

REPORT TO:	CABINET 20 February 2017
AGENDA ITEM:	8
SUBJECT:	Brick by Brick Development Company - Business Plan
LEAD OFFICER:	Shifa Mustafa, Executive Director Place
CABINET MEMBER:	Cllr Alison Butler, Cabinet Member for Homes, Regeneration and Planning Simon Hall, Cabinet Member for Finance and Treasury
WARDS:	All
CORPORATE PRIORITY/POLICY CONTEXT/ AMBITIOUS FOR CROYDON	
<ul style="list-style-type: none"> • Maximise the use of the Council's assets to deliver new homes, including affordable housing, private for sale and private rented stock. • Enable an innovative commercial model which will benefit the Council financially and help meet savings targets. • Brings forward the development of key sites across the borough addressing key local, regional and national policies. • Secures improved community facilities. 	
FINANCIAL IMPACT	
Brick by Brick's development activity will have a positive financial impact for the Council as 100% shareholder in the company.	
This income generated from the Council will be from three key elements of activity as detailed in section 5 of this report.	
FORWARD PLAN KEY DECISION REFERENCE NO.: this is not a key executive decision	

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below

1. RECOMMENDATIONS

- 1.1 That Cabinet, on behalf of the Council as sole shareholder of Brick by Brick Croydon Limited ("**BXB**"), approves the proposed 2017/2018 Business Plan of BXB as set out in Appendix A of this report.

2. EXECUTIVE SUMMARY

- 2.1 This report sets out the draft Business Plan for BXB for 2017/2018 (the "Proposed Business Plan"). In accordance with BXB's Articles of Association, this is required to be approved by the Council (as sole shareholder) before being formally adopted by the BXB Board. The report builds on a number of previous reports which considered the shortage of homes in the borough and recommended the establishment of BXB as a means by which the company could help generate an additional supply of new homes, particularly affordable homes.
- 2.2 As highlighted in previous decision reports, BXB has a number of characteristics that help it to help deliver much-needed new homes in the borough. A typical development model involves the purchase by BXB of Council land with development potential under terms which satisfy the Council's statutory duty to secure best consideration. BXB then undertakes development activity on this land, delivering new residential space (both private and affordable), community space and other uses. Any development profit realised by BXB which remains in BXB after payment of costs and related liabilities (and subject to satisfaction of certain legal requirements) can be distributed back to the Council, in its capacity as sole shareholder, by way of a dividend. The Council is also to provide development finance for specific schemes (at market rates) to BXB and the interest paid by BXB provides a further revenue source to the Council.
- 2.3 At the 20th June 2016 Cabinet meeting, Cabinet approved the disposal of a set of sites to BXB subject to terms being approved by the Executive Director Resources (Section 151 Officer) acting in consultation with the Cabinet Members for Homes, Regeneration and Planning and Finance and Treasury. Cabinet also approved the lending of development finance by the Council to BXB to progress the development of these sites on terms to be agreed by the Executive Director Resources (Section 151 Officer) acting in consultation with the Cabinet Member for Finance and Treasury.
- 2.4 These terms were subsequently agreed and BXB have progressed work on the relevant sites. Approximately 28 planning applications have now been submitted by BXB, comprising c539 units.

3. DETAIL

Background

- 3.1 The borough's population is rising and is set to rise still further in the years ahead. One of the greatest challenges for Croydon, in common with many other London boroughs, is the provision of new homes to suit a variety of incomes. Aside from the quantum of homes needed, the affordability of homes for both purchase and for rent is a key and increasingly challenging issue for many Croydon households.
- 3.2 Clearly, the delivery capacity of the wider development sector will be instrumental if these targets are to be met, and the new Local Plan enables the development of new multi-tenure homes on appropriate sites throughout the borough. However, the Council also needs to take a direct role in delivery if the housing

supply challenge is to be met. The borough is a significant land owner in its own right, and there is huge potential for new homes to be delivered on Council land.

- 3.3 Traditionally, local authorities have delivered housing on their own land via land disposal or joint venture agreements with property developers, a process which sometimes did not allow them to fully benefit from any uplift in land values and/or development returns. This experience has led Croydon and several other forward thinking local authorities to seek a much greater commercial role in development and house building by establishing development companies.
- 3.4 The BXB structure has a number of characteristics that help it deliver the required transformational change in the delivery of new homes in Croydon. The intention is to ensure development activity, whilst remaining robustly commercial, more directly benefits local communities. For example:
- The initiative will create much needed new homes of a variety of tenures and priority will be given to local residents through the sales and/or letting process for both private and affordable homes.
 - The BXB model of delivering a number of sites simultaneously allows for commercial efficiencies which have the effect of increasing the overall quantum of affordable housing in the programme – for example, BXB are delivering 50% affordable housing within their smaller residential site programme, far greater than the amount usually achieved on such sites.
 - Where community facilities exist on sites to be developed, these will be replaced with on-site or very near by with new, purpose built facilities which address local need.
- 3.5 Whilst BXB greatly benefits the Council by contributing to the delivery of housing within the borough (in the same way that all developers who build housing within the area do), it operates commercially and independently from the Council with its business directed by the Board of Directors who make decisions in the best interests of the company.

Work completed to date

- 3.6 BXB have made very significant progress in the last year and developed schemes for a number of sites across the borough. This follows on from site investigation, appraisal and due diligence analysis completed earlier. In general:
- c28 smaller sites submitted to planning, with the potential to deliver 539 units.
 - c18 sites are currently at pre-planning stage with the potential to deliver 626 units and c45,000sqft of new community facilities.

College Green Development

- 3.7 The College Green development is one of BXB's largest development sites and has been the subject of several previous Cabinet reports. It is proposed to include a £30m investment into Fairfield Halls, a c200,000sqft new college/university building and approximately 1,400 new residential units alongside new public realm, retail and leisure space on land currently owned by the Council and Croydon College. A hybrid planning application for this development is due to be considered by planning committee in February 2017. The Council has also been successful in securing funding from the Coast to Capital LEP.

- 3.8 BXB are currently delivering enabling works on Phase 1 of this development which includes the refurbishment of Fairfield Halls, residential development on the site of the multistorey car park, the enabling works for the college facility and associated public realm works. Subject to the agreement of legal documentation with the Council and Croydon College, BXB will proceed to deliver Phase 2 of the scheme which includes the new Croydon College facility, the redevelopment of the existing college land for a residential led scheme and associated public realm works.
- 3.9 The current works includes demolition and enabling works, including the strip out of Fairfield Halls. The construction phase for the Halls is expected to commence in May 17 with an expected completion date of Nov 18.

Ongoing monitoring by Council

- 3.10 It is agreed that a detailed business plan shall be reviewed annually between BXB and the Council. The business plan for BXB for 2017/2018 is included at Appendix A of this report. No changes to any agreed business plan will be effective until such time as they are varied and/or updated by the Council, as sole shareholder. BXB will also provide an Annual Report to the Council in each year.
- 3.11 The Board of BXB is made up of three non-executive Directors (one of which is a Council nominee) and a Managing Director (who is a Council nominee). Detailed information regarding the operation and performance of BXB, as well as progress on individual sites is provided on an ongoing basis to the Board via the Managing Director. In respect of information to be relayed to the Council, the Council has its own procedures in place via the two Council nominated members.
- 3.12 A cross-party Member Information Group is also being established, to be chaired by the Cabinet Member for Homes, Regeneration and Planning. BXB will provide a progress update for meetings of this group on an ongoing basis.
- 3.13 The Articles of BXB outline certain shareholder rights and the Council has further controls commensurate with what reasonably minded investors seek through requiring its consent to be obtained before certain actions can be undertaken by BXB (e.g. taking any actions outside of the agreed and adopted business plan, acquiring or disposing of any asset, entering into any joint ventures or partnerships etc.). As a lender, controls exist within the loan agreement and security document which provide a fixed and floating charge over BXB's assets. As a seller of land, the land documentation contains provisions that determine the use of the relevant land. The terms of appointment of the directors of BXB include financial protocols and obligations regarding decision making.

4. CONSULTATION

- 4.1 The structure and operation of BXB has been the subject of a number of previous Cabinet and Scrutiny reports and members have been consulted as part of these processes. In addition, ward and Cabinet members, and local MPs, are consulted by BXB as part of the development of their proposals for individual sites.
- 4.2 BXB also undertake a detailed public consultation and engagement process as part of their design development for individual schemes. This includes public events and drop in sessions on site to explain the proposals and seek feedback, presentations to local representative groups and dialogue with individuals who have an interest in the proposals. The results of these processes are included within the Statement of Community Involvement which are included as part of any subsequent planning application.
- 4.3 In addition, consultation is undertaken as part of the planning process for all BXB schemes which are submitted for planning approval.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 The Council as 100% shareholder of Brick By Brick will benefit from a financial return once each development site is completed. The benefit consists of three key areas:-
- A capital receipt for the land value for each of the development sites will be received by the Council upon completion of each site. Each land value is calculated using a residual land value appraisal model and agreed by the district valuer.
 - A dividend is expected to be paid to the Council as sole shareholder. This will be revenue income to the Council.
 - The Council is acting as the financial lender to Brick by Brick and the total anticipated loan for 2017/18 is estimated to be £291.7m. This loan will be repaid along with interest and is expected to generate a return to the Council of c4% per annum.

5.2 Risks

There is a risk that the estimated return to the Council as sole shareholder from income generated from the dividend is less than anticipated.

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Council Solicitor comments as follows:
- 6.2 The Council Solicitor comments the governance arrangements relating to BXB are being kept under review to help ensure that the arrangements operate in the manner envisaged by previous reports on the development company proposal and as required by the Council. As mentioned earlier in this report, the Council is required to approve the Business Plan of BXB under the company's Articles of Association.

6.3 Approved by: Sean Murphy, Principal Corporate Solicitor (Regeneration) on behalf of the Acting Council Solicitor and Monitoring Officer).

7. HUMAN RESOURCES IMPACT

7.1 There are no Human Resources impacts arising from this report.

7.2 Approved by: Jason Singh, Head of HR Employee Relations on behalf of the Director of HR.

8. EQUALITIES IMPACT

8.1 The impact of the proposals to be delivered through the structures outlined in this report on protected groups are expected to be positive. The provision of new affordable housing, maintaining and improving existing, social housing and tackling poor private housing conditions, meeting housing need and preventing homelessness, providing housing support and high quality housing management services are all expected to benefit groups with protected characteristics. Similarly, the creation of additional revenue streams to the Council allows reinvestment into Council services to benefit of all residents.

9. ENVIRONMENTAL IMPACT

- 9.1 No specific adverse environmental impacts arise from this report. Any environmental issues arising from site development are regulated by the planning and building control processes.

10. CRIME AND DISORDER REDUCTION IMPACT

- 10.1 No specific adverse crime and disorder impacts arise from this report. Any secure by design issues arising from site development are regulated by the planning and building control processes.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

The basis for the recommendation set out in this report are set out in previous Cabinet reports, including the opportunities to deliver real benefits to local people through developing new homes, infrastructure and community facilities, and the jobs, opportunities and stronger vibrant communities that will also flow from that growth.

12. OPTIONS CONSIDERED AND REJECTED

Options considered for the development of land across the borough to address housing need have included the disposal of land on the open market to enable development and the procurement of developers via development agreement to take forward sites. These were rejected as neither option is as commercially efficient as the proposals contained in this paper, and they do not maximise the direct benefit to local residents from development in their borough.

CONTACT OFFICER: Shifa Mustafa, Executive Director Place.

BACKGROUND PAPERS - LOCAL GOVERNMENT ACT 1972

The following are available on the Council website: www.croydon.gov.uk

1. Wholly owned housing company – an option for tackling the shortage of homes in Croydon, Cabinet 29 September 2014
2. Growth for the Prosperity of All: Growth Plan & District Centre Investment and Place Plans, Cabinet 29 September 2015
3. Homes – our 10 priorities, Cabinet 16 March 2015
4. College Green Cultural and Educational Quarter Cabinet Report, 20 Oct 2015
5. Brick by Brick Croydon Limited – Property and Financial, Cabinet 20 June 2016.
6. Brick by Brick Development Company, Streets Environment and Homes Scrutiny Sub-committee, 20th Sep 2016

Appendices: Appendix A attached

Brick by Brick Croydon Limited

Business Plan 2017/8

Contents:-

1. Foreword
2. Aims of Company
3. Market Analysis
4. Company Structure, Board and Resourcing
5. Land and financing
6. Development Programme

1. Foreword

- 1.1 Croydon has the potential to be a model for suburban and city living, with excellent links to Central London, the South London suburbs, the south coast, Gatwick Airport and beyond. The borough is currently undergoing major economic and civic renewal including major retail investment in the metropolitan centre, new commercial occupiers and the continued expansion of the cultural sector.
- 1.2 Allied to this, the Council's new Growth Zone initiative will provide significant new investment in infrastructure including road, rail, tram and public realm improvements, as well as employment and cultural facilities. This creates an unrivalled context for investment and growth.
- 1.3 It's unsurprising therefore that the borough's population is rising and is set to rise still further in the years ahead. One of the greatest challenges for Croydon, in common with many other London boroughs, is the provision of new homes to suit a variety of incomes. Aside from the quantum of homes needed, the affordability of homes for both purchase and for rent is a key issue and increasingly challenging for many Croydon households.
- 1.4 Clearly, the delivery capacity of the wider development sector will continue to be instrumental if these targets are to be met, and LB Croydon's new Local Plan enables the development of new multi-tenure homes on appropriate sites throughout the borough. However, the Council also needs to take a direct role in delivery if the housing supply challenge is to be met.
- 1.5 The borough is a significant land owner in its own right, and there is huge potential for new homes to be delivered on land currently owned by the council. These sites include major regeneration sites which have been considered for development for some time, but there is also significant development capacity on smaller infill sites, in both public and private sector ownership, located throughout the borough.
- 1.6 Traditionally, local authorities have delivered housing on their own land via land disposal or joint venture agreements with private sector property developers, a process which often did not allow them to fully benefit from any uplift in land values and/or development returns. This experience has led Croydon, and many other forward thinking local authorities, to think differently and seek a much greater commercial role in development and house building by establishing a development company: Brick by Brick (Croydon) Limited (BXB).
- 1.7 The BXB structure has a number of characteristics that help it deliver the desired transformational change in the delivery of new homes and maximise the direct benefits to local communities in Croydon. For example:
 - BXB activity creates development profit, all of which is returned to the local authority (as sole shareholder) in the form of dividend, to be reinvested in the borough.
 - BXB creates much needed new homes of a variety of tenures and priority will be given to local residents through the sales and/or letting process for both private and affordable homes.
 - The BXB model of delivering a number of sites simultaneously allows for commercial efficiencies which have the effect of increasing the overall quantum of affordable

housing in the programme – for example, BXB are delivering 50% affordable housing within their smaller residential sites programme, far greater than the amount usually achieved on such sites.

- Where community facilities exist on sites to be developed, these will be replaced with on-site or very nearby with new, purpose built facilities which address local need.

1.8 As such, BXB is a key economic actor in the borough, crucial to providing the wide range of housing typologies and tenures which will be necessary to service borough growth. This Business Plan sets out the vital role Brick by Brick will play in contributing to the borough's success.

2. **Aims of Company**

2.1 BXB is a private, independent development company, commercial in character, which focusses on providing housing led development for the benefit of the people of Croydon.

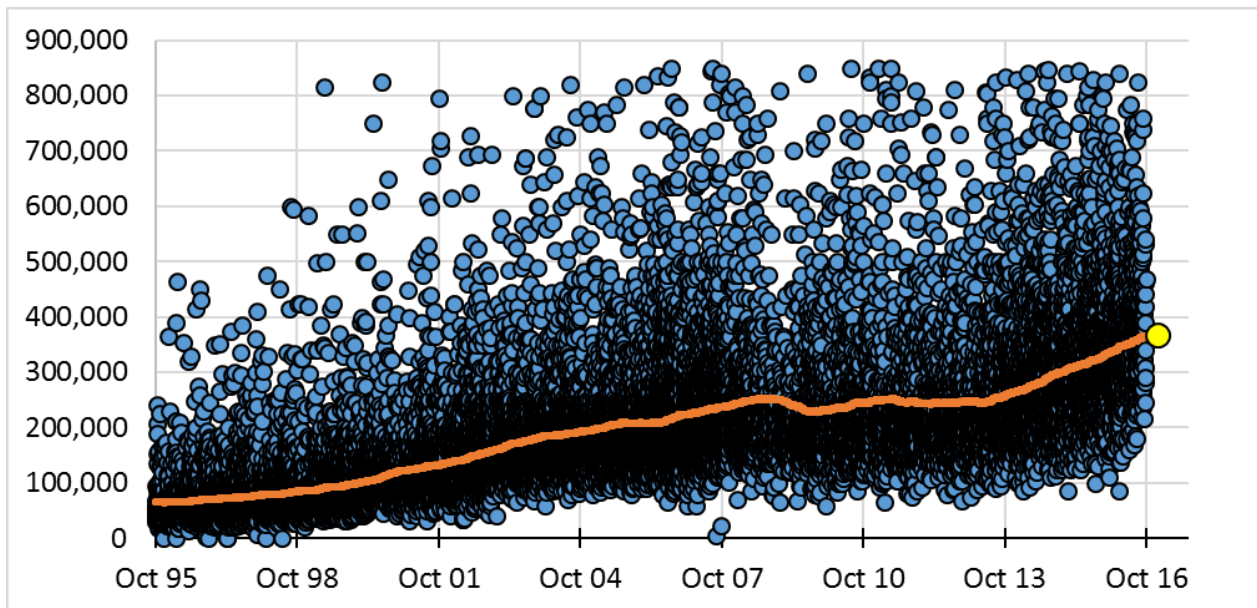
2.2 The key aims of the Company are:

- To deliver multi-tenure housing for sale and rent.
- To ensure a transparent and commercially efficient form of development which maximises the amount of affordable and intermediate housing delivered through the development process.
- To deliver new commercial and/or retail development.
- To deliver new or replacement cultural, community, educational, health, public realm and other development as part of mixed use schemes.
- To maintain an exceptionally high quality of design and delivery to ensure development activity is a positive physical addition to the local environment.
- To dispose of existing property and/or acquire new property in accordance with the terms of this Business Plan.
- To maintain and/or manage property assets.
- To carry out all of the above activities on a commercial basis and in the best interests of the company with a view to maximising dividend to the shareholder.

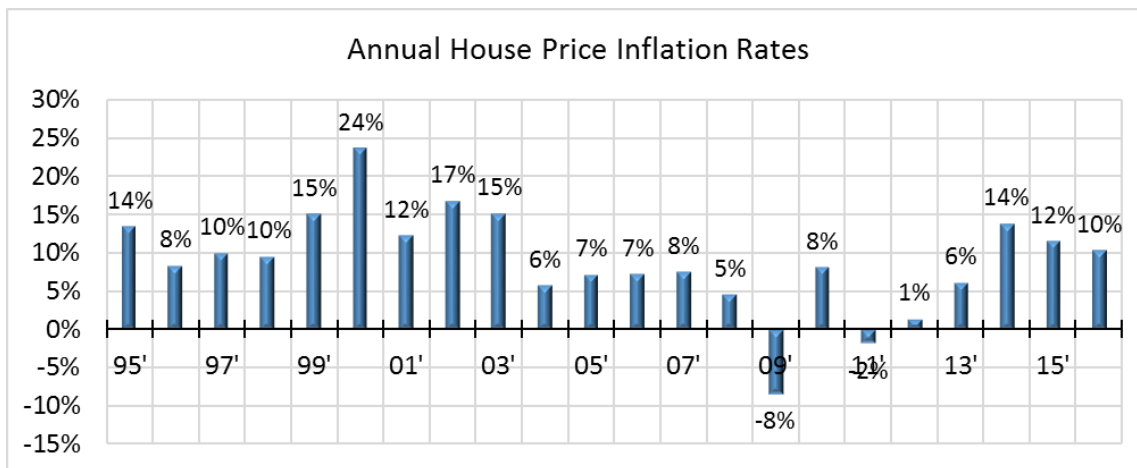
3. Market Analysis

Housing Market

- 3.1 The dynamism of the land and property markets in London have been well documented over recent years. In particular, a wealth of information and publications exist and continue to be produced providing detailed analysis of the housing market.
- 3.2 This section examines a number of key indicators and draws together evidence regarding the impact market changes have had on the ability of residents to access housing. This is an important area of analysis having implications for overall market demand, the current and future demand for affordable housing and the size of the potential market for BXB housing product.
- 3.3 Evaluating the housing market requires an understanding of the real cost of buying or renting a property and the level of housing need. This is undertaken in detail on a site by site basis for all BXB sites.
- 3.4 The table below looks at the house price movement through a House Price Index trend, based on the transacted values within the borough and a variety of other available sources.



- 3.5 The trend line (orange line in the graph above) of the house price movement equates to a 4.5% HPI and the trend seems both stable and consistent. However, there has been a noticeable recent spike in house price increases in Croydon, as evidenced in the table below.



3.6 For the purpose of business plan analysis, BXB adopts a conservative assumption that the long run HPI trend would eventually revert to this stabilised HPI trend of 4.5% per annum by 2020 as shown in following profile.

Year	2017	2018	2019	2020	2021
HPI	6%	5%	4.5%	4.5%	4.5%

3.7 With regard to rents, based on market analysis the following average open market rents can be expected to be achieved in the Croydon area. Rental levels are seeing a similar upward trend to capital values and provide the investment context for the private rented sector offer going forward.

# Bedrooms	Unit Type	Average Market Rent (£ / Month)	New Build Rent (£ / Month)	Affordable Rent £/month
Studio	Flat	770	808	646
1 Bedroom	Flat	990	1,039	831
2 Bedrooms	Flat	1,233	1,294	1,035
3 Bedrooms	Flat	1,450	1,522	1,218
1 Bedroom	House	959	1,007	806
2 Bedrooms	House	1,234	1,296	1,037
3 Bedrooms	House	1,542	1,619	1,295
4 Bedrooms	House	1,956	2,054	1,643

3.8 It should be noted that the BXB model provides significant numbers of new affordable rented housing supply. The Council are currently exploring a number of options that will enable the provision of affordable rented housing at far lower levels to the averages listed above as required to address particular housing needs.

4. Company Structure, Board and Resourcing

- 4.1 BXB is a private company limited by shares, with a single shareholder (the London Borough of Croydon). The Company is governed by the Companies Act 2006, with the Articles of Association being adopted by Special Resolution on 4 October 2016.
- 4.2 This structure is flexible and enables a variety of approaches to deliver the aims of the company, for example:
- The ability to set up joint ventures with partner to meet the Company's aims
 - The ability of the Company, whether on its own or in a joint venture, to source funding for development
 - The ability to hold specific asset classes and generate a return to the shareholder
 - The ability to reclaim VAT on VATable services where these are provided
- 4.3 Strategic decision making for the company is undertaken by the Board of Directors (the Board). The Board consists of one Executive Director (Managing Director) and three non-Executive Directors. The Managing Director and one of the non-executive Directors are nominated by the Council. The Managing Director also holds the post of Chief Executive within the company.
- 4.4 The Directors are responsible for the management of the Company's business, for which purpose they may, with the exception of the matters requiring Shareholder consent and expressly reserved pursuant to Article 6 (Shareholder Reserved Matters), exercise all the powers of the Company. The Directors have a legal duty to promote the success of the company and to exercise independent judgement. This applies even if this is in conflict with other interests.
- 4.5 The Board meets approximately every six weeks in order that the Board and executive team can work closely to ensure that the aims of the Company are being met. The role of the Board includes (but is not limited to):
- ensuring effective engagement with the shareholder and any other stakeholder(s) as the Board deems appropriate
 - testing financial appraisals for the various development sites set out
 - subject to satisfactory financial appraisals, acquiring the development sites in a way that maximises value (either unilaterally or in collaboration with development partners)
 - securing funding to deliver development activity
 - subject to funding, procuring and delivering development activity as efficiently as possible
 - identifying further development and commercial opportunities in keeping with the aims of the company.
- 4.6 The Board members are:
- Director 1 (Managing Director) – Colm Lacey (LB Croydon Director of Development)
 - Director 2 – Lisa Taylor (Director of Finance and Deputy 151 Officer)
 - Director 3 – Jayne McGivern: currently runs her own private property investment vehicle (Red Grouse Properties). She has previously been CEO (Europe) of Multiplex plc, Managing Director of Anschutz Entertainment Group, Group Development Director of MWB Group Holdings plc and Divisional Managing Director of Redrow plc.

- Director 4 – Jeremy Titchen: currently runs his own property platform (Rockhopper Real Estate Ltd) providing strategic advice to landowners and investors. He has over 30 years experience in the real estate market and extensive knowledge of development projects in all property sectors.

4.7 Information as to the operation and performance of the company is provided on an ongoing basis by the Board to the shareholder. This takes the form of:

- Monthly highlight reports on all projects
- Annual Business Plan
- Annual Report

4.8 The shareholder representatives, the LB Croydon ‘Executive Director, Place’ and the ‘Executive Director Resources (Section 151 Officer)’, also currently attend Board meetings in an observer capacity and are responsible for updating the council on BXB related issues via the relevant governance structures.

Resourcing structure

4.9 There are five main areas of resource from which the company draws to deliver work:

- **Chief Executive function:** ultimately responsible for the operation of the company including strategic and commercial direction, organisational culture, financial management, business development and the delivery of all schemes. The Chief Executive service is commissioned directly from the Development Directorate of LB Croydon. The Chief Executive also has a role on the Board as Managing Director.
- **Development and Design Management Services:** this includes a Head of Development function and several Development Managers whose role is to provide a holistic clienting function for all development activity and to oversee the progress of all phases of development activity. It also includes a Head of Design and several in-house architects whose role it is to conduct feasibility on likely sites, specify design activity and provide design review, expertise and guidance through the development process. These services are commissioned directly from the Development Directorate of LB Croydon.
- **Financial Services:** including budgetary management, corporate financial monitoring etc. This service is commissioned from LB Croydon.
- **Architectural Services:** including all design, architecture and landscape architecture services through all RIBA stages as required. These services are commissioned from the wider market and variety of practices are contracted to deliver various sites. For some sites the LB Croydon Design Team will act as an architectural practice in its own right and in such cases, charge a professional fee to the company in keeping with external architecture panel rates.
- **Legal, Technical and Community Engagement services:** these include all legal related work, technical surveying and analysis, and work relating to scheme consultation and community engagement. These are commissioned from the wider market and a variety of specialist practices are currently in place.

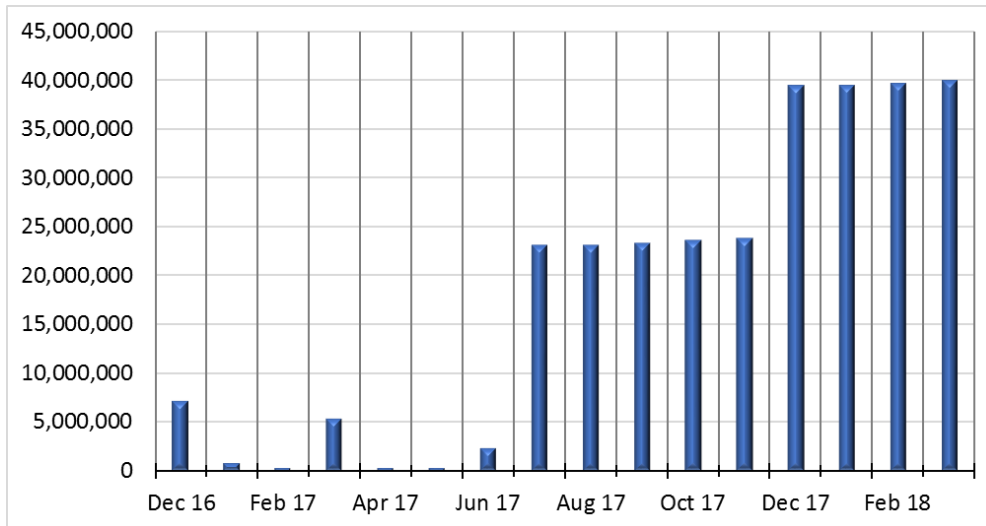
5. Land and Financing

- 5.1 The Company is wholly financially self-sufficient, with all costs relating to the operation of the business funded retrospectively by the proceeds of development. Initial analysis work on potential sites takes the form of a desktop capacity study by the internal design and development team, followed by more detailed site due diligence (title, planning, geotech, utilities, title etc) as necessary. This work informs a financial appraisal and the Board then decides, subject to viability and conformity with the business plan, whether to approve further more formal design and development work through the RIBA stages.
- 5.2 One of the key aims of the company is to bring forward land with the potential for development and a number of suitable sites have been identified in Croydon, the vast majority of which are in Council ownership. These sites are typically urban infill sites such as disused garages or surplus estate land, or existing urban sites with potential for development, such as certain surface level car parks.
- 5.3 Sites which are suitable for development are purchased by the Company at market rates, often via an option agreement which is subject to a number of conditions including planning related clauses and overage arrangements which allows the landowner to capture any unexpected land value uplift.
- 5.4 The full cost for each development site (including land, financing, construction and all associated fees) is appraised against the income generating potential of the site, both of which are valued with the aid of specialist consultants. Each appraisal also includes an amount to cover company overheads and management costs (e.g. company admin etc).
- 5.5 Income for each scheme takes the form of sales values from private, affordable rented and shared ownership units, and rental value from any retained residential units and non-residential uses. Sales and rental values are calculated with reference to achieved sales values for similar units and an analysis of market trends in that location. In general, the margin sought by BXB development is commensurate with that sought by other private developers (approximately 15% profit on cost for private schemes).
- 5.6 Initially, the Council's 'Revolving Investment Fund' is the sole source of development finance. This was set up for the purposes of investing in projects such as BXB and provides both debt and equity financing at market (and therefore State Aid compliant) rates. Repayment of interest on this debt by BXB provides an additional revenue stream to the council as it has the ability to borrow at very competitive rates to service this lending.
- 5.7 All borrowing by BXB is site specific and subject to an individual loan agreement. The borrowing is secured against land and includes numerous pre-conditions on drawdown as well as ongoing performance measurements. These terms are reflected in the cost inputs to each site appraisal.

Funding Requirements

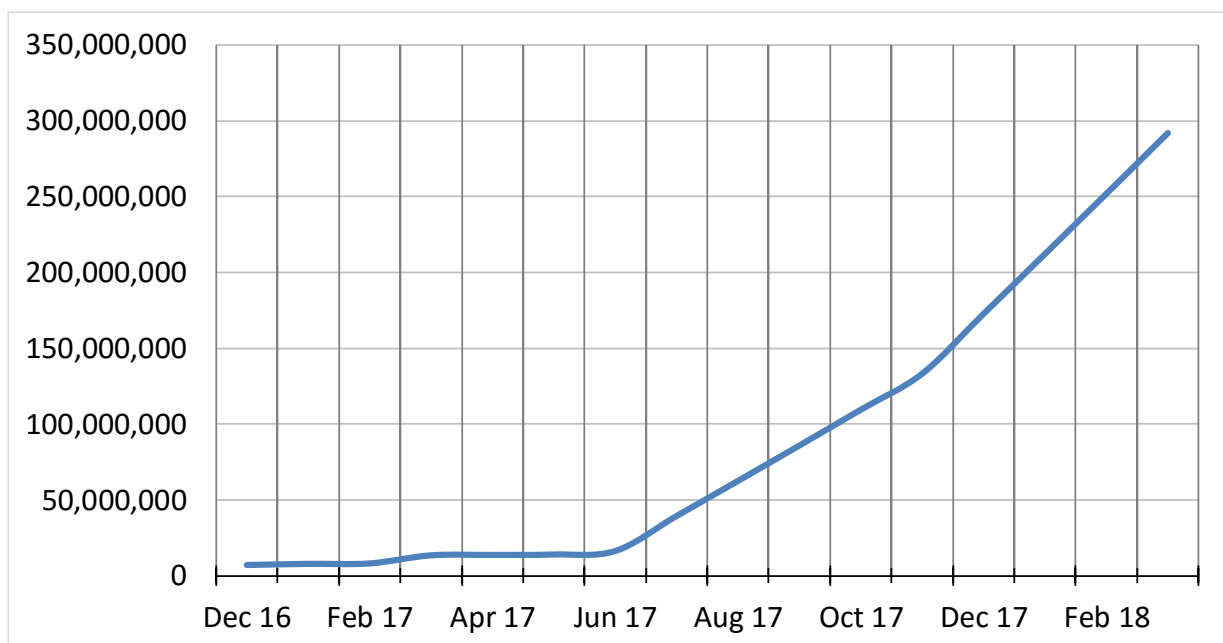
- 5.8 The sites form a programme of development activity for BXB and define the funding requirements to underpin their delivery. The analysis below focusses on the period up until April 2018 as a key milestone for this business plan.
- 5.9 The cumulative borrowing requirement for BXB in the period to April 2018 is £291.7M. Of this amount £74.4m is equity investment from the shareholder, with the remaining funding sourced as senior debt. Figure 8.1 sets out the expected profile of drawdown, on a quarterly basis based on the development activities set out in Section 7.

Figure 8.1 – Funding Requirement



- 5.10 Figure 8.2 sets out the cumulative funding requirement for this period.

Figure 8.2 – Cumulative Funding Requirement



5.11 Based on the profile detailed in Figures 8.1 to 8.2, the monthly funding costs and cumulative debt costs of this drawdown are detailed in Figures 8.3 and Figure 8.4 respectively.

Figure 8.4 – Monthly debt costs of delivery programme

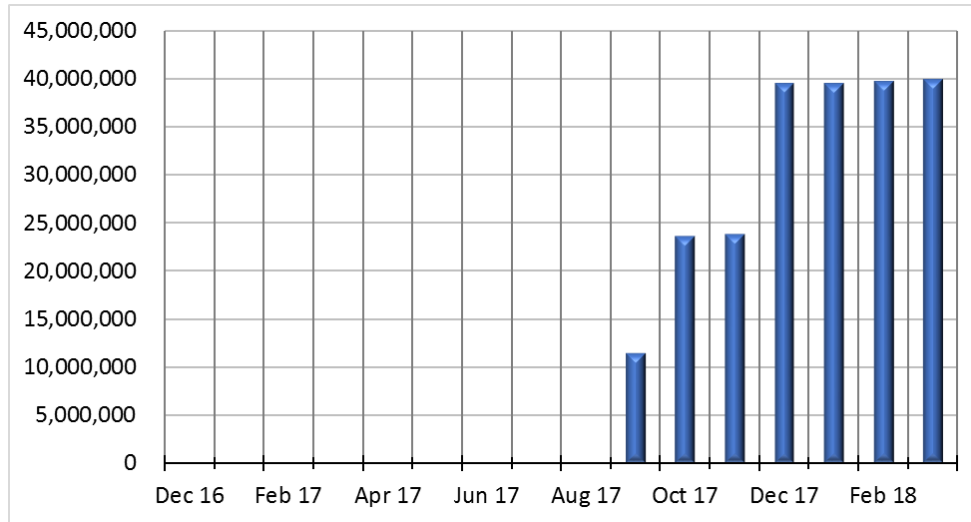
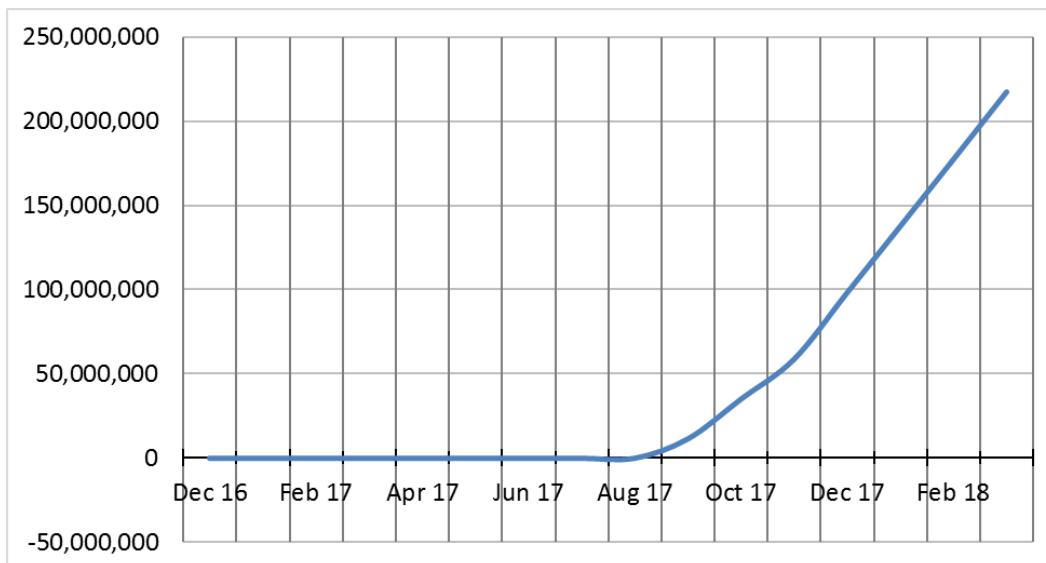


Figure 8.4 – Cumulative Debt Cost



5.12 In addition, there are some sites listed in the appendix which are at an earlier stage of design development (ie pre-RIBA stage 2). As design work progresses on these sites they will be reported to the Board using the process detailed in paragraph 5 onwards and, subject to viability and the availability of funding, incorporated into the delivery programme for 2017/8.

5.13 It should be noted that in the future, where funding is not available from the Council, or where it better enables the delivery of schemes, BXB has the ability to seek finance from alternative sources. These could include partner finance, institutional funds, the European Investment Bank, financial/bond markets and the wider banking sector. These sources of funding are likely to be necessary to enable delivery some of the larger BXB schemes (e.g. College Green Phase 2).

6. Development Programme

- 6.1 The Company has identified a number of sites appropriate for development, the vast majority of which are in council ownership. These sites are detailed in Appendix 1 and are at different stages of development. They can broadly be summarised as follows:
- RIBA Stage 2+ complete, planning application submitted – 29 sites
 - RIBA Stage 2+ underway – 19 sites
 - Initial due diligence/RIBA Stage 1 underway – 11 sites
- 6.2 The sites are divided into delivery tranches. The estimated programme for delivery for those sites which have already been submitted to planning (T1, T2 and T3) is:
- Feb-Apr 2017 - Planning decisions
Mar -May 2017 - Enabling works commence
Jun - Aug 2017 - Main works commence
Jun - Aug 2018 - First completions
Jan- Mar 2019 - Remaining completions
- 6.3 This is a complex programme, with a significant level of inherent risk. The company operates a risk management strategy that addresses both corporate risk (through its governance processes) and project risk (through the appraisal of sites and design/development management approach).
- 6.4 At scheme level, a detailed risk register is in place for each site and risks are managed on a day-to-day basis within the project teams. A detailed project dashboard is also provided for discussion at each Board meeting which:
- a) identifies each risk the possible consequences thereof;
 - b) assesses the risk and ranks in terms of its estimated impact and immediacy; and
 - c) controls the risk by detailing the appropriate mitigation, assigning owners and defining a monitoring approach.
- 6.5 The estimated costs and revenues associated with each tranche which has completed RIBA Stage 2+ (ie planning application submitted) is shown in the table below. While development profit is one of the key benefits to the shareholder of BXB activity, it should be noted that there are additional benefits to the council which are not captured below. These include:
- Revenue from lending, as the councils lends to BXB at a higher rate than it borrows;
 - Land value for a variety of sites around the borough;
 - Contract value for services commissioned from the Council; and
 - Direct reduction in service cost through delivery of new affordable housing, public realm, landscaping improvements.

Tranche	Total Est Dev Cost	Total Est Scheme Revenue
1.	£33.6m	£37.8m
2.	£62.8M	£70.8M
3.	£59.1M	£66.4M

