N/A	2,329 sqm
Total Space	19,765 sqm	18,212 sqm

2.26 There has been a decrease in the overall area to be provided for accommodation and residential living due to a reduction in building heights since the scheme proposed at OBC.

2.27 The Strategic Housing Market Assessment (SHMA¹⁹) for Barnet identified a need for 76,500 homes to be delivered between 2016 and 2041, with 3,060 dwellings per year across all tenures. The requirement for affordable homes across the 25 years is projected at 17,600, resulting in an annual requirement of 704 affordable dwellings per annum. It further identified the trend for Barnet showing an increase in lower quartile house prices over the previous five years has been greater than for Greater London as a whole, with affordability worse than for Greater London.

2.28 Being in Greater London, Barnet is an expensive place to live, with private rents considerably higher than the national average, and an average house price of £555,000 (2020). This is compared to an average annual salary of £34,999 in 2020 that results in an affordability ratio of 15.9 times their annual salary to buy a home. The gulf between earnings and house prices

¹⁹ London Borough of Barnet Strategic Housing Market Assessment Update, Opinion Research Services, 2018

in Barnet is the largest since records began in 2002 when the house-price-to-income ratio was 7.4 and has increased by 19% since 2015²⁰ where it was 13.3.

- 2.29 The provision of affordable housing for independent living and affordable accommodation will go some way to help bridge this gap and support those who struggle to access housing. It will also fulfil a core strategic priority for LBB and will be in high demand from a variety of end users, from market research carried out to date.

Commercial Market

- 2.30 Hendon is not considered to be a strategic commercial location, with most office take up from small businesses and larger organisations already established in the area. Take-up of commercial property is dominated by small units. There are few large office lettings of note, and CBRE have validated the rent levels for the academic accommodation for MDX.

- 2.31 Additionally, the provision of small scale additional ancillary retail units around the MDX main campus is appropriate, with the potential to capture higher rents, as validated by CBRE.

Summary

- 2.32 Consequently, a multi-faceted intervention continues to be justified by:
- The need to provide affordable accommodation for students and residents living in the area;
 - The lack of availability of housing options for a significant proportion of MDX's population;
 - The creation of employment from the development, improvement of workspace for MDX staff and the need to strengthen MDX as a large employer of local people.

MARKET DEMAND AND LEASE ARRANGEMENTS

- 2.33 The economic case for the development remains robust, with most of the projected rental income guaranteed by MDX, subject to final Agreement for Lease (Afl) being signed. The Afl is progressing well in its commercial negotiations to confirm scheme changes and is expected to be signed shortly. The key terms remain as highlighted in the OBC, but the academic term length has reduced from 42-weeks to 40-weeks, slightly reducing annual income receivable

²⁰ House Price to Residence-Based Earnings Ratio, ONS, 2021

from MDX. Terms of lease with MDX are between 40-42 years and are co-terminus on the expiry of the overall lease.

- 2.34 The reduction in the number of student accommodation units has resulted in a reduction in income from the MDX lease arrangements since OBC, but this is replaced by an increased annual income payable directly to LBB from the proposed affordable accommodation above the new Library, the homes for independent living, and the health and wellbeing centre that have now been introduced into the scheme. All rents are estimated at present, based on CBRE advice and market research.
- 2.35 The economic case continues to be strong, with c.90% of the overall rent guaranteed based on the proposed MDX lease agreement, and significant interest in the market for the remaining assets.
- 2.36 New accommodation is being re-provided for the existing community uses that are being displaced by the new development. The project team are finalising heads of terms for these units and new CBAT leases will be put in place in due course., subject to approval by Committee. A memorandum of understanding is also being agreed with the Library service, for their relocation to more modern facilities.

OPTIONEERING

Introduction

- 2.37 The OBC established the recommended form of the development that was most appropriate at the time, with the scheme being further shaped by public consultation and the realisation of further community benefits now included, as discussed in Section 1.
- 2.38 It also discussed the preferred funding mechanism for the scheme, concluding that financing through HM Treasury's Public Works Loan Board (PWLB) was suitable as the base case, but a final recommendation would be brought forward for decision at FBC on the basis of whether the private funding approach could better this, following more analysis and soft market testing.

2.39 Five financial principles which were agreed at OBC sign-off have been modified to best suit the FBC recommendation on the funding route and are as follows:

•The General Fund to be protected from costs during the term of the lease to MDX insofar as it is practically possible, recognising there may be losses of income in the early years to be managed; and the overall scheme is to generate a long-term financial return to support service delivery.

•Where a recommendation to access Private funding is made, it is preferable the deal should stand on the MDX covenant where it is fundable in the market and subjected to a full risk assessment.

•As part of the overall risk assessment, investigations will be undertaken to consider how to protect LBB from financial risks, through adoption of the MDX covenant where possible

•Where a recommendation to access Private funding is made, the mitigation of construction risk is a priority, with appropriate mitigation methods in place.

•Any leases signed with MDX through the deal are to be full repairing and insuring leases.

2.40 This FBC revisits the funding options to recommend a preferred funding route, private or public.

Options Assessment

2.41 The two options being revisited remain the same as per the OBC:

- **Private Option** – adopting a forward-funded²¹ “private placement”²² model whereby MDX sign an agreement to lease, with the subsequent grant of leases for each building for circa 40 years upon practical completion (PC). This would release a payment to LBB from the Funding Partner (the gross development value) to cover the development costs, crystallise land value, and pay a development profit to LBB. At the end of the 40-year term, LBB would have reversionary rights to repurchase the assets for £1, at which time LBB could own the assets and receive rent from MDX on a new leases basis to be agreed.

²¹ Whereby LBB finance construction costs through borrowing from a funding partner, with the fund having agreed to purchase all assets at practical completion

²² Income strip models are an alternative private option assessed within the Commercial Case, a private placement approach has been assumed in the base case due to stronger fund appetite

- **Public Option: Public Works Loan Board (PWLB)** – a maturity loan over 50 years would be taken up with the PWLB on a fixed interest basis to cover capital outlay of the proposed development, plus MRP, starting at PC. LBB would undertake the development and grant leases after PC in favour of MDX for 40 years as above. LBB’s freehold ownership of the assets would be maintained throughout.

2.42 Accordingly, a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis follows to determine the recommended funding solution going forward into the commercial and financial case.

Public Option SWOT Analysis

2.43 The PWLB financing approach involves the following:

Strengths	Weaknesses	Opportunities	Threats
Lowest development cost, net of finance, due to minimal lease fees and no fund acquisition costs	Operating at a deficit in the short term (with additional interest needed to finance this), in addition to short term deficit in the GF	Annuity MRP Calculation post 1 st April favourably spreads costs in early to medium term	LBB would be at risk should MDX default on rent payments for 40 years and therental income stream is subject to market volatility
LBB retain all rental income from the development	No ability to receive up front income/refund of costs spent to date		Government willingness for PWLB borrowing decreasing over the years (recent restrictions to purely regeneration projects)
Reduces long-term risk of economic volatility impacting on the cost of debt, fixing PWLB rate at project start	Poor affordability implications on the general fund		No lease premium so increased risk of extent of returns to LBB across the period
‘Safe’ option – regular Council borrowing strategy; familiarity with the process	Significant total interest payments		Could restrict borrowing for other council schemes in the future

Private Funding approach

2.44 The private funding approach has the following strengths and weaknesses:

Strengths	Weaknesses	Opportunities	Threats
Highest return and Net Present Value (NPV) ²³	Higher costs due to fund costs and fees that would be paid by LBB	Likely that no stamp duty applicable due to proposed SPV structure (please see Commercial Case for further detail)	If LBB are required to guarantee the lease to the fund in lieu of MDX, it presents a similar risk present as per PWLB over the term in the event of MDX default
Strongest affordability implications on the general fund		Off-balance sheet borrowing from SPV structure so no impact on standalone statements	Variable bond rates in most offers (potential to move out – likely due to increase of RPI to 3.07% from 2.5%)
Debt-free income outside of leases with MDX is accruable directly by LBB		Strong market appetite gives power to influence deal and get better terms/financiers on board – e.g. re ethical investment, reputation, GDV etc	LBB may be required to create provision in standalone accounts if MDX default, may not be feasible/affordable
Strong appetite shown through both stages of soft market testing – every funder willing to invest on the LBB covenant, improved appetite on MDX covenant		Deferred revenue stream to assist with current Medium-Term Financial Strategy (MTFS) pressures and ability to re-invest for future gain	
LBB able to step away post construction if MDX sign the leases, reducing financial and reputational risk			

²³ **Net Present Value (NPV)** is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. The NPV allows comparison between PWLB and PP funding models

Discussion

- 2.45 The five financial principles outlined above from the OBC prioritise the reduction of risk and the protection of the general fund. The PWLB approach, based on the SWOT analysis above, demonstrates that LBB continue to remain liable for MDX rental payments across the 40-year lease term. Further to this, a deficit is created within the General Fund in the short term.
- 2.46 This FBC consequently concludes and recommends that the private funding approach outperforms the PWLB route based on the returns and risk profile (detailed further in the commercial and financial case), due to the following issues with the PWLB option:
- Poor affordability implications for the General Fund in the short term, generating a loss in the first five years
 - Relatively low financial return based on a comparison of NPV against the most prudent private funding solution
 - LBB bearing risk across the 40 years post scheme completion, being wholly beholden to the financial performance of MDX as its tenant
- 2.47 The PWLB value for money and affordability implications are detailed further in financial case and support ruling out this approach.
- 2.48 The impact on equalities across all funding routes is assumed to remain the same. Council officers will undertake due diligence on all potential funding partners to ensure this remains the case.

Section 3 – Commercial Case

INTRODUCTION

- 3.1 This case assesses the extent to which the financial proposition of the scheme detailed previously, is in commercial demand by the private market. It uses the results of the soft market testing addendum provided by KPMG in May 2021 (an update from the report issued informing the OBC in November 2020) in order to assess the strength of a privately funded option.
- 3.2 The testing for this FBC was carried out by KPMG from a brief prepared by council officers and the project team, that set out a proposed deal structure, the project income, and its costs, as validated by the professional team. KPMG used the brief to approach financiers, receiving approximately ten responses. The whole market was not approached as this was a soft market testing process only. The result showed a strong indication from the market that the proposed funding structures are deliverable and provides estimates as to the potential financial offer, being mindful of the fact that the market can change due to a number of factors, and this will be carefully monitored on an ongoing basis.
- 3.3 Two structures have been tested within the financing market, both variants of the private funding approach from the OBC stage. These are:

• **Option 1: Private Placement** – Unlisted debt securities offered directly to a limited group of institutional investors rather than through the public markets. In the proposed structure, a special purpose vehicle (SPV) will issue 40 year debt to a financier, use the proceeds to develop the asset and lease the asset to MDX for 40 years, using rents received to repay the debt. LBB would have reversionary rights to the asset for £1.

• **Option 2: Income Strip** - A funding arrangement where the financier buys a long leasehold interest in the site, develops the buildings and enters into a long lease to LBB or MDX for a 40 year period. The rent is fixed and subject to annual increases linked to RPI or CPI (inflation measures). At the end of the lease term LBB has the right to acquire the asset back for £1.

- 3.4 The OBC considered two potential options for each private funding route:
- **MDX Covenant:** Whereby LBB would exchange an agreement for lease (AfL) with MDX and then sell the right to receive the income agreed in that AfL to an investor(s). The investor(s) pays a premium to LBB for its interest and the right to receive income over the term of the leases. LBB would be required to guarantee the construction phase of the scheme, drawing

down money from the fund(s) throughout the build period to pay for the development costs. Upon practical completion, LBB's liability would end and MDX would continue to have a contractual relationship with the investors for the length of the funding agreement. At the end of the 40-year leases, LBB would have reversionary rights to acquire the asset for a nominal price – usually for £1. The total funding amount raised from a funding partner in this scenario would be directly related to the credit strength of the MDX.

- **LBB Guarantee:** The transaction could be structured as above, but LBB would 'guarantee' the transaction during the construction period and over the 40-year lease. In this scenario, should MDX default on their rental payment then LBB would be required to step in under the guarantee and meet any payments due to the funder.

SOFT MARKET TESTING

3.5 At OBC, the soft market testing in May 2020 found that funding institutions did not have the appetite to fund the MDX. This was in part due to that the impact of Covid-19 on the higher education sector which meant they had restricted appetite to lend to higher education institutions outside of the top 40 HEIs in the UK. Since OBC approval, another round of soft market testing has been undertaken by KPMG on behalf of the project team.

3.6 The soft market testing was primarily conducted to inform the structural solution of the transaction and understand what is deliverable (especially MDX v LBB Covenant). The soft market testing confirmed:

- That there is a strong appetite for the LBB covenant as either a private placement or an income strip.
- There was greater interest from UK funds in the LBB covenant option due to its credit strength as a government entity.
- A single UK fund from the income strip market and a US investor from the private placement market stated their interest to finance the transaction with the MDX covenant.

3.7 The intention of this soft market testing was not to test every possible provider of finance comprehensively or to run a structured process to get the best terms. It was simply to understand the deliverability of each solution. As such, final offers from funding partners could vary from those presented at FBC. While none of the UK funds have expressed interest in the MDX covenant for a private placement deal, the market conditions may change by the time of

financing. Current trends suggest that the financing market is becoming more comfortable with UK higher education sector risk post COVID-19 pandemic.

- 3.8 The soft market testing highlighted that the cost of debt would be materially lower for the LBB covenant than the MDX covenant. As such, LBB would receive a higher upfront cash receipt. However, LBB would be exposed to the long-term risk of MDX making payments under the occupational lease. The financial case provides commentary on the relative risk versus return for each covenant in further detail.

Private Placement vs Income Strip

- 3.9 There has been an improvement in offers since the expressions of interest stage at OBC on the MDX covenant where previously no private placement (PP) funding solution was possible. Both private placement results show strong gross development values (GDV). Alternatively, the offers receiving on an IS basis would return lower financing returns.

- 3.10 In addition to return, PP versus IS can be differentiated based on:

Factor	Private Placement	Income Strip
Financing Cost	Generally cheaper due to its greater liquidity and a larger pool of investors.	Generally, more expensive due to its limited liquidity and investor pool.
Investor Pool	One or more investors could fund the transaction.	Typically, only one investor would fund the transaction.
Liquidity	More liquid meaning that the debt securities can be traded. This increases value for the investor.	Limited liquidity, i.e. an investor would need to sell the title to the asset (including resultant transaction costs) to reduce their exposure to the transaction.
Financier repayment terms	The repayment profile can be structured to match the income profile of the asset. The transaction can be structured as fixed rate, index-linked or a combination of both.	The rent is fixed at the beginning of the lease and subject to annual increases typically linked to RPI or CPI.
Delivery Vehicle options	Could be used as a financing instrument for various structures.	Limited options available.

- 3.11 The value for money and affordability for PP is greater than that of IS and offers increased flexibility of terms of the deal and timings. Put simply, PP is generally a more attractive financial proposition for funds in the market. In the current market, the PP route is recommended as the preferred funding route, and the IS model is recommended to be dismissed at this stage, owing to its limited economic return and flexibility. This approach has been agreed with the

S151 Officer, following analysis by internal Treasury teams and the financial consultants, 31-Ten.

Delivery Vehicle

- 3.12 Tax and structuring advice have been obtained from KPMG, and a Special Purpose Vehicle (SPV) is recommended due to the ringfencing of risk for the Council, plus additional accounting and tax benefits.
- 3.13 The options for delivering and funding the Hendon Hub project have been narrowed down to the following:
- Using MDX's covenant through an 'orphan' SPV; or
 - Using LBB's covenant through either a wholly owned LBB SPV or an orphan SPV.
- 3.14 An orphan SPV is a separate legal entity that is a stand-alone entity not under the control of another, i.e. it is not a subsidiary of the Council nor any other. The use of orphan SPVs is common in structuring finance transactions, governed by a legal governing document which would include strict requirements on how the SPV should act and contract with various parties. The shareholder of the SPV would typically be a Trust, where a corporate trustee oversees activity.
- 3.15 The trustee would be a professional organisation, such as a bank or a legal firm, that undertakes this service for clients. At the appropriate point in the process, advice from appropriate parties would be sought, and a shortlist of potential trustees prepared who will be assessed on their experience, level of fees and other matters.
- 3.16 The trustee would be appointed during the financing process. LBB, the funding partner and the trustee would agree a 'Governing Document' which sets out the terms of reference for the Special Purpose Vehicle (SPV) which will include the various responsibilities and obligations of the parties.
- 3.17 Once the funding transaction is completed the Governing Document will commence and the trustee will start undertaking their responsibilities under it.

MDX Covenant

3.18 The proposed structure is as detailed in the diagram below, with the current intention to use the orphan SPV to enter into agreements with relevant third parties to:

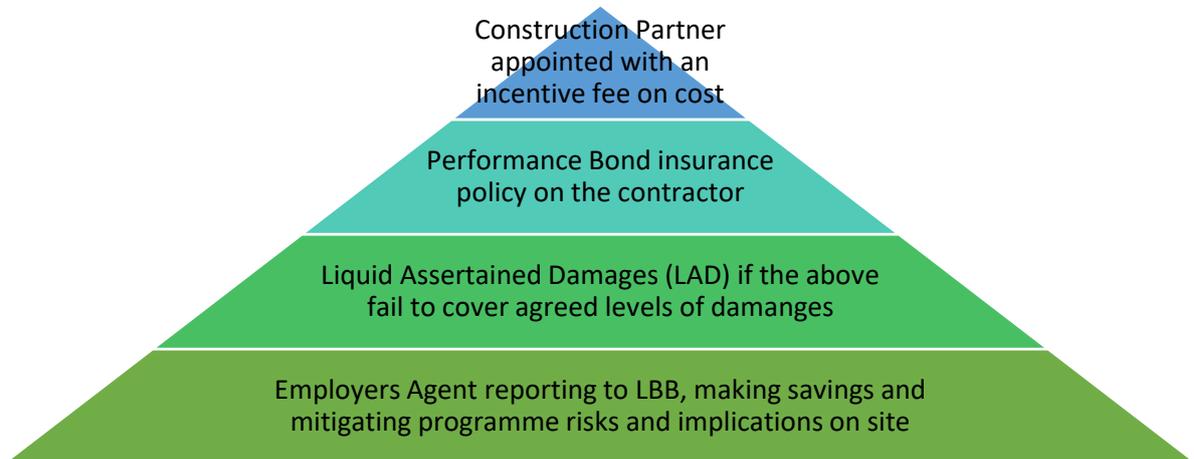
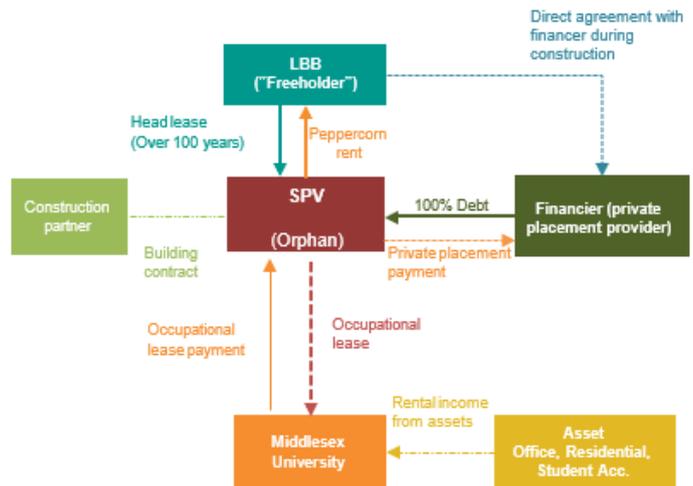
- Borrow money from a financier;
- Enter into a construction contract to carry out the development works; and
- Enter into the occupational leases with MDX.

3.19 Once the development is completed, the SPV would receive rental payments from MDX, as set out in their occupational leases, which would in turn be used to repay the funding partner.

3.20 Upon expiry of the MDX leases, providing the financiers have been fully repaid as expected, LBB would have reversionary rights to the asset for the payment of £1.

3.21 In all scenarios, LBB would be required to provide a guarantee to any financier until practical completion, ensuring the construction project is properly delivered. This would mean that LBB is exposed to the risk of debt payments to the financier during any period of delay to practical completion. It is considered that this risk can be principally backed off to the construction

Standalone SPV Structure: MDX Covenant



contractor through a fixed price contract with a robust security package (liability caps, liquidated damages for delay, performance bonding, substantial contingency on cost and design, etc), summarised in the diagram below.

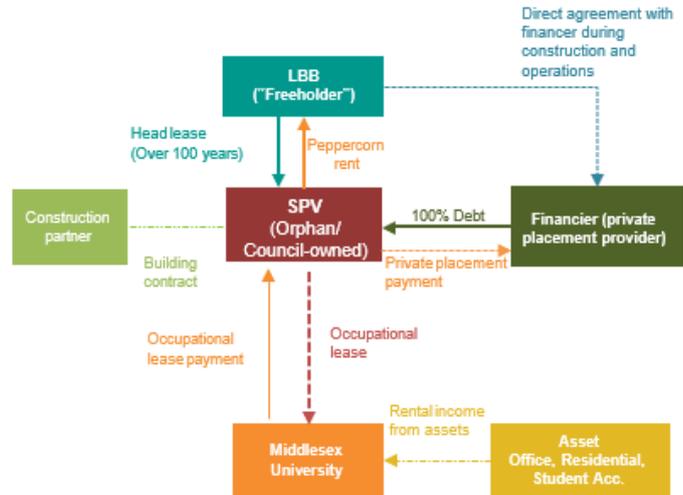
- 3.22 It is recognised that currently, there are many factors creating construction cost uncertainties such as the normal construction risks as well as Covid, with high construction material inflation rates, and labour shortages. The Council have hence wanted to ensure there are adequate construction cost contingencies for general construction risks as well as for inflation. Hence at this stage of the project design development, suitable contingency allowance has been carefully applied which include a 15% general risk contingency and a blended cost inflation rate of 9%.
- 3.23 A range of construction related risks persist that could influence the tender return costs from contractors and final outturn construction costs including market appetite, skills shortages, shortages of good, high quality labour, material shortages, further Covid lock-down risks, ground conditions on site and programme delays due to third parties. Whilst it is not possible to add cost contingencies to cover every eventuality, it is felt that the contingency allowances in place cover the likely market and programme variables and still unknown construction risks.
- 3.24 Under this scenario, once practical completion is achieved, the LBB guarantee would expire, meaning LBB would have no further exposure to the finance for the transaction, i.e. if MDX fail to make lease payments the relationship would be with the funder, not LBB.
- 3.25 Subject to the cost of finance achieved, a cash receipt would be payable by the SPV to LBB upfront (how much of this is payable on contract signature and how much at practical completion is to be determined but would likely be a combination of the two). It has been advised that this receipt would be a revenue receipt that can be drawn down annually over the life of the SPV and until the expiry of MDX's leases.

LBB Guarantee

- 3.26 In the LBB guarantee option, the SPV could be either be wholly owned by LBB or an orphan SPV. As with the MDX covenant above, the SPV would:
- Borrow money from a financier;
 - Enter into a construction contract to carry out the development works; and

- Enter into the occupational leases with MDX.

SPV Structure: LBB Guarantee



3.27 The principal difference under this option is that LBB would continue to guarantee the service of the debt from the SPV to the funding partner(s) for the duration of the debt period (the 40-year leases). In simple terms, this means that LBB would be guaranteeing MDX’s performance under their occupational leases. As local government is considered to be a highly desirable covenant and hence less risky, the cost of debt would be materially lower and LBB would receive a substantially higher upfront cash receipt. Importantly, however LBB would be exposed to the long-term risk of MDX continuing to make payments under the occupational leases over the term.

3.28 In this scenario, the SPV would receive rents from MDX to repay the funding partner(s) and LBB would continue to have reversionary rights to the asset (for the payment of £1) at the end of the leases between the SPV and MDX after the full repayment of the debt to the financier. Suitable risk mitigation measures would be put in place should this option need to be pursued, including retention of receipts covering c.3 years of rental payments to cover potential losses. Risk modelling in the event of MDX default has been conducted and continues to provide positive returns to LBB due to the large cash receipt receivable on the LBB guaranteed approach.

3.29 An LBB controlled SPV would entail group accounts for all merged assets and liabilities for LBB, including those of the SPV.

3.30 Tax advantages, in the case of the LBB guarantee option, arise as the SPV acts as a subsidiary within the LBB tax group so no SDLT is payable by LBB or the SPV. In the MDX covenant option, SDLT is payable but restricted to a proportion of the cash receipt to LBB, net of cost.

Summary and Recommendations

- 3.31 In conclusion, the recommendation in this paper is that the private placement private financing route is pursued with a strong preference for the lower risk MDX covenant structure. If this route is not available at the time of going to market for final funding bids, the LBB Guarantee route will be pursued, but only with the appropriate further approvals.
- 3.32 KPMG have been advising on the transaction to date, specifically on the structuring, and seeking indicative funding offers through the two soft market testing processes that have been undertaken. In order to seek final funding offers, and final structuring advice, a procurement of an advisor will be required to be undertaken under an approved framework due to the size of the potential fee in this regard. This fee will be netted off the final financial settlement from a fund(s). The Committee is requested to approve this procurement. The development of the procurement process, including the negotiation and completion of legal agreements, is requested to be delegated to the S151 Officer, in consultation with the Chairman of P&R.

Conditions for Appointment

- 3.33 KPMG have further advised on the conditions for appointment of a fund that are typical for similar schemes. These include:
- **Development documents** including planning consent, budgeted costs, and due diligence reports
 - **Borrower information** including a certificate of incorporation or equivalent of the borrower, shareholders and guarantor
 - **Financial information** including financial statements of the borrowers, shareholder and guarantor on the date of utilisation and a detailed financial model with forecast
 - **Valuation report and surveys** including environmental reports and rights to light
 - **Insurance** including letter from insurance broker and evidence of professional indemnity insurance of the contractor, consultants, and sub-contractors
 - **Property title and lease documents for all relevant sites**
- 3.34 As such, the delivery of the above are pivotal workstreams and are essential to appoint a funder at the optimal time and receive the refund of costs to date and the cash receipt at the earliest opportunity.

- 3.35 It is likely that a funding partner would take a view on some of the items listed above should they not be achieved by the time funding bids are sought. If not, there is the opportunity for LBB to part-fund the development which would then be refunded by the funder upon appointment, or for funding to be obtained in phases across the scheme. This is not ideal, and the key dependencies for the scheme are being prioritised as workstreams. Further discussions will be had with funders post-FBC sign off and paperwork will be prepared ready to go out to market for the final funding offer at the appropriate time. A detailed reflection of LBB's position based on final offers in this regard will be reported in due course.

Summary

- 3.36 Overall, it is considered that the results from the soft market testing support the dismissal of IS as a potential funding solution based on the current market conditions. As such, a PP deal on both the MDX and LBB covenant is assessed further in the financial case. An SPV delivery vehicle is recommended to deliver tax benefits to LBB, with various incentive fees and performance bonds in place to protect LBB from construction risk.

CONSTRUCTION PROCUREMENT

Introduction

- 3.37 The procurement route for the development is yet to be formally agreed but conversations are ongoing between the project team and board members to ensure that the most appropriate solution is chosen.
- 3.38 At this point in time, the preferred approach is to utilise the Crown Commercial Service (CCS) Framework Lot 4 (£30m-£80m) with a view to appointing a Top 100 Contractor on a JCT 2016 Design and Build Form of Contract via a single stage selective Tender process.

Optioneering

- 3.39 The two procurement options that have been considered by the Team are via public procurement tender or the CCS framework. The advantages and risks of both options are outlined in the table below:

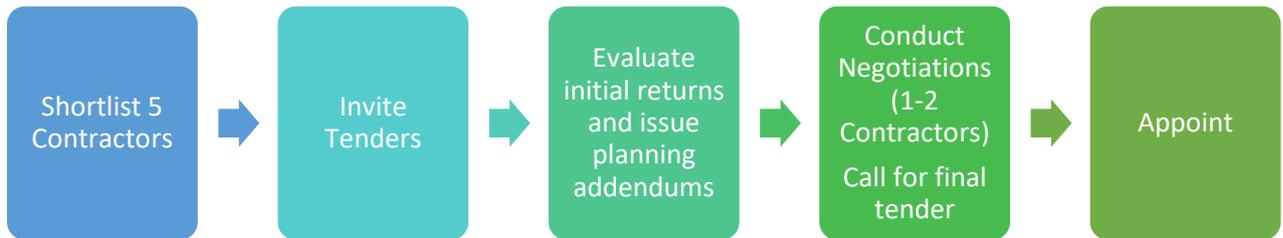
Public Procurement Tender	CCS Framework
Strengths	
Can be tailored to suit the needs of the contract	Reduced resource costs
Open to increased competition as not named by set suppliers	Procurement value supported through engagement with named Top 100 contractors and assisted CCS audits for financial stability
Requirement delivered through competitive negotiation	Pre-qualified contractors on the framework
Weaknesses	
Vulnerable to the market demand	Non framework suppliers cannot participate in the competitive exercise

RISK ANALYSIS	Pros	Cons
CCS Framework	<ul style="list-style-type: none"> Time Cost Reduced risk of challenge from framework contractors Pre-qualified contractors 14 Top 100 Contractors in CCS Lot 4 Suppliers on framework have the skills to deliver a complex procurement such as Hendon Hub 	<ul style="list-style-type: none"> Scoring criteria weighting: Can be +/- 25% on price (25%) and quality (75%). I.e. can not increase price weighting over 50% Reduced pool of suppliers (14no. max) Contractors likely to prefer that a Bill of Quantities is provided by the Employer Contractors do not participate due to preference for 2 stage tender to provide supplier cost certainty
Open Tender	<ul style="list-style-type: none"> Complete flexibility on scoring criteria. Likely to be circa 30no Contractors that are not on a framework but may be interested Requirement delivered through competitive negotiation 	<ul style="list-style-type: none"> Time should negotiation become protracted Cost/resource – increased input (and cost) from procurement, legal and consultancy team Range and capability of experience may not provide assurance for requirement delivery Contractors do not participate due to preference for 2 stage tender to provide supplier cost certainty

3.40 Following market engagement (Expression of Interest) the CCS Framework has been identified as the preferred option due to the reduced resource cost and access to pre-qualified Top 100 contractors, which supports procuring in line with the programme timeline.

Tender Process

3.41 The tender process to appointment on the CCS framework follows a standard process:



3.42 It is the intention of the Project Team to complete a Contractor Selection process leading to a shortlist of 5 Contractors. The Employer's preference is to secure a Lump Sum Contract Price for each of the main primary sites.

3.43 In order to mitigate Project Delivery Risks it has been agreed with the Legal Team that a separate JCT Contract will be required for each of the 3 primary sites, RFC, MC and Building 9 as each of the contracts have different project drivers and deliverables and this was preferred to reduce risks compared to having a single contract with Sectional Completion.

Market Engagement

3.44 The CCS Lot 4 Contractors have been approached to verify that the contractors have the capacity and ability to carry out this contract and to understand their interest and to gauge their preference in relation to either utilising the CCS Framework or following an open market tender. Contractors consensus being that they would prefer to follow the CCS Framework rather than an open tender.

Summary

3.45 The Project Team have presented details of the preferred procurement route to the Project Board and a final recommendation and decision will be made by the project board regarding the procurement route, with involvement and agreement of council members through presentation to the Policy and Resource Committee and Governance Board both of which will be presented at a similar time to FBC sign off and will be reported separately.

SUMMARY

- 3.46 To conclude, at present there is substantial interest in the market to fund this development, which would deliver a lump sum payment to LBB. This is particularly strong in the case of the Council itself acting as guarantor to the deal across the construction period and the subsequent 40-year lease period. There is less interest in funding the deal with MDX as the guarantor on its own, at present, both in terms of the number of investors and the size of potential offer. However, the MDX covenant option is strongly preferred due to the lower risk profile and is recommended to be adopted should this be possible at the time. This evidence is carried forward to the financial case to test the private option against the public option: PWLB.
- 3.47 The commercial case has recommended the dismissal of the income strip private funding model due to the larger financing costs, reduced financial return, with minimal risk alleviation being possible to justify the lower returns.
- 3.48 Assuming the private option is adopted, approval of the recommended SPV delivery vehicle is requested to secure tax savings, subject to approval of the detail via delegated authority to the s151 Officer, in consultation with the Chairman of P&R. It is recommended that the contractor procurement strategy is based on the use of the established CCS framework.
- 3.49 The best funding solution for LBB will be pursued based on best offers and value for money, sought at a relevant time based on market conditions, via a competitive process. As such, the market will continue to be assessed post-FBC up until a satisfactory financial offer for the investment is secured.

Section 4 – Financial Case

INTRODUCTION

- 4.1 The financial case determines whether the proposed development is financially viable and confirms conclusions made in the economic case, assessing PWLB financial performance in comparison to the PP options.
- 4.2 The case is based on the offers received from the latest soft marketing testing, as reported in the Commercial Case, and rigorous financial modelling. All offers are indicative and at this stage and, for the sake of prudence, the lowest end of bids for each of the options have been used in financial modelling. These are provisional until a formal exercise to invite best and final offers is undertaken, following the recommended adoption of this FBC.

OUTPUTS

- 4.3 Based on the financial performance of each option, the recommendation made in the economic case to dismiss PWLB as a funding route is valid in the financial case, with the PWLB approach delivering significantly lower NPV and a deficit to the General Fund in the short term, which is not affordable for the Council through to the medium term. As well as this, the PWLB option still involves 40-years of risk exposure to the Council.
- 4.4 In all options there is a loss of income during construction phase that will be managed through the Growth and Corporate Services Medium-Term Financial Strategy.
- 4.5 Overall, the PP funding approach, based on either covenant, delivers significant return and NPV. Both covenants also have a positive impact on the General Fund across the 54-year period. Currently, the use of the LBB covenant shows greater return but the opportunity to reduce risk exposure through the MDX Covenant offer would ultimately be strongly preferable to LBB.

COVENANT

4.6 The decision between which covenant is preferable is requested to be delegated to the S151 Officer, in consultation with the Chairman of Policy and Resources Committee. The decision will be based on a clear set of criteria that are detailed below.

4.7 Market engagement will be monitored post-FBC on both covenant options. Five criteria have been agreed with LBB Finance to guide this decision:

- **Financial Return to LBB** – the relative financial performance of each covenant in terms of GDV and NPV, and total return to LBB post completion
- **Terms** – the extent to which the terms from the funding partner(s) are agreeable and flexible to LBB
- **Financial Risk** – the potential impact of MDX’s failure to meet rental payments during the operational period of the assets during the 40-year leases
- **Reputational Risk** – funding partners will be checked carefully to ensure that they do not engage in activities that may affect public perception of LBB or impact the Council’s reputation.
- **General Fund Impact** – the relative affordability of both options, determining which approach performs best in LBB’s accounts

4.8 A discussion on the current position against these criteria is as follows:

Deciding Criteria	LBB Guarantee	Middlesex University Covenant
Financial Return to LBB	The LBB covenant is more highly regarded than the Middlesex University covenant by the market, use of the LBB covenant generates the highest financial return	A lower financial return is generated but with a different risk profile
Terms	Soft market testing has demonstrated more competition and interest in the market due to the strength of the LBB covenant. This would be likely to provide LBB more influence over the terms of the deal	At present, only a US investor is interested in a PP deal on the MDX covenant, so the terms are not as strong as with the LBB offers. However, there is evidence of a greater appetite for the MDX covenant since OBC signalling this may further improve
Financial risk to LBB	There is a significantly increased risk in this scenario as there would	Significantly lower financial risk as LBB would have to provide a

	be a requirement for LBB to cover rental payments over the 40-year lease in the event of an MDX default until another occupier took over the leases, e.g. another university.	guarantee across the construction period only, after which their guarantee would end
Reputational risk to LBB	Due diligence would have to be undertaken on funders in both scenarios. Any potential default by MDX has the ability to impact LBB's covenant in the future.	Overseas investors are more unknown regarding reputational risk. Detailed investigation of ethical investment policies and full due diligence will be undertaken in both scenarios. UK investors may improve in the market by the time final funding offers are sought
General Fund impact	More positive across the term years	Still positive, with a significant contribution across the term years

4.9 The strong preference is to fund the deal based on MDX's covenant due to the balance of risk and return. At the point of seeking final funding offers, the market may decide that it does not wish to fund university covenants at the point of seeking final funding offers. In that case there may be no alternative but to pursue the LBB guaranteed option, but this decision will be made at that time, and with the particulars of each deal to hand. Further investigation as to the mitigation of risk would be further modelled in that scenario.

4.10 LBB Treasury officers have approved the principle of the proposed financing route and relevant delegations requested.

4.11 A series of sensitivity tests have been conducted to ensure that this recommendation will hold against changes to the market, such as cost inflation, rental escalation rates, a deduction in the PWLB borrowing rate, and a decrease in offers from the funding market. A series of analysis has also been conducted to assess the impact of MDX default should LBB back the private funding deal. In all instances, the PP route continues to outperform PWLB on balance between risk and return to LBB.

QUANTITATIVE BENEFITS

4.12 The Hendon Hub development is expected to generate significant quantitative benefits in the form of jobs created and safeguarded, and gross valued added (GVA). GVA is the measure of the value of goods and services produced by the development.

Construction

4.13 Approximately 672 construction job years are generated across the development, with the GVA per annum per construction worker calculated to be £49,566. The number of construction years is then multiplied by this GVA per annum, giving a **total construction GVA for the entire scheme of £33.308m.**

4.14 To calculate the number of jobs, the construction job years are divided by the standard assumption of 10 years per full time employee (FTE) to determine the gross number of construction jobs created by the scheme to **total 67 FTEs.**

4.15 HM Treasury Green Book criteria states that in order to assess the true effects of a project, “additionality factors” must be applied. As such, the deadweight, leakage, and other additionality factors as summarised in the table below are then applied to arrive at a **net** number of construction jobs created by the scheme of **40 FTEs.**

Additionality Factor	Definition	Proportion
Deadweight ²⁴	Considers what would happen anyway, without the intervention	0.90
Leakage	Proportion of outputs that benefit those outside of the target area (in this case: Greater London ²⁵)	0.83
Displacement	Proportion of outputs that are expected to cause a reduction in outputs elsewhere within the target area	0.57
Substitution	Where a firm/public body substitutes one activity for a similar one (e.g. recruits a jobless person while another employee loses their job)	0.96

²⁴ Research to Improve Additionality Assessment, BIS, 2009²⁵ Please note that due to limitations on available information, the scope of this assessment has been unable to narrow down to the Barnet level, instead additionality is assessed at a regional level.²⁶ Regional GVA Estimates and Employment rates by industry, London Datastore 2019²⁷ FTE = Full Time Equivalent employee²⁸ These are correct as at today but may change due to market conditions and some of the key dependencies of the scheme changing.

²⁵ Please note that due to limitations on available information, the scope of this assessment has been unable to narrow down to the Barnet level, instead additionality is assessed at a regional level.²⁶ Regional GVA Estimates and Employment rates by industry, London Datastore 2019²⁷ FTE = Full Time Equivalent employee²⁸ These are correct as at today but may change due to market conditions and some of the key dependencies of the scheme changing.

Multiplier Effects	Further economic activity brought about by additional income, local supplier purchases and longer-term development effects	1.46
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Operational

- 4.16 The end-user jobs are the total number of full-time equivalent employment positions **generated** by the scheme post-completion. Job estimations for MDX facilities have been provided by contacts at the Higher Education Institute (HEI). The retail and community space totals have been determined by applying industry standard employment densities.
- 4.17 The gross number of full-time equivalent end-user jobs **created** by the scheme is 24.
- 4.18 The gross number of jobs **safeguarded** is 476. 450 of these safeguarded jobs are existing MDX staff who will be relocated to the new academic spaces, as well as 7 of the current accommodation maintenance staff being employed in the new halls. 16 jobs are safeguarded via the community usage in the scheme with another 3 jobs safeguarded by the proposed Health & Wellbeing services.
- 4.19 Applying the assumed deadweight, leakage etc. from the table above, the net number of jobs **created** by the scheme is 12.12 FTEs.
- 4.20 GVA per employee is calculated from dividing the industry GVA in Greater London for the academic, administration, and accommodation sector (£19.1bn), by the Greater London employment level for this industry (734,300 FTE). GVA per employee is consequently £26,011²⁶.
- 4.21 The annual net GVA contribution from the 12.12 net jobs created by the scheme is £315,267p.a.

Conclusion

- 4.22 Overall, the Hendon Hub generates the following:

²⁶ Regional GVA Estimates and Employment rates by industry, London Datastore 2019²⁷ FTE = Full Time Equivalent employee²⁸ These are correct as at today but may change due to market conditions and some of the key dependencies of the scheme changing.

Quantitative Benefit	Measure
Gross/Net construction jobs	67 FTEs/ 40 FTE ²⁷ s
Gross/Net construction GVA	£33.308m
Gross/Net Operational Jobs	24 FTEs/12 FTEs
Net Operational GVA	£315,267 p.a.
Jobs Safeguarded	476 FTEs
Space Developed	33,550sqm

4.23 An assessment of the qualitative benefits is provided in the management case.

SUMMARY

4.24 Based on the analysis above the recommendation to endorse a PP option in lieu of PWLB is justified based on a larger NPV, higher return, and a positive impact on the General Fund across the 54-year period modelled.

4.25 While at this point use of the LBB covenant shows greater return, the MDX covenant is preferred, should this be feasible in the market, due to its low risk to LBB, i.e. restricted to the construction period.

4.26 The scheme provides substantial financial and economic benefits to LBB and the surrounding area, including job creation, retention, and revenue which will be used to further support services across Barnet.

²⁷ FTE = Full Time Equivalent employee²⁸ These are correct as at today but may change due to market conditions and some of the key dependencies of the scheme changing.

Section 5 – Management Case

INTRODUCTION

- 5.1 The management case provides an update on timescales, project governance, and an overview of the risks and benefits profile of the proposed development.

PROGRAMME

- 5.2 Key dates and milestones for the construction phase of the development are detailed below²⁸, with the project programme attached as Appendix 5. The phasing of the development has been updated to minimise disruption to MDX and community functioning, as well as maximising the pace of delivery, as per the scheme objectives.
- 5.3 Key dates and milestones for the construction phase of the development include:

Milestone	Target Completion Date
Quinta Club Construction	August 2022
Fuller Street Construction	March 2024
RFC Cultural Building	April 2024
RFC Retail/Accommodation	Jan 2025
MC Block 1 & 2	October 2024
MC Block 3	May 2025
MC Block 4	October 2024
RFC Library	October 2024
B9 & Library	June 2025
Landscape Areas	June 2025
Development Practical Completion	June 2025
MDX Relocation Completion	August 2025

- 5.4 The approach to phasing of the planning applications and the programme has changed since the OBC, and it is now proposed that separate planning applications are submitted for each site, post FBC. The OBC programme allowed for 2 phases of planning applications. This has now been revised to a single phased approach to fit with the funders requirements who need planning certainty before lending, together with requirements from the Local Planning Authority who wish to consider the suite of applications as one package, less the provision of

²⁸ These are correct as at today but may change due to market conditions and some of the key dependencies of the scheme changing.

new facilities for the Schools Library Resource Service (SLRS) at the old Quinta Club in Chipping Barnet, which will be delivered separately. The planning applications for the primary sites will now be submitted as a suite of applications in the summer of 2021.

GOVERNANCE AND ASSURANCE

- 5.5 The project team are adhering to LBB's project management toolkit, regularly reviewing internal boards, with weekly update meetings to report on progress.

Governance Structure

- 5.6 The Hendon Hub project employs experts across all relevant disciplines to ensure the optimal scheme is progressed. LBB council officers lead the project with support from a range of property professionals and procurement advisors. In turn, the team is supported by professional service providers, including Legal, Tax, and advisors on the funding market. In addition, there are advisors in business case development and financial modelling, architects, planning, and construction cost consultants. Pinsent Mason are legal advisors, as are HB Public Law.
- 5.7 Internal Governance is regularly carried out and the relevant business cases have been taken to Housing and Growth and Policy and Resources Committees.

Project Assurance

- 5.8 A project assurance plan is in place, outlining key assurance milestones including the phase acceptance criteria for the next stage of the project, along with the controls in place for quality assurance for the project management products. The FBC will be regularly reviewed at each of the milestones below to ensure that recommendations continue to hold. Other deliverables including third party acquisitions are ongoing.

Deliverable	Milestone	Approvals	Actions / Recommendations	Expected Implementation Date (calendar year)
FBC Approval	P&R Committee to consider FBC	P&R Committee	Prepare Full Planning Application if FBC approved	20th July 2021
Agreement for Lease	Middlesex University Sign-off	Delegated at OBC stage to Deputy Chief Exec, in consultation with the Chairman of P&R; Middlesex University Board of Governors	Prepare agreement for lease and sign	Q2 2021
Planning Application	Submission to LBB as Planning Authority	Delegated at OBC stage to Deputy Chief Exec, in consultation with the Chairman of P&R;	Pre-apps now completed. Prepare planning application and submit	Q3 2021
Planning Committee & Satisfaction of Conditions	Planning Committee	Deputy Chief Exec in consultation with Chairman of P&R;	(To be determined by Local Planning Authority)	Est. December 2021
Funding Competition	Receive best and final offers	Proposed to be delegated to the s151 Officer, in consultation with the Chairman of P&R;	Post-planning	Post-planning
Contractor Procurement	CCS Framework (recommended)	Deputy Chief Exec in consultation with Chairman of P&R;	Engage with CCS Framework (see procurement section in the commercial case for process)	Post-planning
Project Completion	TBC	Reporting to H&G Committee	TBD	TBD

Procedure

5.1 Council officers regularly take legal opinion to ensure the appropriate Governance is in place to deliver the Hendon scheme in a legally compliant manor. This includes:

- Legal advice from Pinsent Masons and HB Public Law to confirm LBB has the necessary statutory power to deliver the scheme

- Treasury Management oversight of this activity
- Internal auditors advising and ensuring the right process are followed including due process, conflict checks and procedural checks etc.

Planning Applications

- 5.2 A series of planning applications will be submitted for the project due to the scale of the proposed development, largely one for each site that is included.

Due Diligence

- 5.3 LBB Treasury officers have oversight of the proposals. Pinsent Mason, Eversheds and HB Public Law are advising.
- 5.4 Council officers will ensure that the development is being appropriately resourced and managed at all stages, and legal advisors will have an extensive of oversight of all the various activities.
- 5.5 Further due diligence has continued in the same vein as at OBC, with:
- CBRE have reviewing valuation and inputs to the appraisal in accordance with the Royal Institution of Chartered Surveyors Red Book standard
 - KPMG preparing a report on the structure of the deal and funding options
 - KPMG updated soft market testing for the private funding option
 - Construction costs being prepared and validated by Capita student housing specialist QS team
 - Legal and structuring advice from Pinsent Mason, Eversheds and HB Public Law
 - LBB Finance officers and 31-Ten Consultants validating the financial modelling and FBC preparation
 - Informal discussions with potential construction partners about the delivery of the construction
 - Monthly internal board meetings with the Project Team
 - Regular Project Management Gateway Reviews

Continued Management

5.6 The continued management of assets are summarised below:

Element	Responsibility
One-year defect liability period	<ul style="list-style-type: none"> • Main contractor - who will manage the reporting of any issues during that period • Employer's Agent – monitors till the end of defects and final accounts
Onward management/maintenance of freeholds	<ul style="list-style-type: none"> • Project team - drafting a number of building management agreements for the onward management/ maintenance of the freeholds with respective long leaseholders • MDX (as head leaseholder of academic facilities and student accommodation) - will manage on the freeholder's behalf • Project team - drafting full repairing and insuring tenancy agreements for properties outside of MDX's leases, including Hendon Library, CAB, community uses etc. T
Management of Reactive and Cyclic Works (inc. regular testing and compliance)	<ul style="list-style-type: none"> • The LBB properties are also to be registered to the BMS and Building Services Asset Register who will manage these on an ongoing basis • MDX will register the same for the MDX properties. • All others, including the potential GP Surgery and community uses, are expected to maintain their own spaces as full repairing leases, but this is still to be agreed and subject to the obligations of the CBAT leases

Dependencies

Project Progress

5.7 The successful progression of the proposed Hendon Hub programme is dependent on:

- The recommended sign off of this FBC
- The continued involvement of MDX to the point where an AfL can be executed, in order to enter an MDX covenant-based PP deal (should this be decided) & ongoing
- The acquisition of land and rights from third parties, and surrender of necessary leases
- Planning approval from the Local Planning Authority

- Receipt of consent from the Greater London Authority (GLA) for the RFC development, and listed building and conservation area consent from the National Planning Casework Unit (NPCU)
- An acceptable financial offer from a funding institution
- The ability to procure a construction partner to deliver the scheme within the construction cost estimates

Fund Engagement

- 5.8** The willingness of a fund to engage with the project within an appropriate timeframe, is critical to the success of the project and is detailed further in Section 3. On the project team's behalf, KPMG have had soft-market discussions with funds as part of the soft market testing and are reassured that there is sufficient interest in the market to fund this project and potential flexibility of terms.

Other Projects

- 5.9** It is understood that there are no other ongoing projects or programmes that may conflict with the Hendon Hub scheme at this time.

BENEFITS

5.10 In addition to quantitative benefits, as detailed in the financial case, the scheme would also benefit key stakeholders in the following ways:

Benefit Type	Description	Beneficiary	Expected Value	Date	Owner	Measured by	Baseline Value
Enhancing place in Hendon	Improvement in building quality, place making, public realm New library, community hub, reduction in anti-social spaces, health services	Residents, students, university, LBB	New space delivered inc. 3,060sqm community space, 602 student accommodation units, 61 affordable housing units, 9,600sqm enhanced academic space, 2,980sqm external works	2021-2025	LBB	Residents and Councillor feedback; MDX student satisfaction score – evaluative measures in place to ensure good design (BREEAM Excellent)	Public realm and quality of existing buildings does not match anywhere elsewhere on the Burroughs
Financial	Cash receipt/annual revenue	LBB & Council Services	General Fund Benefits Debt free rental income to LBB from outside MDX leases	2025 onwards	LBB	Receipts	Current value of sites
MDX improvement	Improved student housing, teaching and facilities and academic space – could bolster MDX and improve reputation of university	MDX and MDX students	602 students living near the main campus, with expected increase in student satisfaction	2021-2025	LBB	Student satisfaction score; university feedback; university league tables	Public realm and quality of existing buildings does not match anywhere elsewhere on the Burroughs
Enhanced community facilities	Re-house all existing community uses locally in fit for purpose facilities, creating a centralised hub to maximise usage and optimise offer	Residents and users		2025	LBB	User and resident feedback	Would benefit from enhancement Feedback from Adults & Health
Economic results	Jobs created by the scheme, further spending by students and new residents who move into the accommodation on local goods	LBB & Council Services, and local businesses	GVA from construction jobs and GVA from operational jobs created Increase on estimated MDX GDP contributions (>£289m)	2021 onwards	LBB	Monitoring jobs created by the scheme, local business finances and spending	Would benefit from additional inward investment / council tax income

Student quality of life	Reducing commute time from Olympic Way, Wembley, accommodation (>40 mins) and other sites; accommodation on campus Better quality and higher availability of affordable accommodation	MDX students & environment (reducing carbon footprint from travel)	602 student units provided onsite Net value of facilities enjoyed by MDX students equivalent to net value of entire scheme	2025 onwards	LBB	Student satisfaction score	Quality and location of existing buildings does not satisfy current student needs and desires & is encouraging higher car usage amongst students living in remote halls.
Housing Needs	3 student accommodation units built equivalent to 1 typical housing unit - approx. 200 units contributing towards New London Plan & UK housing demand targets 28 affordable accommodation units + 33 homes for independent living for young adults	LBB, those struggling to access accommodation, GLA, UK	Equivalent of 200 new units provided by the scheme + 61 affordable residential units = 261 units	2025 onwards	LBB	Number of student accommodation units constructed / 3	Latent housing demand of 650 - 1000 purpose-built student accommodation units
Carbon footprint/Environmental benefits	Reduced travel as on campus accommodation provision BREEAM Excellent as minimum Regenerate green spaces	MDX Students, Wider Hendon Area	Carbon emissions savings from students walking to and from accommodation vs transport BREEAM rating	2025 onwards	LBB	Contribution to environmental targets, student surveys	Current emission levels from long travel times
Running costs	Improved efficiency and modern builds reduce running costs in line with OPE objectives	LBB and MDX		2025 onwards	LBB	Annual / monthly spending on the upkeep of accommodation and retail units / academic space	Current facilities' running costs
Further local stimulation and investment	Similar to the Brent Cross development, further investment will be stimulated by the major redevelopment of the area – catalytic effect for projects such as a second Hendon Hub scheme	LBB, residents of Hendon		2025 onwards	LBB	Further OPE applications and workshops regarding additional investment in Hendon and the Burroughs	Value of this investment - multiplier effect applied

Synergy of the area	Site-wide development contributing to improved synergy of area - providing purpose and redefining area Community hub creation to align offer First step to creating campus for MDX	LBB, MDX, MDX students, Hendon residents		2025 onwards	LBB	Residents and Councillor feedback; MDX student satisfaction score	Current occupation of units lacks character and synergy - limited accommodation offer near main campus
Local Taxation	MDX paying business rates on academic offices and Council Tax from the affordable accommodation	LBB	80% full business rates and Council Tax	2023 onwards	LBB	Receival of business rates and Council Tax	
COVID benefits	Design of the scheme to reflect lasting issues that may arise – e.g. requirements for green space	Residents / students / MDX		2025 onwards	LBB	Amount of green space provided / regenerated	Hendon being a greenspace deficit location in the Borough
Upgraded Library Facility	Improved library brought in line with modern demands; improving efficiency and reducing running costs.	LBB, Hendon residents	Demand for additional services and increased footfall	2025 onwards	LBB	Feedback from Library Services	

RISKS MANAGEMENT

- 5.11 A fully comprehensive risk register is updated regularly by the project team, with key issues being flagged at monthly workshops. The master risk register can be found in the attached Appendix 4. The key risks for the project, based on the recommendations made in this FBC, are summarised below:

Risk	Mitigant
<p>MDX Financial Risk</p>	<p>General</p> <p>Higher Education Institutions' (HEI) performance and reputation in the market have seen an improvement since OBC, with greater confidence in the covenants in the higher education sector as vaccinations are rolled out and in-person lectures begin to resume. Although funding institutions have shown a preference for the top 15 Universities, including the Russell Group of HEIs, it is considered that the position of others appears to be more secure as the risks from Covid etc, have become known and are mitigated. At present, no agreement to lease has been signed with MDX. There still remains a risk that this will not be achieved, albeit good progress is being made on agreeing this document and it is anticipated that it will be in a position to be signed shortly. Similarly, this does expose LBB to risk of the rentals not being achieved as predicated in this paper and in the business case. In the case of the deal being aborted it has been agreed that MDX agree to bear half of LBB's costs incurred from March 2020 until the date they withdraw. However, MDX have received their approval from Governors to proceed with the Agreement for Lease on the currently proposed terms. There is, understandably, concern over the strength of university covenants considering the Covid-19 pandemic. MDX's financial year ends on 31st July and it is understood that that they will report a loss of circa £12m for 2020/21. However, £9m of that will be attributable to pension deficits and the University has maintained its cash position. Take up of courses for the 2021/22 financial year appears to be strong, and they are forecasting that they will return to making operating surpluses. In addition, MDX have £85m in cash reserves (140 days cash) so there are no insolvency issues, with predicted operations surplus this year expected to be £5m so MDX finance</p>

	<p>remains strong. This situation will be monitored carefully in conjunction with MDX.</p> <p>Should MDX default the consequences would depend on the structure of the funding deal that is pursued and the conditions at the time.</p> <p>Middlesex University Covenant</p> <p>LBB could release its guarantee to the SPV at practical completion (PC) of the development.</p> <p>LBB Covenant</p> <p>Should MDX fail at any point over the 40-year term of their leases, and another university did not take over MDX and its assets and liabilities, the flexible nature of the building design could facilitate relatively swift conversion to other use types if necessary. Both circumstances have been modelled and assume a 2-year loss of rental, in addition to 12 months' rent-free allowance as an incentive to achieve maximum occupancy of the new space. These are estimated to continue to return a favorable NPV to the PWLB option and further modelling will take place post-FBC if it becomes clear that it is necessary to consider using the LBB covenant.</p>
<p>Programme Delays</p>	<p>Should this occur, necessary adjustments to key workstreams could be made to mitigate any slippages. A workstreams action plan is regularly reviewed in conjunction with the Master programme to ensure all timescales are achievable. The project team provide weekly updates regarding progress. A CPO has been factored into the programme should this be required.</p> <p>There are various conditions that need to be satisfied in order to appoint a funding partner(s) at the desired time, including 3rd party rights or acquisitions, receipt of planning permission and finalization of lease arrangements. These have been identified as key workstreams within the programme. Should delays occur, it has been advised by KPMG that there is likely to be some flexibility in negotiating a restructuring of payments from the fund, with some phrasing of funding being introduced.</p>
<p>Construction Risk</p>	<p>Construction risk will persist until procurement activity and planning applications are arranged. The impact of the Covid-19 pandemic has created market instability that could make it more expensive to supply the</p>

	<p>construction of the development. As mentioned previously, the following are to be implemented post-FBC:</p> <ul style="list-style-type: none"> • Commence procurement of a contractor • 15% contingency on construction cost, 0.5% design reserve contingency maintained • Incentive fee with construction partner and performance bond in place • Recommended early appointment of an Employer’s Agent to oversee the scheme and work with the LBB procurement department to appoint a construction partner to work up the scheme • Sensitivity analysis on cost inflation
<p>Public Opinion</p>	<p>Public consultation has been carried out, with changes made to the scheme as a result, and engagement with local stakeholders and residents will continue throughout. Listen to public concerns and continue to work closely with the local community to mitigate any impacts on, and maximise benefits for, local residents. Proposed FBC scheme updates respond to some public concerns and are aimed to maximise community benefits. Minimise any negative impacts locally during construction by providing method statements and plans coordinated with the local community</p>

SUMMARY

- 5.12 Strong progress has been made since OBC sign-off in relation to the management case for the proposed Hendon Hub development. Risk workshops are held regularly, with project team members communicating risks as they arise, with mitigations set out swiftly and efficiently.
- 5.13 Adherence to the LBB project management toolkit, with regular gateway reviews, evidences that the Hendon Hub scheme’s projected timescales are attainable, and appropriate mitigations are in place to prevent programme delays.

Section 6 – Concluding Remarks

INTRODUCTION

6.1 A comprehensive development of The Burroughs is recommended as being the most suitable option to meet LBB’s strategic objectives. There is public concern over the proposed development, and the project team and Council officers will remain engaged with residents to ensure their voices are heard throughout the development period and beyond.

6.2 This FBC report has fulfilled its 3-fold purpose, as outlined in Section 1, having:

•1. Highlighted and justified changes to the project since OBC

•The changes in scheme composition since OBC are in line with consultation feedback, LBB strategic policy, market conditions, and optimise the opportunity for the Hendon area to realise further benefits from the scheme.

•2. Provided a clear recommendation for approval on the funding approach and delivery vehicle for the project to proceed

•It is recommended that the PWLB and private income strip funding approaches be dismissed due to the poor financial returns and minimal risk mitigation, and a private placement deal be secured on the basis of the MDX covenant due to flexibility of terms and value for money.

○Funding based on the MDX covenant is preferred based on the current market due to the alleviation of significant risk to LBB, with the LBB Guarantee as a suitable back up in case future market appetite does not allow for the preferred option to be executed. This will be regularly reviewed based on performance against the following criterium:

- Return to the Council
- Favourability of terms with funding partner(s)
- Reputational risk to LBB
- Financial risk to LBB
- Impact to the General Fund

3. Requested approval for various matters including delegations to advance the project

The delegations and decisions sought upon sign-off of the FBC have been detailed in the Committee Paper for this report and outline the requested direction of travel for the Hendon Hub development.

RECOMMENDATIONS AND NEXT STEPS

- 6.3 In order to proceed with the scheme, additional capital funding of £4.53m is requested. These are forecast costs to be spent prior to obtaining funding in March 2022. Should the funding date move out, an additional bid for fees may be required.
- 6.4 Further approvals and decisions sought for the scheme are in the main committee paper attached.
- 6.5 Upon sign-off of the FBC, next steps will include:
- Agree and sign Agreement to Lease with Middlesex University
 - Submit a planning application during Q2 of LBB's 2021 financial year
 - Procure a construction partner during Q2 and Q3 of the 2021 financial year and implement other risk mitigation measures
 - Procure a funding partner post planning and monitor the market on an ongoing basis
 - Continue to monitor the MU's financial performance and the appetite from funding partners for their covenant
 - Continue to negotiate with third party interests to attempt to purchase them by private treaty
 - To consider use of appropriation powers

FINAL STATEMENT

- 6.6 In conclusion, Hendon Hub continues to represent a unique opportunity for LBB to transform The Burroughs at scale and at pace, based on its unique assets and character. The business case presented here has shown that a privately funded deal that maximises placemaking benefits for the local community, generates substantial returns to maintain frontline services, and secures the position of assets in the area is achievable.
- 6.7 Commitment at this stage will allow the approved scheme to proceed to planning, with contractor and funding partner appointment to follow.

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07.07.2021	20.07.3032 Hendon Hub FBC July 2021 070721	Final track changes and edits for clearance	HD, SC
01.07.2021	Hendon Hub FBC v1 July 2021	Accepting track changes	SC, HD
30.06.2021	Hendon Hub FBC v1	Input of additional comments	HD, SC, SB
29.06.2021	Hendon Hub FBC Clean Copy	Input of additional comments from initial distribution and further proofreads	HD (SB, SC, RF, GH, HR, NK)
25.06.2021	Hendon Hub FBC Initial Draft for Circulation	Comments from initial circulation amongst team	HD (SC, SB, RF, CS, AC, CS)

Approvals:

By signing this document, the signatories below are confirming that they have fully reviewed the Final Business Case for the Hendon Hub project and confirm their acceptance of the completed document.

Name	Role	Signature	Date	Version

Enter the names and roles of the people who need to sign this document in order to show agreement with the business case's proposal, with space for them to sign it

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.