

Barley Homes: Business Plan 2020

Report number:	CAB/WS/20/079	
Report to and date:	Cabinet	8 December 2020
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Decisions Plan: The decision made as a result of this report will usually be published within 48 hours and cannot be actioned until five clear working days of the publication of the decision have elapsed. This item is a Key Decision and is included on the Decisions Plan.

Wards impacted: All

Recommendation: It is recommended that Cabinet:

1. Taking into account the financial and risk implications set out in Report number: CAB/WS/20/079 and Exempt Appendix A attached, approves the Barley Homes Business Plan 2020.
2. That in order to bring the Barley Homes Business Plan 2020 into effect:
 - a. A further £60,000 be allocated to support the costs of progressing the Great Barton and Rougham sites and the development of future pipeline sites, funded from the Investing in our Growth Fund.

- b. The existing investment fund available to Barley Homes be increased by £1.75 million to a total of £14.25 million to facilitate the developments within the Business Plan, funded from the Investing in our Growth Fund.**

- c. It be noted that in order to facilitate the developments within the Business Plan, the Council will be required to acquire sites from One Public Estate partners and the market, funded from the £14.25 million investment fund and subsequently dispose of these to Barley Homes at market value at the time of sale.**

1. Context to this report

- 1.1 In December 2019 West Suffolk Council approved an annual business plan for Barley Homes and a capital budget of £5 million, funded from the Investing in our Growth Fund, to support the issuing of equity and loan financing to facilitate the development of two additional sites. This was in addition to an existing facility of £7.5 million, taking the total investment fund available to Barley Homes to £12.5 million.
- 1.2 Since the Business Plan was approved by Council in December 2019, as reported via the Annual Report 2020 (on the [Barley Homes website](#)) the company has made good progress in achieving its aims and progressing the sites agreed in its Business Plan at Castle Hill (now Stonemill Park) and Westfield (now Westmill Place), Haverhill, for the delivery of 63 homes, of which 19 are affordable. The two sites, combined, could generate a one-off return to the Council on its investment of up to £1.2 million (on top of repayment of a loan balances). Construction is now underway on both sites.
- 1.3 Following the agreement of the 2019 business plan, work was undertaken to progress the two further sites agreed, at College Heath Road, Mildenhall, and School Lane, Great Barton, as well as continuing to explore future sites for development.
- 1.4 As a result, several opportunities and future sites have been identified and are being explored in line with the principles set out in 2.1.2 and 2.1.3 below. As is the case with housing development some of these sites have become worth pursuing some did not. This report seeks Cabinet support to enable Barley Homes to progress both existing and new opportunities as set out in the Business Plan 2020.
- 1.5 **The operation of Barley Homes (Group) Limited**
- 1.5.1 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 creation of West Suffolk Council on 1 April 2019, it is now 100 per cent 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.
- 1.5.2 Barley Homes seeks 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).

- 1.5.3 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 West Suffolk. 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.
- 1.5.4 Barley Homes requires 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 (from its loan facility) and dividends (from the Council's equity investment).
- 1.5.5 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.

2. Proposals within this report

2.1 The development of the Business Plan 2020

- 2.1.1 The proposed business plan focuses on development of the two sites currently in progress; bringing forward two sites identified in last year's plan and progressing a new opportunity that has arisen.
- 2.1.2 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 strategic framework and Medium-Term Financial Strategy (MTFS).
- 2.1.3 In presenting the 2019 Business Plan, officers developed a set of appraisal criteria in order to evaluate potential sites (as referenced in the Cabinet report CAB/WS/019/41, paragraphs 3.16 and 3.17). Sites are selected based on these criteria and then progressed within the Business Plan.
- 2.1.4 The details of the identified sites are included in the business plan (Exempt Appendix A). The Business Plan proposes to progress an additional site at Rougham in addition to the two sites at Haverhill, and

the sites identified in the 2019 Business Plan in Mildenhall and Great Barton. West Suffolk Council has submitted a provisional offer for the site at Rougham, which comes with outline planning permission for up to 13 units and is on a plot approximately 1.8 acres (0.74 hectares).

- 2.1.5 As below, a development appraisal is currently being progressed in respect of the Mildenhall site, which will refine the numbers, next steps and timescales. Excluding this site, the four other sites in the Business Plan will generate a steady build out rate, delivering (subject to the planning process) 118 homes between February 2020 and 2023/24.

2.2 Land assembly and planning

- 2.2.1 The Mildenhall site is currently in the ownership of the wider Public Sector Estate. The Council has undertaken work to assemble the land for this site and engage in collaborative working with the One Public Estate landowners. As is set out in the Business Plan, a site consisting of land owned by West Suffolk Council, the NHS and Suffolk County Council has been agreed and are we are in the process of creating a development appraisal to achieve a policy compliant development on the site.
- 2.2.2 The Council has progressed pre-planning work for the Great Barton site, which has been allocated in the former St Edmundsbury adopted Local Plan. This has included work on the adjacent "triangle" site with Suffolk County Council, and representations to the Great Barton Neighbourhood Plan. Work is now progressing on the development brief, which will further flesh out the detail as we engage with stakeholders and local community, prior to submitting a planning application. The Neighbourhood Plan for Great Barton has been commented on by the Inspector and is awaiting responses from West Suffolk prior to being put forward for a community referendum. The development brief is in the process of being prepared with full consultation throughout with stakeholders within the community.
- 2.2.3 The Council is also seeking to purchase a site in Rougham, details of which are included in the Business Plan.
- 2.2.4 In addition to these sites, present opportunities being evaluated include sites emerging from the One Public Estate programme; sites for sale on the open market, and earmarked sites which have not been developed or have stalled.

2.3 Financial Implications for West Suffolk Council

- 2.3.1 As part of the 2021/2022 budget setting process, the Council's current MTFS income assumptions for both interest receivable and dividends from Barley Homes relating to the initial two sites (Westmill Place and

Stonemill Park) will be reconfirmed, along with their timing, and updated accordingly as part of the 2021/22 budget setting process.

- 2.3.2 It is proposed that that any dividend income (profit distribution) would only become part of the Council's medium term financial plans once there is greater certainty on the returns to be achieved from Barley Homes as sites progress.
- 2.3.3 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 one per cent return from the Investing in our Growth Fund.
- 2.3.4 The investment required to deliver the two initial sites, plus the pipeline sites 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).
- 2.3.5 The total funding required by Barley Homes over the next five years amounts to £14.25 million, through a combination of equity and loan debt. This relates to the peak financial exposure of Barley Homes in quarter three 2022/2023. It should also be noted that the current approved Capital Programme for West Suffolk includes an allocation of £12.5 million towards investment in Barley Homes (Report number: CAB/JT/18/032) for the previously identified sites. An additional £1.75 million would need to be made available, taking the facility up to £14.25 million, from the Investing in our Growth Fund to facilitate the developments within 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. This investment could deliver a one-off return of up to £3.8 million through a combination of interest receipts and dividends.
- 2.3.6 As detailed in the Business Plan (and previous Business Plans) all of the development loan funding will be repaid by Barley Homes. As highlighted above, the Council funds Barley Homes through a mixture of loans (debt) and shareholdings (equity). At present, the debt/equity ratio is under review, taking into account advice received and ensuring compliance with HMRC expectations. For clarity, the equity elements of the investment facilitates delivery of the Business Plan and supports the viability of Barley Homes as a standalone company but does not generate an annual financial return for the Council in its own right. It is reflected as an asset in West Suffolk Council's balance sheet.

2.3.7 In the previous Business Plan 2019, West Suffolk allocated a revenue budget of £350,000 to facilitate the spend required to gain planning permission on the allocated sites, along with feasibility appraisals on further pipeline sites. West Suffolk have advanced considerably the sites identified in the previous business plan as well as identifying other potential sites for Barley Homes developments. Due to the addition of the site at Rougham this budget requires to be increased by £60,000 to cover the planning permission costs. This will be funded from Investing in Growth revenue reserve.

2.4 **Operational and Governance Implications for West Suffolk Council**

2.4.1 The business plans for 2018 and 2019 established the day-to-day operating model and governance structure for Barley Homes, setting out expectations in terms of the working relationship between the Council and Barley Homes.

2.4.2 Unfortunately, due to the coronavirus restrictions, it was not feasible to hold the Barley Homes AGM this year, however a copy of the company's annual report was made available to members. Otherwise, the governance arrangements continue to reflect recognised good practice.

3. **Alternative options that have been considered**

3.1 The exempt business plan sets out how Barley Homes, working with the Council, has evaluated potential development opportunities. Opportunities that do not meet the criteria, based on the principles set out in 2.1.2 and 2.1.3 above, and the evaluation method established in the 2019 report CAB/WS/19/041 have been discounted.

4. **Consultation and engagement undertaken**

4.1 The proposals within this report have been developed in consultation with the Shareholder Advisory Group, namely the Leader of the Council, Portfolio Holder for Housing and Portfolio Holder for Resources and Performance. Their meetings are attended by the Chair of the Overview and Scrutiny Committee and the Chair of Performance and Audit Scrutiny Committee.

5. **Risks associated with the proposals**

5.1 A formal risk assessment is provided in Appendix B, 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. Similarly, the impact of COVID-19, proposed changes to planning policy

and the exit from the EU remain a risk and will need to be monitored closely.

- 5.2 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 forward and if necessary, further reports provided on the recommended way forward.

6. Implications arising from the proposals

6.1 Crime and disorder

Bringing empty brownfield sites can play a role in managing anti-social behaviour. Although there were no known current risks with the sites in this context.

6.2 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.

6.3 Impact on other organisations (for example, 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 referenced in this report

- 7.1 Exempt Appendix A: Barley Homes Business Case 2020
7.2 Appendix B: West Suffolk Council Risk Assessment

8. Background documents associated with this report

- 8.1 Business Case for Establishment of a Housing Development Company:
[COU/SE/15/031](#) (SEBC)
[COU/FH/15/036](#) (FHDC)

- 8.2 Barley Homes – five-year business plan:
[OAS/SE/16/028](#) (SEBC)
[OAS/FH/16/030](#) (FHDC)

- 8.3 Barley Homes Group Annual Report 2018:
[OAS/SE/18/004](#) (SEBC)
[OAS/FH/18/004](#) (FHDC)

- 8.4 Barley Homes Interim Business Plan 2018:
[CAB/JT/18/032](#) (Extraordinary Joint Executive (Cabinet) Committee)

- 8.5 Barley Homes Business Plan 2019:
[CAB/WS/19/041](#)