

For General Release

REPORT TO:	Cabinet 24 February 2020
SUBJECT:	Brick by Brick Business Plan 2020/21
LEAD OFFICER:	Jacqueline Harris Baker, Executive Director Resources
CABINET MEMBER:	Councillor Alison Butler, Cabinet Member for Homes & Gateway Services Councillor Simon Hall, Cabinet Member for Finance and Resources
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: <p>Brick by Brick's development activity will have a positive financial impact for the Council as 100% shareholder in the company.</p> <p>The income is generated for the Council from three key elements as detailed in the report: land value and overage, interest from debt and dividend.</p>	
KEY DECISION REFERENCE NO.: N/A	
<p>The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below</p> <p>1. RECOMMENDATIONS</p> <p>1.1 That Cabinet, on behalf of the Council as sole shareholder of Brick by Brick Croydon Limited ("BBB"), approves the proposed 2020/2021 Business Plan of BBB as set out in Appendix 1 of this report.</p>	

2. EXECUTIVE SUMMARY

2.1 This paper presents the annual BBB Business Plan for 2020/21.

3. DETAIL

- 3.1 The borough has established a development company, BBB Croydon Limited (BBB), to bring forward housing led development in a way which realizes the development potential of sites throughout the borough and maximises the benefit from development to local residents. Although the Council is the sole shareholder, the company operates independently from the Council and on a commercial basis.
- 3.2 Each year, BBB develops a Business Plan. This is developed in consultation with the LBC Shareholder Investment Group and relates to its activities and financial proposals over the forthcoming year. The BBB Business Plan for 2020/21 is included as Appendix 1.
- 3.3 The Council and BBB have set-up a stringent governance structure to ensure the successful delivery of homes, play spaces, landscaping and infrastructure on council land and estates. This is led by the BBB Client Monitoring Group alongside three core groups: Quality Assurance; Land, Legal and Finance; and Programme. Core group members include directors, heads of service and technical experts. These groups report and escalate issues to the BBB Client Monitoring Group, members of which include the Cabinet Member for Homes and Gateway Services, the Council's Executive Leadership Team and the Chief Executive of BBB. This group reports to the Shareholder Investment Board (of which the Cabinet Member for Homes and Gateway Services is a member), the decision-making group that advises the Council's representatives on the BBB Board.

4. CONSULTATION

- 4.1 The structure and operation of BBB has been the subject of a number of previous Cabinet and Scrutiny reports and members have been consulted as part of the formal governance processes. In addition, ward and Cabinet members, and local MPs, are consulted by BBB as part of the development of their proposals for individual sites.
- 4.2 BBB also undertake detailed public consultation and engagement processes as part of their design development for individual schemes. This takes a variety of forms including public events and drop in sessions on site, various online methodologies and dedicated websites, one-to-one meetings with key stakeholders etc. The ultimate intention of all of these processes is to explain the emerging proposals in a way that is relevant to local communities, and seek their feedback in order to help shape the schemes. The results of all of these processes are included within the Statements of Community Involvement which are included as part of any subsequent planning application.
- 4.3 In addition, formal consultation is undertaken as part of the planning process for all BBB schemes which are submitted for planning approval.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 5.1 The BBB business plan provides an overview of the company's operations for the forthcoming financial year. It also includes a five-year outlook in respect of the company's financial projections to inform the council, as shareholder, of the forecast financial performance of the business.

5.2 The effect of the decision

The key implication for the Council contained within the BBB business plan is the estimated net funding requirement driven by the company's cash flow projections. This provides an estimate of the levels of finance that the company will seek to draw down from the Council through a combination of borrowing and equity investment (on a 75:25 split) to fund its planned development programme. BBB is currently projecting to require £76.02m of net funding in 2020/21, which will be made up of £57.02m in borrowing (with interest charged) and £19.01m of equity investment. This net figure assumes £63.52m of debt repayment as they project sales receipts. The Council will need to ensure that this requirement is factored into its capital programme and that the necessary borrowing levels are set at an appropriate level to meet this commitment. After 2022/23, BBB anticipates that it will become self-financing, with revenue from sales of housing sufficient to cover on-going development expenditure. In addition, as profit is generated this will also be used to pay down debt as per the terms of the lending agreements with the Council. All debt required for the current programme is projected to have been repaid by 2025.

- 5.3 The Council's 2020/21 budget includes an estimated figure for the interest payable on loans to BBB; actuals will vary depending on the amounts drawn down. The budget also includes an allowance for dividend payments, which is dependent on distributable profits achieved by BBB.

5.4 Risks

The company's cashflow projections are updated on an ongoing basis. The projections that inform the BBB business plan are necessarily taken at a point in time and are subject to change as programme estimates shift. The key risks to the figures provided in the business plan for existing schemes are escalations to cost estimates and time delays (which result in revenue from sales being postponed). Each of these could effect both the net funding requirement and the profitability of the business (and therefore the dividends available to the Council as 100% shareholder). To mitigate these risks, BBB's assumptions within its financial appraisals include sales estimates which are as prudent as possible. In addition cost estimates are based on detailed estimates provided by the company's cost consultancy partner, and agreed costs from completed tenders are added to the financial modelling as soon as they are available. In addition, the BBB cashflow projections are likely to change as new schemes that are identified to be viable are developed in more detail and added to the programme. These will increase the overall profitability of the business but will require investment and may therefore change the company's funding requirement. The current cashflow model also includes an allowance for the likely cost of new schemes over the next 12 months.

5.5 Future savings/efficiencies

The other key implication included within the BBB business plan is an estimated profit expectation based on the current programme of work. As the

sole shareholder this profit belongs to the Council, and can be taken as a series of dividends or reinvested in further development activity across the borough. The company is currently projecting to achieve a profit of £54m on its existing development activity. BBB is also supporting the Council to achieve other important financial benefits. The total interest charged on loans made to BBB is projected to generate £39m for the Council.

Approved by: Lisa Taylor, Director of Finance, Investment & Risk and s151 Officer.

6. LEGAL CONSIDERATIONS

- 6.1 The Director of Law and Governance comments that under the Articles of Association of BBB Croydon Limited, the Council as sole shareholder of the company is required to approve and adopt the company's business plan.

Approved by: Sean Murphy, Director of Law and Governance and Deputy Monitoring Officer.

7. HUMAN RESOURCES IMPACT

- 7.1 There are no HR implications contained within this report.

Approved on behalf of the Director of Human Resources.

8. EQUALITIES IMPACT

- 8.1 BBB continuously evaluates its approach to ensure equalities issues are commensurate with the scale and nature of its development programme. An equality analysis will be undertaken as part of the business planning to ascertain any potential impact on groups that share protected characteristics. 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 have a positive impact on group that share protected characteristics. Similarly, the creation of additional revenue streams to the Council allows reinvestment into Council services to benefit of all residents.
- 8.2 With regard to the development programme, BBB completes Statements of Community Involvement for all schemes submitted to planning, detailing how local residents and other stakeholders have been consulted and engaged in emerging proposals, and how their feedback has been incorporated. We will ensure statements stipulate the need for consultation and engagement to be inclusive and accessible. Similarly, the impact of proposals on certain protected groups is often discussed and considered through the planning process – eg DDA compliance, Lifetime homes provision, disabled parking provision etc.

9. PRE-DECISION SCRUTINY

- 9.1 The Streets, Environment & Homes Sub-Committee considered a report from BBB at its meeting on 4 February 2020. During the discussion of the item the Sub-Committee praised the design quality of its 'tenure blind' developments and welcomed the proposals made by BBB to address issues experienced from the company becoming a registered landlord.
- 9.2 Although it was agreed that it was still too earlier in the delivery of developments to reach any conclusion on financial performance, the Sub-Committee did conclude that it would be important for the Council to closely monitor the progress of developments to ensure that a profitable return was delivered and that any potential risks were being managed appropriately.

Recommendations are being finalised and will be presented to the next meeting of Cabinet on 23 March 2020 as part of the Scrutiny Recommendations process.

10. ENVIRONMENTAL IMPACT

- 10.1 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.

11. CRIME AND DISORDER REDUCTION IMPACT

- 11.1 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.

12. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 12.1 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.

13. OPTIONS CONSIDERED AND REJECTED

- 13.1 Options originally 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 BBB model, and nor they do not maximise the direct benefit to local residents from development in their borough.

14. DATA PROTECTION IMPLICATIONS

There were no Data Protection implications at this stage.

14.2 HAS A DATA PROTECTION IMPACT ASSESSMENT (DPIA) BEEN COMPLETED?

No.

CONTACT OFFICER:

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Resources

APPENDICES:

Appendix 1 - BBB Business Plan 2020/21

BACKGROUND PAPERS:

The documents below are already published

- Wholly owned housing company – an option for tackling the shortage of homes in Croydon, Cabinet 29 September 2014
- Growth for the Prosperity of All: Growth Plan & District Centre Investment and Place Plans, Cabinet 29 September 2015
- Homes – our 10 priorities, Cabinet 16 March 2015
- College Green Cultural and Educational Quarter Cabinet Report, 20 Oct 2015
- Brick by Brick Croydon Limited – Property and Financial, Cabinet, 20th June 2016
- Call-in: Brick by Brick Croydon Limited – Property and Financial, Scrutiny and Overview Committee 7 July 2016
- Stage 2: Cabinet responses to Scrutiny recommendations on Brick by Brick Croydon Limited, Scrutiny and Overview 13th Dec 2016
- Brick by Brick Development Company – Business Plan, Cabinet, 20th Feb 2017
- Brick by Brick Development Company – Business Plan, Cabinet 12th Feb 2018
- Brick by Brick Development Company – Business Plan, Scrutiny Streets, Environment and Homes Sub-Committee, 22nd January 2019
- Brick by Brick Development Company – Business Plan, Cabinet, 25th February 2019