

For General Release

REPORT TO:	CABINET 26 February 2018
SUBJECT:	Brick by Brick Business Plan 2018/9
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: Maximise the use of the Council's assets to deliver new homes, including affordable housing, private for sale and private rented stock. <ul style="list-style-type: none">• 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.	
KEY DECISION REFERENCE NO.: This is not a key 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 That Cabinet, on behalf of the Council as sole shareholder of Brick by Brick Croydon Limited (" BXB "), approves the proposed 2018/2019 Business Plan of BXB as set out in Appendix A of this report.	

2. EXECUTIVE SUMMARY

- 2.1 This paper provides a draft of the annual BXB Business Plan for 2018/9 for review by Cabinet.

3. DETAIL

- 3.1 The borough has established a development company, Brick by Brick Croydon Limited (BXB), to bring forward housing led development in a way which realizes the development potential of a sites throughout the borough and maximises the benefit from development to local residents. Although the Council is the sole shareholder, the board of the company operates independently from the Council and on a commercial basis.
- 3.2 Each year, BXB develops a Business Plan relating to its activities over the forthcoming year and presents it to Cabinet for review. The BXB Business Plan for 2018/9 is included as Appendix A.

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 Brick by Brick 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.

1 The effect of the decision

The key implication for the Council contained within the BXB 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.

BXB is currently projecting to require £164.8m of funding in 2018/19, which will be made up of £123.6m in borrowing (with interest charged) and £41.2m of equity investment. 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 2018/19, BXB 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 2021.

2 Risks

The company's cashflow projections are updated on an ongoing basis. The projections that inform the BXB 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, BXB'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 BXB 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.

3 Future savings/efficiencies

The other key implication included within the BXB 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 c£21m on its existing development activity, in addition to the £30m investment into the refurbishment of Fairfield Halls.

BXB is also supporting the Council to achieve other important financial benefits. The interest charged on loans made to BXB is projected to generate £17.7m for the Council. In addition, the company also covers the estimated £927k annual cost of the Council's in-house Development team (which all provide services to BXB). It also currently contributes an estimated £362k per annum to cover the costs of various services that it buys from the Council (such as accommodation, ICT, HR, etc).

Approved by: Lisa Taylor, Director of Finance, Investment & Risk

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Solicitor to the Council comments that under the Articles of Association of Brick by Brick 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, Head of Commercial and Property Law and Deputy Monitoring Officer on behalf of the Director of Law and Monitoring Officer.

7. HUMAN RESOURCES IMPACT

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

Approved by Jennifer Sankar, Senior HR lead for Place on behalf of the Director of Human Resources.

8. EQUALITIES IMPACT

- 8.1 BXB continuously evaluates its approach to Equalities issues to ensure it is commensurate with the scale and nature of its development programme. The impact of the activities contained within the attached BXB Business Plan on protected groups is 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.

With regard to the development programme, BXB 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. 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. 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

- 11.1 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.

12. OPTIONS CONSIDERED AND REJECTED

- 12.1 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 BXB model, and nor they do not maximise the direct benefit to local residents from development in their borough.

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APPENDICES TO THIS REPORT

Appendix A - BXB Business Plan 2018/9

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