

Investing in housing development sites and approval of the Barley Homes Business Plan 2019

Report No:	CAB/WS/19/041	
Report to and dates:	Cabinet	26 November 2019
	Council	17 December 2019
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Decisions Plan: **It is not a Key Decision.**

The decision made as a result of this report will usually be published within 48 hours. This decision is not subject to call-in, as the decision is being recommended onto Council. This item is included on the Decisions Plan.

Wards impacted: **All Wards**



Recommendation: It is **RECOMMENDED**, subject to the approval of Council:

- 1) Taking into account the financial and risk implications set out in this report and Exempt Appendix A, Members agree the Barley Homes Business Plan 2019.**
- 2) That in order to bring the Barley Homes Business Plan 2019 into effect:**
 - a. A revenue budget of £350,000 is established to fund the Council's share of costs to progress planning applications for the Mildenhall site and also the development of future pipeline sites;**
 - b. A capital budget of £5m is established, funded from the Investing in our Growth Agenda, to support the issuing of equity and loan financing (to increase the existing £7.5m facility) to facilitate the development of the two additional sites identified in the Business Plan;**
 - c. It is noted that in order to facilitate the developments within the Business Plan, the Council will be required to acquire sites from partners and subsequently dispose of these to Barley Homes.**



1. Context

- 1.1 In September 2018, the (then) West Suffolk councils recognised the importance of Barley Homes to support our future strategic ambitions. As a company 100% owned by West Suffolk Council, it offers the potential to support our strategic priority to deliver housing in our area, whilst also generating a significant financial return from the disposal of land and sale of properties.
- 1.2 At the time, an Interim Business Plan was agreed to take forward the delivery of two sites and simplify the ownership of the Company to support its progress.
- 1.3 Since that time, as reported to members at the Barley Homes AGM in July 2019 (see the Annual Report 2019 on the [Barley Homes website](#)) the company has made good progress in achieving its aims and progressing the sites agreed in its Interim Business Plan at Castle Hill and Westfield, Haverhill for the delivery of 63 homes.
- 1.4 Contracts have been signed for the Westfield site in Haverhill and work will begin in early 2020. Contracts will be signed for the Castle Hill site in January 2020 with work on site from March 2020. These sites in total will bring 63 new homes of which 19 are affordable and could generate a one-off return of up to £1.2m for the Council through a combination of interest receipts and dividends.
- 1.5 In looking at the future of Barley Homes several opportunities and future sites have been identified. Focus is put on two further additional sites for development as part of this business plan, but others are emerging. While more work will be done as part of the plan these sites could bring forward around 118 homes and could generate a further one-off return (capital and revenue) of up to £3.9m to the Council through a combination of interest receipts, dividends and land sale returns. Helping achieve the Council's aims of delivering new and affordable homes, an income for the Council to support investment in our services and better use of the public estate and available land. This is explained further in the report.

2. Purpose of this report

- 2.1 Barley Homes (Group) Limited, referred to in this business plan as Barley Homes, was established in February 2016 as a company limited by shares. Following the Interim Business Plan agreed by councils in 2018, and the creation of West Suffolk Council on 1 April 2019, it is now 100% owned by West Suffolk Council (referred to in this business plan as "the Council"). The primary function of Barley Homes is to generate capital and revenue income through the sale of council owned land and the development of new housing for sale in the West Suffolk area.
- 2.2 When the business plan and governance arrangements for Barley Homes were reviewed in September 2018, it was agreed that a further business plan would be considered in 2019. This would provide the opportunity to re-evaluate the role of Barley Homes in terms of delivering housing for future sites.



- 2.3 With the current sites now well progressed, it is an opportune time to review the future role of the Council and Barley Homes in the delivery of housing in West Suffolk and grasp the opportunities available at this stage.
- 2.4 The intention is that Barley Homes should seek to develop land owned by the Council, by our One Public Sector Estate partners or on the open market, and then add value through developing the land to provide housing for sale on the open market and affordable home sales through a registered provider (RP).
- 2.5 As a principle, it is expected that the sites Barley Homes develop should seek to be compliant with the Council's planning policies in ensuring affordable housing is delivered and commitments to the wider public sector (such as education contributions) are met. It is a core duty of the Directors to act in good faith to promote the success of the company for the benefit of its shareholders; as such, Barley Homes is able to consider the balance the Council, as its shareholders, faces; the need to deliver a financial return, the need to be policy compliant, and the need to deliver houses in the area. This means that Barley Homes has the potential to deliver sites in a different way than might be delivered by a private sector owned housebuilder.
- 2.6 Barley Homes will require funding to acquire the land from the Council; to undertake its development activities; and, in the longer term, to support its property investment and development business. Such funding provides a means for the Council to obtain income from Barley Homes, through interest (loan facility) and dividends (equity).
- 2.7 This report seeks to set out the current development proposals being put forward for Barley Homes; the longer-term approach to developing a pipeline of developments for Barley Homes and seeks Council's endorsement to the funding necessary to deliver these proposals.

3. Development of the Business Plan

- 3.1 In order to support the development of the Business Plan, officers have undertaken a wide range of work to evaluate potential development sites, consider the financial implications arising from the sites and consider the governance arrangements in place. This work has been set in the context of the Council's emerging strategic framework and Medium Term Financial Strategy (MTFS).

Strategic Case: Barley Homes and other delivery models

- 3.2 The Council's MTFS recognises the challenges ahead in delivering a sustainable budget and the need to replace decreasing central government grants with locally generated income streams. As such, it is important the Council continues to explore opportunities to deliver a financial return to support the investment in and the delivery of services.
- 3.3 Nationally, the need for new, sustainable housebuilding is widely recognised, reflected in its continued priority in national policy. Not least from the introduction of the housing delivery test in the National Planning Policy Framework in 2018. This reinforces the expectation that councils continue to play a pro-active role in supporting housing delivery.



- 3.4 Housing has been recognised as a priority for West Suffolk, and the Council's draft Strategic Framework and its housing strategy includes commitments and actions to support this.
- 3.5 Similar to many other councils, West Suffolk Council has created a housing company, providing an opportunity to consider how it can utilise its and other public assets in order to support this strategic priority.
- 3.6 The Council's Asset Management Strategy and Plan refers to its role in acquiring, developing and managing suitable assets for housing. The Council will continue to use its expertise to create a pipeline of sites for housing, which includes maximising value by securing planning consent. It will also work with other public sector partners in order to support delivery of shared outcomes as appropriate across the One Public Sector Estate. The Council may use a number of ways to deliver housing on public land, including Barley Homes.
- 3.7 Barley Homes is wholly owned by West Suffolk Council (since October 2018). This has placed the Council in control of shaping the strategic direction of its company, whilst still allowing it to benefit from having an independent company status. As set out in previous business plans the Council can continue to achieve returns through loan interest payments, dividends (profits of Barley Homes), the provision of support services and where relevant, land sales.
- 3.8 Over the past year, following simplification of the governance structure, Barley Homes has been able to make significant progress in procuring sites, obtaining planning permission and commissioning contractors for its two existing sites.
- 3.9 As such, it is recommended to continue, at this stage, with the current delivery model of a 100% owned company. However, this would not prevent the opportunity to consider alternative models in future should the need or opportunity arise on a case-by-case basis.

Future Sites

- 3.10 Whilst the proposed business plan focuses on bringing forward two new sites (in addition to the two sites currently under development), work has been undertaken to assess other future development opportunities for Barley Homes, referred to as the pipeline.
- 3.11 Maintaining an ongoing review of the pipeline will be increasingly important to West Suffolk Council to ensure Barley Homes can achieve the Council's ambitions in terms of housing delivery and financial return. It will help provide a clear and secure footing for the future, providing continuity for future business plans, which will be presented on an annual basis.
- 3.12 Pipeline sites will consistently be appraised against the criteria as set out below, but there is also the opportunity to review against emerging themes from the current Taskforce reviews; for example, seeking opportunities to deliver rural exception sites (rural taskforce) and identifying how sites can be developed in the most environmentally sustainable way (environmental



taskforce). There may also be opportunities to evaluate how housing can be developed bearing in mind wider health and wellbeing considerations such as specialist housing to support our ageing population.

- 3.13 Present opportunities being evaluated include sites emerging from the OPE programme; sites for sale on the open market, and earmarked sites which not been developed or have stalled.
- 3.14 Officers remain mindful of potential funding opportunities to develop non-viable or brownfield sites and will continue to explore how such funding can be obtained and used.
- 3.15 Over the longer term, there is also the potential for Barley Homes to acquire additional or new areas of development, for example:
 - Acting as a registered provider of rented accommodation
 - Private sector rented accommodation
 - Commercial build and rent
 - specialist accommodation provider

Initial Appraisal of Sites

- 3.16 In order to evaluate sites for the present business plan, a development proposition and financial model was developed for each site against the following criteria. This also took account of the role and purpose of Barley Homes as outlined above.
 - Strategic fit – sites that offered the potential to fit to the wider West Suffolk strategic priorities
 - Financial return – sites that are most likely to deliver a financial return for Barley Homes and thereby West Suffolk Council whilst delivering planning compliant scheme
 - Identified sites in the local plan – sites that are already allocated and thus have received endorsement from the Council
 - Land ownership – a preference for sites with current public sector ownership (greater weight where owned by West Suffolk Council and are operationally surplus to requirement), ensuring the development benefits are maintained within the sector for the wider public good;
 - Location – ensuring that a range of sites are considered across the West Suffolk area
 - Speed of land assembly and delivery – sites that are likely to be more deliverable
- 3.17 Sites were then subject to a preliminary due diligence exercise to evaluate potential challenges, which has included reviewing or obtaining:
 - Title covenants
 - Initial housing capacity
 - Obvious planning constraints
 - Ground conditions (topographical)
 - Graded buildings on site or near by
 - High level financial appraisal.
 - Initial planning advice



- 3.18 Following this process, at this stage the Shareholders Advisory Group has prioritised two specific sites to be included in the proposed business plan.

Summary of sites

- 3.19 The details of the sites are included in the business plan (Appendix A) and are forecast to deliver an additional (over and above the existing two Haverhill sites) 118 homes, 30% of which will be affordable, and all built to the government's minimum size standard. These are delivered across two sites, one in Mildenhall and the other near Bury St Edmunds.
- 3.20 In recommending these sites, it was noted that this would contribute to the geographical reach of Barley Homes, adding to the committed two sites in Haverhill. Combined, these will generate a steady build out rate, delivering 181 homes over a five year period, starting in Autumn 2019.

Land assembly and planning

- 3.21 The sites are currently in the ownership of the wider Public Sector Estate. The Council has undertaken work to assemble the land for one site and is in advanced stages of gaining a signed memorandum of understanding with landowners. Should there be any difficulties around land assembly The Council would explore the potential of a smaller site with partners. The other site has a deal in principle with heads of terms in development. As part of any agreements, partners are responsible for meeting their share of the planning and demolition costs (where relevant). Subject to approval of the business case, West Suffolk Council will then undertake the work to secure detailed planning consent for both sites. A budget of £350,000 is requested to enable the Council to pay its share of the planning costs, and costs associated with appraisal of future pipeline sites for Barley Homes to be developed.
- 3.22 On each site, the share of costs is calculated with reference to the proportion of the site that each partner owns. A sale price for each site has been calculated, and should this business case be agreed, the Council will proceed with purchasing the partners' land. Should planning permission be granted, the Council will then dispose of the sites to Barley Homes.
- 3.23 The details of the sites, and development proposals, are included at Appendix A to this report, Barley Homes Business Plan.

4. Financial Implications for West Suffolk Council

Impact on Medium Term Financial Strategy

- 4.1 The Council's current MTFS has income assumptions for both interest receivable and dividends from Barley Homes relating to the initial two sites (Westfield and Castle Hill). As part of the 2020/21 budget setting process, these assumptions will be reconfirmed, along with their timing and updated accordingly as part of the 2020/21 budget setting process.
- 4.2 It is proposed that that any dividend income (profit distribution) from the two new proposed sites would only become part of the Council's medium term financial plans once Barley Homes had gained planning consent and the



construction costs are known through a market procurement process. This provides greater certainty for our financial plans that these sites will progress, and what the financial returns are likely be.

- 4.3 The likely interest receivable on the loans to Barley Homes will be assessed and factored into the Council's financial plans as part of the annual budget setting process taking into account the already assumed 1% return from the investing in our growth agenda fund.

Financial Resources

- 4.4 The investment required to deliver the two initial sites, plus the two new sites detailed above and the expected returns to be achieved are summarised in section 6.2 of the Barley Homes Business Plan (Exempt Appendix A). It is important to note that all of the figures contained in the business plan are based on the current modelling including desk top appraisals so there may be variations in both the costs and receipts in the final scheme delivery, as planning is sought and a contractor is procured. A sensitivity and risk analysis for Barley Homes has been undertaken and is included within the Business Plan (sections 10.3).
- 4.5 The total funding required by Barley Homes for the four sites over the next five years amounts to £9.6m, through a combination of equity and loan debt. This relates to the peak financial exposure of Barley Homes in Q3 2022/23. It should also be noted that the current approved Capital Programme for West Suffolk includes an allocation of £7.5m towards investment in Barley Homes (report CAB/JT/18/032) for the two existing sites. An additional £5m would need to be made available, taking the facility up to £12.5m, from the Investing in our Growth Agenda fund to facilitate the delivery of the additional two sites and the overall Business Plan at Appendix A. This total investment facility would allow Barley Homes to cover its peak funding requirement, as well as allowing for any cash flow risk through a contingency for slippage in sales or build out rates that potentially could occur. Across all four sites this investment could deliver a one-off return (capital and revenue) of up to £5.1m through a combination of interest receipts, dividends and land sales.
- 4.6 As detailed in the Business Plan (and previous business plans) all of the development loan funding will be repaid by Barley Homes. However, there will be a long-term equity (share purchase) funding requirement for investment of around £3.125 million (25% of total funding requirement) from West Suffolk in order to comply with state aid and HMRC tax rules. The Council has recently taken advice regarding the split between equity and loan financing and this level of equity to debt financing is seen to be typical of a house building company. The equity element of the investment will facilitate the delivery of the business plan, it will not generate an annual financial return for the Council however it will act as an investment and will sit on the Council's balance sheet as an asset.
- 4.7 West Suffolk will also need to create a revenue budget provision to facilitate the spend required to gain planning permission on the allocated sites (estimated at total cost of £237,000), as well as allowing for costs associated with feasibility appraisals on potential future pipeline sites. It is proposed to



establish a budget of £350,000 for this purpose, to be funded from the Council's Strategic Priorities and MTFS Reserve.

5. Operational and Governance Implications for West Suffolk Council

Day-to-day Operations

- 5.1 On a day-to-day to basis, the Council provides officer resource to support the running of Barley Homes. Two officers are appointed to act as Directors of Barley Homes, and support services are commissioned by Barley Homes including finance, IT and marketing support. The costs for this work are re-charged to Barley Homes. Barley Homes will commission specialist supports as it requires from external providers.
- 5.2 A lead officer is appointed by West Suffolk Council to act as a point of liaison between the Council and Barley Homes. Periodic meetings are held between officers acting on behalf of Barley Homes, and officers acting on behalf of West Suffolk Council, to discuss progress made and understand how both organisations can support each other most effectively.

Governance

- 5.3 In September 2018, a new governance structure was agreed. This provided clarity on the role of officers, acting as Directors, and the role of the Councillors, as shareholders. Amendments were made to governing documents in September 2018, reflecting the change to governance arrangements, and in April 2019, to reflect the new Council.
- 5.4 The Shareholder Advisory Group (SAG) acts as the primary liaison between Barley Homes and the Council. It is an opportunity to ensure that Barley Homes is delivering against its objectives, whilst also evaluating ways in which the Council and Barley Homes can support each other. Its role and purpose is embedded in a Shareholder Agreement, which formally establishes the nature of the relationship between the two parties.
- 5.5 The SAG is comprised of the Portfolio Holder for Housing, the Portfolio Holder for Finance and Resources, and the Leader of the Council. In addition, the Chair of the Overview and Scrutiny Committee, and the Chair of the Performance and Audit Scrutiny Committee attend SAG meetings as observers, enabling the Scrutiny function to monitor the operation of SAG and Barley Homes. The Chair of the SAG provides periodic updates to all councillors on the work of Barley Homes.
- 5.6 Barley Homes holds an Annual General Meeting (AGM), which is open to all Councillors and the public to attend. This year, the AGM took place in July, where a number of Councillors attend and were able to discuss the Annual Report and Statement of Accounts and ask questions to the Directors and Chair of the SAG.
- 5.7 In compiling the business plan, the governance arrangements between the Council and Barley Homes have been reviewed against the Lawyers in Local Government's Code of Practice for Local Authority Companies, which indicated



that the current arrangements benchmark well against the Code of Practice for a company of its size.

- 5.8 Given that the existing arrangements reflect good practice in the operation of council companies, it is not proposed to make any further amendments to the governance structure at this stage.

6. Risks for West Suffolk Council

- 6.1 Both the original business case to create Barley Homes, and the subsequent 2016 five-year business plan, identified specific risks alongside the opportunities that Barley Homes creates. These risks were re-appraised in the 2018 Interim Business Plan.
- 6.2 Although a more formal risk assessment is provided below, house prices and build costs remain a significant risk to any housing development, and thus the Council's ability to obtain a financial return from Barley Homes.
- 6.3 Local, regional and national trends are frequently monitored to evaluate potential changes and how these may impact on costs and levels of returns achievable from developments. Should a significant negative change in trend emerge, options will be assessed to evaluate the way forwards and if necessary, further reports provided on the recommended way forwards.



Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
Assumptions in the Business Plan are not achievable or realistic	High	The revised values have been produced based on independent advice received by the Council (This has been updated using latest construction cost and market value estimates) alongside additional external advice commissioned by West Suffolk Council, including cost Consultants and valuation services. Given the nature of the housing market, the risks associated are inherently high, however regular reviews of development appraisals will be carried out by the council and Barley Homes to monitor the overall risk level, as the scheme progress through planning and development.	Medium
Insufficient regular monitoring of performance of Barley Homes against Business Plan by shareholders	Medium	The report sets out the proposed council governance arrangements for Barley Homes, in particular proposing robust quarterly reviews of progress through to the Shareholder Advisory Group. West Suffolk Council has an officer responsible for liaison with Barley Homes Directors and working closely with them to ensure Barley Homes are meeting their targets.	Low
Uncertainty over costs and income in the housing market, particularly in light of Brexit mean the Business Plan is not achievable	High	Sensitivity analysis undertaken during the appraisal stage giving fluctuation market values. Also see risk section of Barley Homes Business plan	Medium
Further viability challenges emerge on sites or difficulty with land assembly mean sites cannot be delivered	High	The Council will seek to explore options to develop sites where such challenge emerges, for example seeking funding from external sources to resolve viability challenges or compulsory purchase to ensure sites are developed	Medium
Changes in public sector borrowing rates	Medium	The Council is working with the LGA to lobby government to ensure that any changes to public sector rates are	Medium



mean anticipated returns cannot be achieved		minimised. Potential alternative funding such as the Municipal Borrowing Agency would be explored if necessary.	
Failure to agree land sale with OPE partners.	High	<p>Early liaison with OPE partners regarding land sale agreements is paramount so all parties understand how the deal is to be constructed and the numbers involved.</p> <p>Initial land valuations will take place by the council commissioning external valuers to assist with costings and then share with partners on an open book throughout the process.</p> <p>Encouraging OPE partners to view the wider strategic view of developing out sites in partnership prior to agreement.</p> <p>Options remain available for re-working of site layouts to complete alternative developments should land sale not be agreed.</p>	Medium

6.4 Crime and Disorder

Empty brownfield sites can attract anti-social behaviour and the criminal behaviours that are associated. By approving this Business Plan the Council would help to ensure such risks are minimised.

6.5 HR / Staffing

As part of its investing in growth agenda the Council has invested in resources who have the expertise to develop a housing pipeline. As appropriate Barley Homes commission required in-house skills by service level agreement.

6.6 Impact on other organisations (e.g. community groups, businesses, partner organisations)

It is envisaged that local communities and parish councils will be engaged as part of the planning and development processes.

Where necessary consultation with community groups will shape the development.

7. Appendices

(Exempt) Appendix A – Barley Homes Business Plan 2019-2024



8. Background documents

Business Case for Establishment of a Housing Development Company:

[COU/SE/15/031](#) (SEBC)

[COU/FH/15/036](#) (FHDC)

Barley Homes – 5 year business plan:

[OAS/SE/16/028](#) (SEBC)

[OAS/FH/16/030](#) (FHDC)

Barley Homes Group Annual Report 2018:

[OAS/SE/18/004](#) (SEBC)

[OAS/FH/18/004](#) (FHDC)

Barley Homes Interim Business Plan 2018:

[CAB/JT/18/032](#) (Joint Executive (Cabinet) Committee)

