



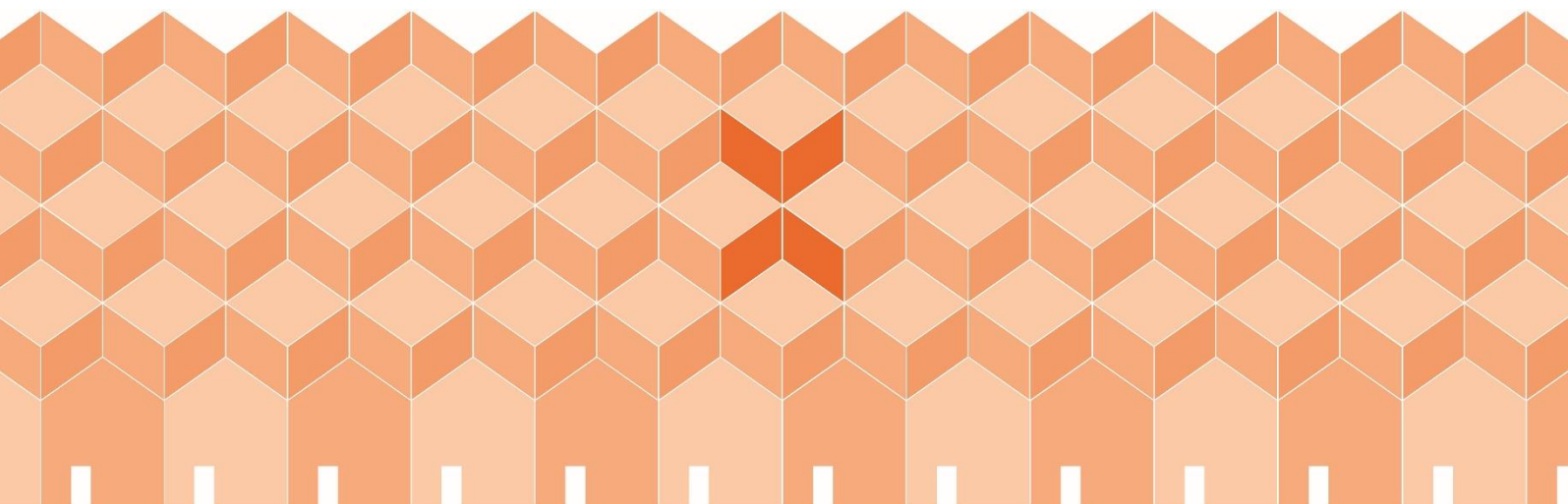
## **2019-20 Business Plan**

**DRAFT**

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Brick by Brick Croydon Limited

Registered Number: 09578014



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## 1. Introduction

- 1.1. Brick by Brick Ltd (BXB) is a development company that was established by LB Croydon to proactively lead the delivery of new homes, of all tenures, throughout the borough for the benefit of Croydon residents. The company is commercial in character and is run by its own board of directors. Croydon Council is the sole shareholder.
- 1.2. Over recent years, Croydon has rapidly become a model for suburban and city living. With excellent links to Central London, the South London suburbs, Gatwick Airport and the south coast beyond, the borough continues to undergo major economic and civic renewal including major investment in the metropolitan centre. In addition, the Council's Growth Zone continues to provide significant investment in local infrastructure including road, rail, tram and public realm, as well as new employment and cultural facilities. This creates an unrivalled context for investment and economic growth.
- 1.3. As a consequence, it is not surprising that the borough's population is rising and is projected to rise still further in the years ahead. One of the greatest challenges for Croydon in this context, in common with many other 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 outright purchase and 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 both LB Croydon's Local Plan and the Mayors London Plan enable the development of new multi-tenure homes on appropriate sites throughout the borough. However, over the last couple of years, it has become clear that the Council needs to take a direct role in the delivery of housing if the supply challenge is to be met.
- 1.5. The local authority is a significant land owner in its own right, and there is real capacity for new homes to be delivered on this land. These areas of land include major regeneration sites which have been considered for development for some time as well as many smaller infill sites 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, along with many other forward thinking local authorities, to think differently and seek a much more direct role in development to maximise both the delivery of housing and the financial value of land assets.
- 1.7. The establishment of BXB has been a huge step forward in allowing the council to address housing supply. The BXB structure has a number of characteristics that help it to satisfy the desire for new housing delivery whilst also maximising direct benefits to local communities (financial and otherwise). For example:
  - 1.7.1. BXB activity creates development profit, all of which is returned to the local authority (as sole shareholder) in the form of an annual dividend, to be reinvested in the borough;
  - 1.7.2. BXB delivers further financial benefit in the form of interest paid on loan facilities arranged between the Council and the company, as well as land value on sites that are sold to the company (with any future uplift in land value wholly secured for the Council through overage arrangements), all of which can be used to support frontline services in a time of heavily pressurised local government budgets;
  - 1.7.3. BXB delivers much needed new homes of a variety of tenures, with priority given to local residents through the sales and/or letting process for both private and shared ownership homes. Affordable rent homes are allocated to the council's housing list via Croydon Affordable Homes.
  - 1.7.4. The BXB model of delivering multiple sites simultaneously allows for commercial efficiencies which have the effect of increasing the overall quantum of affordable housing in the programme – for example, BXB often succeed in delivering 50% affordable housing within their smaller residential sites programme, far greater than the amount usually achieved on such sites as there is no requirement on private developers to do so.



- 1.7.5. Where community facilities exist on sites to be developed, BXB aims for these to be replaced either on-site or very nearby with new, purpose built facilities which address local need. This allows for investment in public infrastructure in the course of delivering new homes.
- 1.7.6. BXB place contractual stipulations on all their contractors with regard to the use of local employment and local supply chain, creating jobs for Croydon residents.
- 1.8. BXB has been actively trading for two years now and 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 growth in the borough. This Business Plan sets out the vital role Brick by Brick will continue to play over the coming years in contributing to the borough's success.



## 2. Company Aims and Objectives

2.1 The key aims of BXB can be summarised as follows:

- To deliver multi-tenure housing for sale and rent.
- To ensure an equitable, transparent and commercially efficient form of development which maximises the amount of affordable housing delivered through the planning process.
- To maintain an exceptionally high quality of design and delivery to ensure development activity is a positive addition to the local environment.
- To deliver new or replacement cultural, community, educational, health, public realm and other development as part of mixed use schemes.
- To deliver new commercial and/or retail development.
- To dispose of existing property and/or acquire new property in accordance with the terms of the 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

2.2 The BXB board have set a series of strategic targets that have been incorporated into this Business Plan as key deliverables for BXB in the medium-term. These are:

- The delivery of c500 completed residential units per annum from 2019 onwards
- Maintaining a 50% affordable housing provision across the BXB residential programme as a whole (a mix of shared ownership and affordable rent)
- A profit expectation of 15% profit on cost for private units and 8% profit on cost for affordable units to returned to the shareholder (with corresponding annual profit targets set according to when schemes complete)
- An 8-week prioritisation period for Croydon residents to purchase/rent BXB homes when they are launched to market (with a corresponding aim to prioritise provision of homes to households and first-time buyers ahead of investors)

### Social value

2.3 In essence, the BXB model aims to maximise the benefit to local residents from development activity. Going forward this will include the development and implementation of a defined Social Value/CSR Policy aimed at ensuring there is the broadest possible positive impact from BXB work beyond housing delivery, making real, tangible improvements to the lives of Croydon residents. This is likely to include working on bespoke initiatives with the council and innovative local organisations to further their social value objectives, providing both enabling funding and BXB staff volunteering time and expertise. The policy will be developed in consultation with local experts and organisations and will be ready for full implementation in the financial year 2019/20.



### 3. Progress to Date

- 3.1 BXB has been actively trading for two years now. In this time the company has grown steadily and progressed development throughout the borough at an unprecedented pace and scale. It is important to consider this in the context of setting the Business Plan for 2019/20 and the medium-term.
- 3.2 In preparation for meeting the company's strategic delivery targets, a substantial amount of work was undertaken at the outset by BXB to identify local authority owned land with development potential. A detailed review of the Council's asset register and GIS mapping was conducted in order to create a pipeline list of c250 sites with capacity for over 4,000 residential units. Based on feasibility assessments, this pipeline list was subsequently broken up into tranches of sites to be taken forward to early stage design and ultimately, subject to viability, submission to planning.
- 3.3 To date the company has achieved planning consent on 38 schemes which will enable it to deliver more than 1,300 units of housing. There are also a further 5 schemes currently being prepared for planning or already being considered by the planning authority. All of this work has created the foundation for the company to start meeting the target of c500 completed homes per annum from 2019 onwards.
- 3.4 Of the schemes that already have planning consent, 22 are in contract with building contractors and/or on-site, and a further 16 are currently out to tender. Several of the schemes that are on site have practical completion dates scheduled for the first half of 2019, starting from Jan/Feb 2019.
- 3.5 With units ready for sale in 2019, the company has also progressed the fit out of a central Croydon marketing suite. This is located at 62 George Street and will serve as a central location from which to manage all sales activity across the BXB programme (alongside specific show flats which will be provided on selected BXB schemes). The marketing suite will be staffed by experienced sales negotiators and mortgage advisors to support prospective buyers through the complex process of identifying the right homes to meet their affordability criteria. Meanwhile, the rest of the building will serve as the BXB company headquarters and offices, with staff working from the office space located above the marketing suite.
- 3.6 The BXB staff team has grown over 2019, with a number of new specialist staff joining the Development, Construction, Operations and Communications teams to address a growing workload and enable BXB to take advantage of a range of new opportunities. The company also completed the TUPE transfer of a number of staff from Croydon Council to BXB.
- 3.7 Another key achievement for the company over the last year has been the growth of the in-house architecture practice 'Common Ground Architecture' (CGA). The practice has been set-up as a trading arm of BXB and has now grown to 10 FTE architects, providing architectural services for external clients as well as BXB. CGA aims to generate an annual profit through the work it delivers (both internally and externally) and as such has its own section within the company Business Plan (see Section 7). Through the work that it has completed with BXB, the practice has developed a considerable expertise in the delivery of complex infill schemes of the sort that many councils will need to consider over the coming years in order to meet housing delivery targets.
- 3.8 The performance of the company over the last two years has been high profile and received considerable recognition. This has included multiple prestigious awards from a variety of industry sources including Inside Housing, Housing Design Awards, New London Architecture and the Architects Journal.



## 4. Market Analysis and Business Risk Assessment

**[NOTE: ALL FIGURES TO BE UPDATED WITH LATEST MARKET ANALYSIS (INC BREXIT) CURRENTLY UNDERWAY]**

- 4.1 The dynamism of the land and property markets in London have been well documented over recent years. A wealth of information and publications continue to be produced providing detailed analysis of the housing market in the capital. However, given the significant uncertainties being driven by factors such as Brexit and changes to interest rates, commentators continue to report a mixed forecast for house prices in the medium term.
- 4.2 This section examines a number of key indicators and draws together evidence regarding the impact market changes have had on the ability of Croydon residents to access housing. This is an important area of analysis in terms of the overall viability of a development company like BXB, with implications for overall market demand, the current and future demand for affordable housing and the value of BXB housing product.
- 4.3 Evaluating the housing market requires an understanding of the real cost of buying or renting a property and the level of housing need. This analysis is undertaken at a detailed local level for every site that BXB assesses to ensure that schemes are financially viable. The company also aims to maintain a wider perspective on the Croydon market to help make a strategic assessment of need, opportunity and risk.

### Macro Trends in the UK Housing Market

- 4.4 The headline growth in UK house prices for 2017 is reported at between 2.6% and 2.7% according to figures released by Nationwide<sup>1</sup> and Halifax<sup>2</sup> respectively in January. This represents the slowest increase since 2012, and indicates a sharper decrease in growth than that shown by official ONS data (available to October 2017).
- 4.5 The regional analysis provided by Nationwide showed London to be the weakest performing region for the first time since 2004, with a price decrease of 0.5% recorded for 2017. The affordability gap in London as well as sluggish performance at the top end of the market are considered to be the key drivers for this overall slowdown. In addition, regional convergence is occurring partly as a consequence of the speed of recovery since 2008, with London having seen the fastest revival to make current prices 55% higher than the 2007 peak (still the largest increase nationally by some distance).
- 4.6 PWC<sup>3</sup> reported that the impact of Brexit on house prices in the UK had been slow to materialise, although growth did begin to stall in the second half of 2016. The impact of political and economic uncertainty was more pronounced in terms of the volume of transactions. The volume of residential sales were 7.1% higher year-on-year in November 2017 (according to HMRC data<sup>4</sup>) which suggests that this initial dip has recovered back to previous levels. However, surveyor indicators published by Savills suggest that demand may be slowing once more going into 2018.
- 4.7 The outlook for UK house prices varies somewhat according to different reports. The Nationwide analysis expects the UK House Price Index (HPI) to slow to 1% in 2018, but expects it to recover to 3-4% over the longer-term to maintain parity with the expected increase in earnings (with shortages in supply also continuing to be a factor). Other economic analyses show the following the following projections:

Organisation	2017	2018	2019	2020	2021
PWC <sup>5</sup>	3.7%	3.9%	3.9%	4.1%	4.1%
Savills <sup>6</sup>	4.0%	1.0%	2.5%	5.0%	2.5%

<sup>1</sup> Nationwide, *Nationwide House Price Index* ([www.nationwide.co.uk/hpi](http://www.nationwide.co.uk/hpi)), December 2017

<sup>2</sup> Halifax, *Halifax House Price Index* (administered by Markit), 08 January 2018

<sup>3</sup> PWC, *UK Economic Outlook*, July 2017

<sup>4</sup> HMRC, *UK Property Transaction Statistics*, 21 December 2017

<sup>5</sup> PWC, *UK Economic Outlook*, July 2017

<sup>6</sup> Savills, *UK Housing Market Update*, December 2017





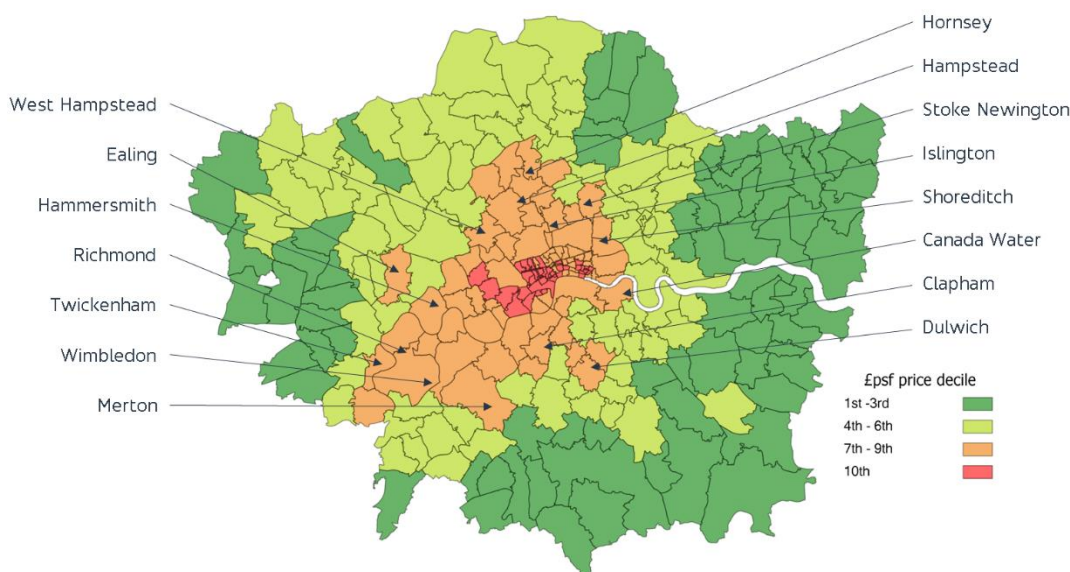
Most analysts agree that London and the south-east are likely to under-perform relative to the rest of the country over the next 2 years.

- 4.8 The other important macro-economic indicator for BXB to consider is the Construction Price Index given the significant impact that this has on the cost of development activity. This data is released quarterly by ONS with the most recent update available at Q3 in 2017 (see below). This data covers a wide range of construction activity, but the important measure is the one for new housing activity which shows that inflation on construction costs is currently out-pacing the HPI nationally.

	All Work	New Work	New Housing
Q3 Construction Price Index <sup>7</sup>	2.0%	2.2%	3.7%

### The Croydon Market

- 4.9 Whilst the outlook for house prices in the capital as a whole looks relatively weak, the complexity of the London market means that there are large variations across the city. Hometrack<sup>8</sup> splits the London market into ten separate price bands (10 being the highest) which are distributed across post codes according to the diagram below.



- 4.10 This allows house price analysis to be conducted separately for each range. Current forecasts indicate that the top three deciles will see price decreases, with less volatility expected towards the middle of the market where prices are expected to remain flat.
- 4.11 Meanwhile, the outlook for outer London boroughs (in the 1-3 range) continues to look positive, and the trend since 2014 for these areas to out-perform their inner London neighbours (which was partly sparked by stamp duty changes) is expected to continue. PWC report that on average outer London house prices have increased 9% faster than inner boroughs over this period.
- 4.12 This is positive news for Croydon which has already been one of London's best performers in terms of house price growth over the last five years (estimated to be 68% according to CBRE Residential<sup>9</sup>). Increases in 2017 were slower than in previous years but still outperformed London (and the national average) at 6%. The table below shows BXB's own analysis of house price inflation in Croydon over the last two decades.

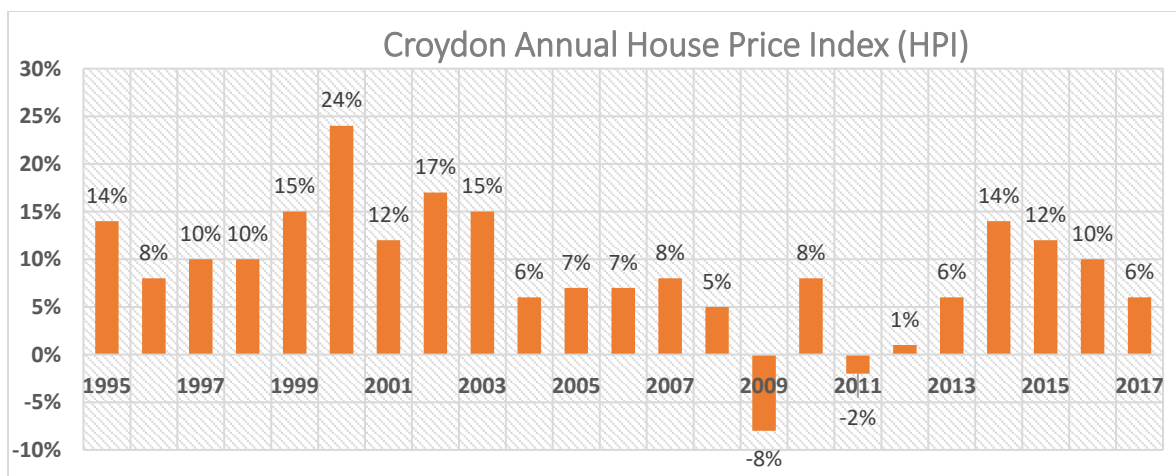
<sup>7</sup> Office for National Statistics (ONS), *Construction Output Price Indices (OPIs) Quarter 3 2018*, 14 November 2017

<sup>8</sup> Hometrack, *The London Housing Cycle - where next?* ([www.hometrack.com/uk/insight/market-analysis](http://www.hometrack.com/uk/insight/market-analysis)), 21/04/17

<sup>9</sup> CBRE, *London Living 2017 – A borough by borough review*, 08 November 2017

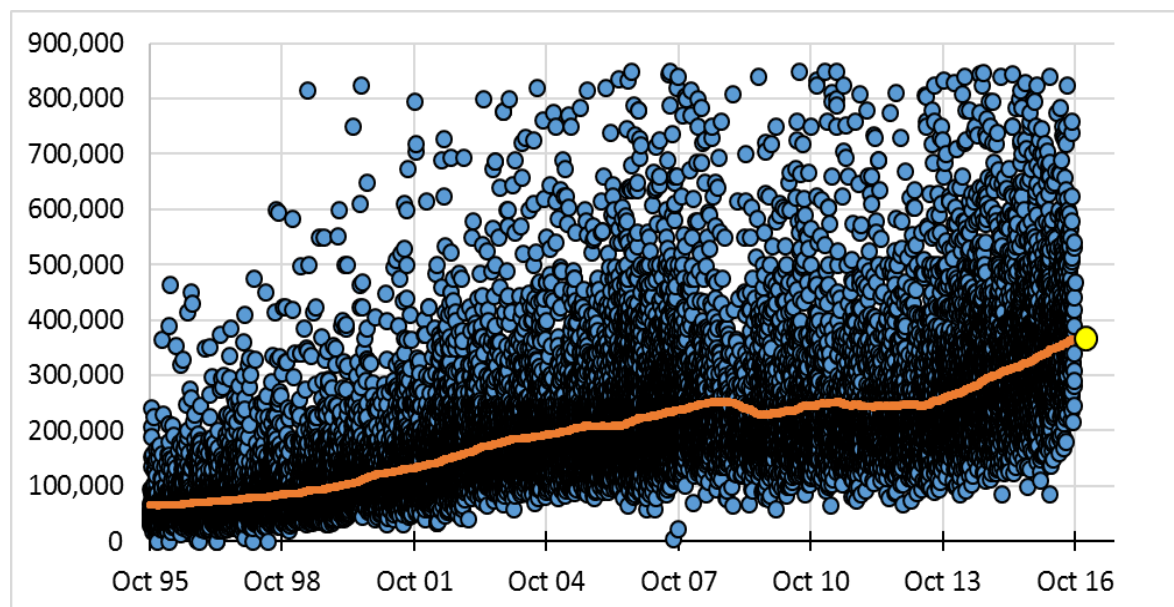






4.13 CBRE's *London Living 2017* analysis of the market in Croydon projects a further 19% increase to house prices in Croydon over the next 5 years. It also predicts population growth of 10% over the next decade (equating to 38,650 new residents) which would suggest a continuing uplift in demand for housing.

4.14 This is broadly consistent with the detailed analysis that was undertaken by BXB to create a House Price Index trend for the borough based on transacted values within Croydon over the last 20 years (see below).



The trend line (orange line in the graph above) for house price movement indicates a 4.5% HPI and this trend appears both stable and consistent. Therefore, despite much larger growth over the last five years, BXB has adopted this as its conservative assumption for HPI in Croydon over the next 5 years to 2021. This is supported by the fact that the company's estimate of 6% for 2017 was accurate.

Year	2017 (actual)	2018	2019	2020	2021
Croydon HPI Forecast	6%	4.5%	4.5%	4.5%	4.5%



4.15 With the Construction Price Index running at 3.7% for housing as at September 2017 (see 3.8 above), and a forecast HPI of 4.5% for Croydon, BXB development activity remains fully commercially viable. Given the convergence of key indicators throughout the course of 2017, the market will continue to be monitored closely by BXB for any further narrowing in order to ensure that the forward facing commercial strategy remains fully relevant.



## 5. Brick by Brick Ltd – Planned Programme Activity

5.1 BXB's development programme can be broadly split into three main areas of activity:

- **Existing Programme** – consisting of 43 schemes which either have planning consent already (38) or have been submitted to planning (5)
- **College Green** – including the work on Fairfield Halls, Fairfield Homes, Fairfield Car Park and the associated public realm improvements
- **Pipeline Programme** – covering the next tranche of sites from the company's pipeline site list which will be taken from feasibility to planning over the next 12 months

### Existing Programme

5.2 The planned activity with the existing programme will be primarily focussed on taking schemes through to completion throughout 2019/20. A total of 22 schemes are already on site, with a further 17 either out to tender or already at pre-contract with an expectation that they will start on site before the end of the 2018/19 financial year.

5.3 The key programme deliverable for 2019/20 is the completion of 14 sites. The projected completions are those starred in the table below, where a full breakdown of planned activity on the existing programme is provided.

5.4 The 5 schemes in planning are expected to have completed the planning process by the beginning of 2019/20, meaning they would be taken through Stage 3 design, then tendered and commence on site in 2019/20.

Phase	Scheme	Total Units	Affordable Units	% Affordable	SOS	Estimated PC
1	Auckland Rise*	57	19	33%	Dec 17	Mar 19
1	Cheriton*	27	27	100%	Dec 17	Jun 19
1	Homefield House*	24	0	0%	Dec 17	Jul 19
1	Kingsdown*	34	6	18%	Jun 18	Nov 19
1	Malton*	9	5	56%	Jul 18	Dec 19
1	Marston Way*	12	0	0%	Mar 18	Dec 19
1	Northbrook*	11	0	0%	Mar 18	Jul 19
1	Ravensdale*	31	0	0%	Dec 17	Mar 19
1	Regina	19	19	100%	Mar 18	Mar 20
1	Tollers Lane	40	18	45%	Feb 18	Jan 20
2	Academy Gardens	9	0	0%	Feb 19	Mar 20
2	Chertsey Crescent	7	7	100%	Apr 19	Mar 20
2	Coldharbour	8	8	100%	Jun 19	Jun 20
2	Drovers	9	9	100%	Jun 19	Jun 20
2	Drummond Rd	28	0	0%	Jan 19	Mar 20
2	Eagle Hill*	8	0	0%	May 19	Feb 20
2	Heathfield Gardens*	20	0	0%	Jan 19	Dec 19
2	Hermitage Gardens*	9	0	0%	Dec 18	Oct 19
2	King Henrys Drive	7	7	100%	Jun 19	May 20
2	Longheath	53	53	100%	Jun 18	Aug 20
2	Oxford Road*	9	0	0%	May 19	Feb 20
2	Station Road*	14	0	0%	Sep 18	Oct 19
2	Thorneloe	10	0	0%	Feb 19	Apr 20



2	Tollgate*	42	15	36%	Aug 18	Dec 19
2	Uvedale Crescent	6	6	100%	Apr 19	Mar 20
2	Warbank Crescent	36	36	100%	Jun 19	Jul 20
3	Avenue Road	12	7	58%	May 19	May 20
3	Coombe Road	9	0	0%	Mar 19	Apr 20
3	Coulsdon Community Centre	33	16	48%	Aug 20	Mar 22
3	CALAT	0	0	0%	Jun 19	Jun 20
3	Queens Road (Ashby Walk)	9	0	0%	Apr 19	Mar 20
3	Queens Road (Tirrell Road)	9	9	100%	Apr 19	Mar 20
3	Queens Road (Windmill Road)	6	6	100%	Apr 19	Mar 20
3	Shrublands	26	26	100%	Jun 19	Aug 20
3	Warminster	6	0	0%	Jun 19	Aug 20
3	Lion Green Road	157	79	50%	May 19	Jun 21
3	Wandle Road Car Park	128	60	47%	Mar 19	Apr 21
3	Belgrave & Grosvenor	102	50	49%	Apr 19	May 21
4	Sanderstead Car Park	14	4	14%	Jun 19	Aug 20
4	Tamworth Road	8	0	0%	Jan 20	Dec 20
4	Arkell Grove	9	9	100%	Sep 19	Oct 20
4	Bedwardine Road	22	16	73%	Sep 19	Oct 20
4	Kennelwood Close	6	5	100%	Sep 19	Oct 20
<b>TOTALS</b>		<b>1,093</b>	<b>522</b>	<b>48%</b>		

### College Green

- 5.5 2019/20 is also shaping up to be a critical year for the College Green project in Central Croydon. BXB works are significantly advanced on the refurbishment of Fairfield Halls, and this work, along with the works to the Fairfield underground car park, is currently scheduled for completion in August 2019.
- 5.6 BXB will also be advancing work on the Fairfield Homes element of scheme located on the remainder of the site, with a view to submitting a planning application in February 2019 and starting on site with this very substantial scheme towards the end of the year.

### Pipeline Programme

- 5.7 In order to secure a robust pipeline of work for the medium-term business outlook, BXB will also be progressing the next tranche of sites from feasibility through to Stage 2 (and planning submission) in the next 12 months. The current programme of activity should sustain the company's target completions over the next 2 years, and the new tranche will enable it to continue to meet this target for the next 12 months beyond that. BXB intends to progress a tranche of c50 sites (with capacity for c600 units) on an annual basis over the duration of this Business Plan period.
- 5.8 The current proposed pipeline sites to be progressed are spread across the borough as follows:

Area of the Borough	No. of Schemes	Est. No of Units
North	8	176
Central	33	252
South	9	133
<b>TOTAL</b>	<b>50</b>	<b>561</b>



- 5.9 Given that these schemes are at an early feasibility stage, the exact detail for each scheme has yet to be fully worked out. However, BXB will be aiming for 50% affordable housing provision across this tranche of which 25% will be S/O and 25% affordable rent (in line with its strategic targets). Based on its established development programme timescales, BXB will aiming to start these schemes on site in summer 2020 with a view to completions being staged across the second half of 2021.



## 6. Brick by Brick Ltd – Financial Projections

**[ALL FIGURES TO BE UPDATED POST UPDATED MARKET ANALYSIS AND APPROVED BY BXB BOARD]**

- 6.1 BXB has been established to be wholly financially self-sufficient, with all costs relating to the operation of the business covered 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 teams, followed by more detailed site due diligence (title, planning, geotechnical, utilities, etc) as necessary. This work informs a financial appraisal and the Board then decides, subject to viability, funding and conformity with the Business Plan, whether to approve further formal design and development work through the RIBA stages.
- 6.2 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 majority of which are in Council ownership. Sites which are suitable for development are purchased by BXB 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 council as landowner to fully capture any unexpected land value uplift.
- 6.3 The company also purchases land from the private sector, both strategically and speculatively, where there is a business case for doing so. Such purchases are reported to the Board for approval along with a financial appraisal which details the financial reasoning for the acquisition.
- 6.4 The full cost for each development site (including land, financing, construction and all associated fees) is appraised against revenue generating potential with the aid of specialist consultants. Each appraisal also includes an amount to cover corporate overheads and management costs (e.g. finance, company admin, etc).
- 6.5 Revenue 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 hurdle for BXB developments is approximately 15% profit on cost for private schemes.
- 6.6 Initially, the Council provides the sole source of development finance. Repayment of any 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. 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.
- 6.7 All of this information feeds into the company's financial planning process which allows it to make detailed projections as to the levels of planned expenditure and likely revenue from sales. The gap between the two, which will largely be driven by timing (given the intention to generate returns on all sites), provides an estimate of the company's financing requirement which will need to be met in order for it to commence activity. Each element of the overall financial projection is summarised in detail below.
- 6.8 These estimates are monitored and reviewed regularly as part of a robust financial management cycle in order to provide a periodic review of actual spending on a site-by-site basis against the granular elements of the detailed financial appraisals. A change process is initiated in the event that appraisals need to be adjusted as estimates crystallize, and all key variations and exceptions are reported upwards (including a periodic Board report). All of this information is also integrated into detailed cash flow projections to give the company sufficient Treasury control.



## Projected Development Costs

- 6.9 BXB development expenditure has been projected based on the programme activity outlined in Section 4 of the Business Plan. It has therefore been split according to the 3 different areas of the programme identified.
- 6.10 The 43 schemes that make up the existing programme are all at a sufficient stage of maturity for detailed cost estimates to be known. A full financial viability appraisal has been prepared for each of these schemes and approved by the Board. The expenditure projections for this element of the programme has been prepared based on an amalgamation of the detailed information contained within each viability appraisal.
- 6.11 The College Green scheme operates slightly differently. The Fairfield Homes element of the project is a standard residential scheme and therefore has a financial viability like any other BXB scheme to capture expenditure, revenue and expected profit. The Fairfield Halls and Public Realm elements are purely expenditure (with no profit element) and are therefore based on a set of detailed cost plans. Finally, the Fairfield Car Park is a revenue generating project but is modelled differently to a standard residential scheme, necessitating a bespoke financial appraisal. Each of these elements has been combined to generate a summary of College Green as a whole.
- 6.12 Finally, the new pipeline sites are at a much earlier stage of development than the other residential schemes in the BXB programme. Without any detailed design work having been undertaken, it is not possible to create detailed cost estimates for these schemes. However, broad capacity studies have been prepared and the company is therefore able to project what it expects to spend on these schemes based on average cost rates across the existing programme.
- 6.13 A summary of the forecast expenditure for the business as a whole over the medium-term is provided below (based on the projection methodologies described above):

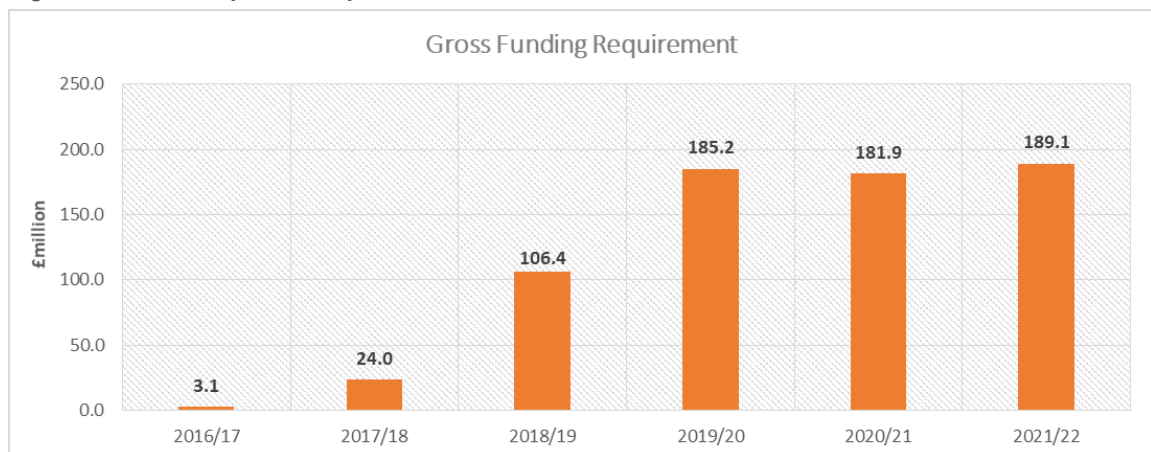
Activity	Existing Programme (£m)	College Green (£m)	Pipeline Programme (£m)	Total Development Expenditure (£m)
Land & Construction Costs	264.40	148.53	168.01	580.94
Fees & Contingency	41.46	14.99	26.34	82.79
Planning Costs	9.44	0.95	6.00	16.39
Capitalised Interest	10.91	TBC	6.93	TBC
Sales Costs	5.54	3.14	3.52	12.20
Working Capital	3.67	1.30	2.33	7.30
Grant	(10.86)	TBC	(6.57)	TBC
<b>TOTAL</b>	<b>324.56</b>	<b>TBC</b>	<b>206.56</b>	<b>TBC</b>

- 6.14 This combined development activity will be delivered over the next five years. Figure 1 shows the overall expenditure profile for the company over this period based on the projections included within each element of the programme above.





**Figure 1 – Gross expenditure profile**



### Projected Revenues

- 6.15 Each of the sites included in the programme of development has been appraised by comparing the projected cost of development against the income generating potential of the scheme. Only projects that can demonstrate a sufficient level of return are taken forward.
- 6.16 The company is projecting revenue streams to be achieved from the sale of private and shared ownership units, as well as the transfer of affordable rent properties to Croydon Affordable Homes. Ongoing rental income will be generated from shared ownership units and rents on non-residential units, as well as ground rent on private flats. Anticipated revenues have been calculated based on market expectations and trends in each site location.
- 6.17 The current portfolio of projects (excl. Fairfield Homes) is projected to deliver total receipts of **£364m**, with a further **£231m** to be generated by the pipeline sites (based on an extrapolation of values from the existing programme). Overall, this would generate a profit of **c£65m** on the total investment in the BxB residential programme detailed in 5.14.
- 6.18 A summary of projected sales income is shown below.

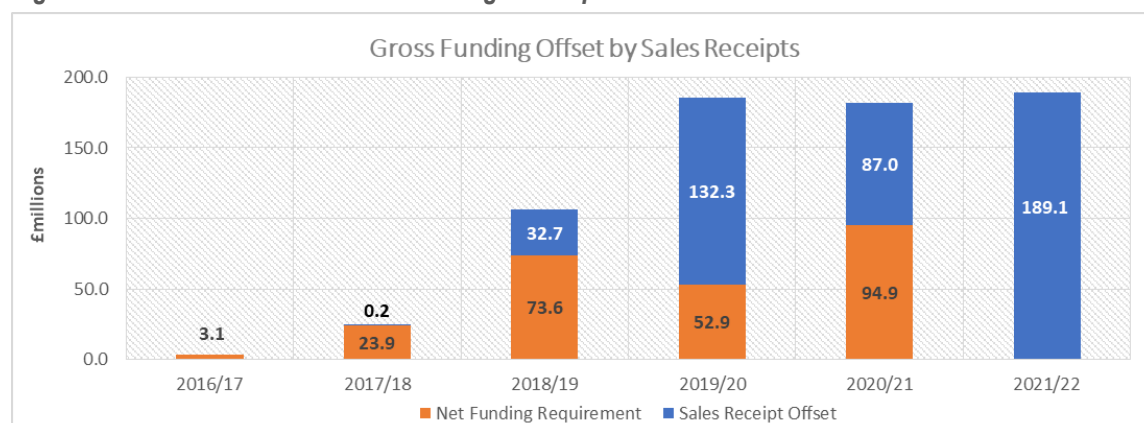
Type of Sale	Existing Programme (£m)	College Green (£m)	Pipeline Programme (£m)	Total Development Revenue (£m)
Private	218.43	120.92	133.21	339.35
Shared Ownership	93.89	21.89	52.28	115.78
Affordable Rent	45.50	0.00	44.26	45.50
Commercial	3.47	4.53	0.00	8.00
Other	3.05	2.06	1.64	5.11
<b>TOTAL</b>	<b>364.36</b>	<b>149.40</b>	<b>231.39</b>	<b>745.15</b>
<b>ESTIMATED PROFIT</b>	<b>39.80</b>	<b>TBC</b>	<b>24.83</b>	<b>42.44</b>

- 6.19 BXB revenues started to be generated from mid-2018 when income from Croydon Affordable Homes (CAH) for the delivery of affordable rent units commenced based on construction starting. Sales will ramp up significantly from March 2019 when the first schemes containing private and shared ownership units are forecast to part-complete (Auckland Rise and Ravensdale Gardens).



- 6.20 Revenue from sales will be used to offset development expenditure and reduce borrowing in order to minimise the levels of debt interest accrued (as demonstrated in Figure 2).

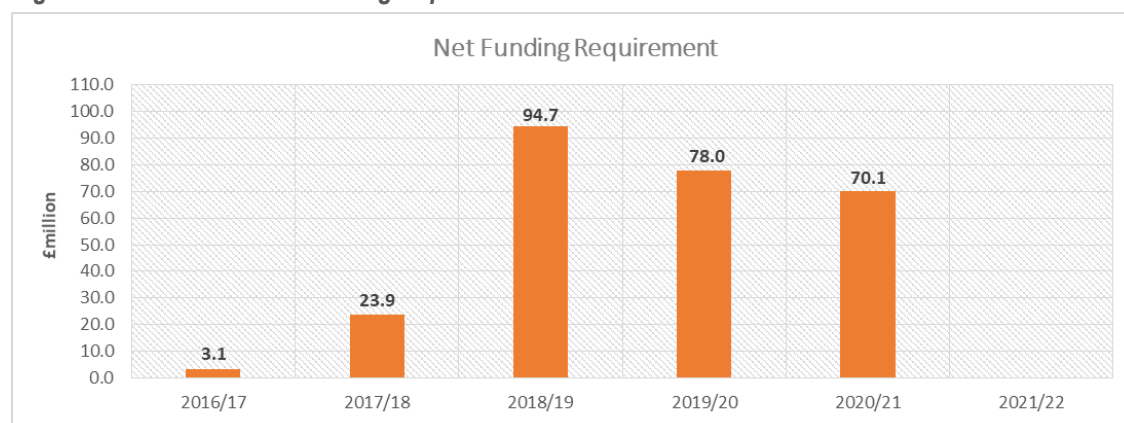
**Figure 2 – Estimated offset of revenue to gross expenditure**



## Financing Arrangements

- 6.21 Initially, the Council will be the sole provider of development finance. Repayment of interest on this debt (and return on equity investment) by BXB will therefore generate a revenue stream for the Council given its ability to borrow at competitive rates to service this lending.
- 6.22 Given the expected offset of development expenditure against revenue as BXB starts to commence sales activity (see Figure 2), a total net financing requirement of **£270m** is currently projected for BXB. This takes into account the profile of expenditure versus income, and considers where sales receipts are available to offset expenditure and also allow debt to be run down (if required). This will be profiled over the next five years according to Figure 3 below, with peak borrowing shown as **August 2021** in Figure 4.

**Figure 3 – Profile of net financing requirements**

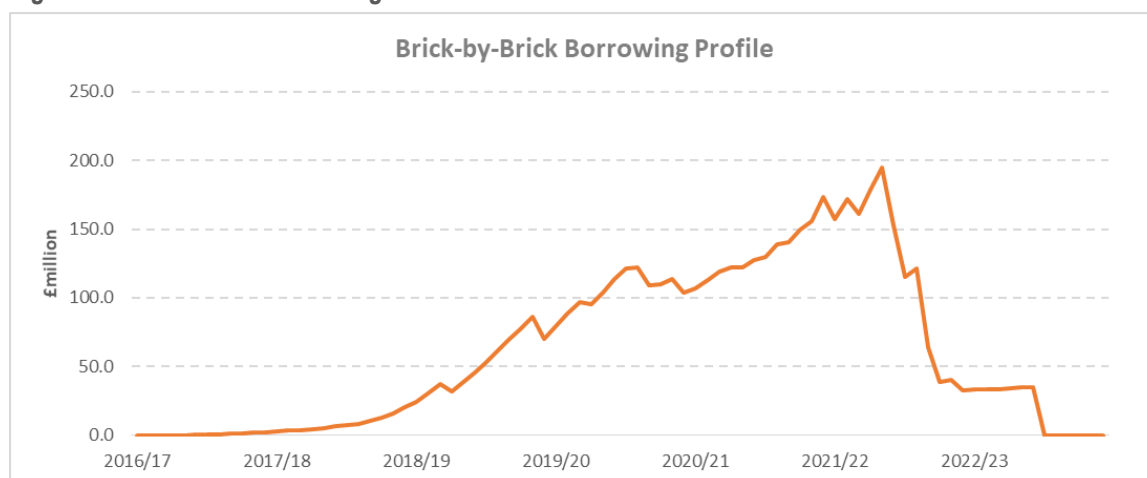


- 6.23 All borrowing is defined by comprehensive loan agreements for each site which ensure that financing is secured against land and is subject to stringent pre-conditions. A regular financing schedule is shared with the Council to give it sufficient notice to arrange and funds will be drawn down on a periodic basis according to these programme projections. From a BXB perspective, the profile of borrowing is optimised to provide maximum cash flow security while also minimising interest costs.
- 6.24 BXB has agreed with the Council that financing will be arranged on a 75:25 split between borrowing and equity. On this basis, BXB borrowing is expected to peak at **£195m**. The repayment of principal will be reviewed annually, and will be largely dependent on how the company's development activity is expanding, as well as its access to other forms of financing. The current profile of accumulated debt



shown in Figure 4, and demonstrates an assumption that BXB will repay all borrowing by **October 2022** (accruing interest of **c£37m** over this period).

**Figure 4 – Cumulative borrowing balance**



## Financial Targets

- 6.25 Based on the figures included in the overall BXB financial projections detailed above, the Board has decided to set a series of annual targets for the business to achieve in terms of the value generated for the shareholder (i.e. LB Croydon). These targets are summarised below:

Target	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)	TOTAL (£m)
Profit	13.17	4.74	13.56*	31.47
Land Value Released	1.87	2.05	2.40	6.32
Debt Repaid	0.00	0.00	125.10	125.10
Interest Paid	6.74	8.39	8.75	23.88

- 6.26 These targets are intended to act as the key financial performance indicators for BXB as a whole, and will be monitored closely on a monthly basis and regular reports to the Board. The Board has set the 2019/20 figures as fixed targets for the forthcoming financial year. The 2020/21 and 2021/22 targets are indicative at this stage and will be reviewed and set annually when the business plan is published prior to each financial year.



## 7. Brick by Brick Ltd – Operating Costs

- 7.1 To deliver a development programme of the scale that is outlined in this Business Plan, BXB has recognised the need to expand staffing structures in order to create a sufficient level of capacity. As described in Section 3, BXB became an employing entity in its own right in 2018/19. This has allowed it to expand staffing levels across the Development and Construction teams, and within Common Ground Architecture. This expansion will continue into 2019/20 with the ultimate aim of growing the number of staff working for BXB to c37.
- 7.2 The company's operating costs are currently provided for by an allowance that is included within every individual scheme viability appraisal to ensure that a proportion of the revenue generated by each development is used to fund the operating costs of the company (which include staff costs alongside other operating overheads such as office accommodation, legal, ICT, HR, insurance and other corporate functions, some of which are purchased from LB Croydon).
- 7.3 A working capital provision of **£7.30m** is included within the current financial modelling for the existing programme. This allowance has been used to cover the operation of BXB over the last three financial years since it began trading in 2016 (so 2016/17, 2017/18 and 2018/19).
- 7.4 The annual operating budget for the company is projected to be as follows over the next three years:

Target	2019/20 (£m)	2020/21 (£m)	2021/22 (£m)
BxB Staff	1,811	1,811	1,811
Accommodation	131	150	150
ICT	75	75	75
HR & Finance	20	20	20
Insurance	50	50	50
Legal	100	100	100
Common Ground Architecture Contribution	(123)	(130)	(130)
<b>TOTAL</b>	<b>2,064</b>	<b>2,076</b>	<b>2,076</b>

- 7.5 The operating allowance included in the existing programme is therefore estimated to be sufficient to cover the company's cost to **2020/21** (which includes all operating expenditure to date as noted above). This underlines the importance of bringing forward the next tranche of schemes from the list of pipeline sites in order to generate sufficient allowance to cover the company's operational expenditure from 2021/22 onwards. Paragraph 6.13 demonstrates that each additional 650 units added to the BxB programme creates a working capital allowance of c£2.3m. The company therefore aims to set an operating budget that is within this level and aims to consistently bring forward enough development schemes on an annual basis to support the organisation.
- 7.6 Common Ground Architecture operates as an internal trading account. This essentially means that it charges fees for all work that it undertakes (whether internal to BXB or for external clients) in the way that an ordinary architecture practice would. This means that the cost of running Common Ground Architecture (CGA) is not covered by the BXB operating allowance. Instead, where CGA acts as architect for a BXB scheme it charges a fee to the scheme under the design fees allowance. Similarly, where it performs client side design monitoring on behalf of BXB, its fee is charged to a different element of the scheme viability (e.g. professional fees). This means that the cost of operating CGA is not included in the figures above (instead a detailed business plan for the practice is included in Section 8 of the Business Plan). However, a contribution towards corporate overheads is factored into the CGA business plan and is offset against the overall BxB operating cost projections.



## 8. Common Ground Architecture – Business Plan

- 8.1 Common Ground Architecture (CGA) is the trading name for BXB's internal design team which has been set up to operate as an architectural practice. It is a trading arm of the business (with its own internal profit and loss account) that is able to charge commercial fees and is expected to generate a profit. The practice consists of a small team of architects (currently 6 and growing) which take instructions from either BXB (for internal projects) or external clients, with fees charged for both.
- 8.2 In terms of the work undertaken for BXB, the practice is delivering on the following instructions:
- Design review and compliance for Brick by Brick projects (including brief writing, design review and provision of design expertise and guidance throughout the development and construction process)
  - Acting as the lead architect on a number of specific BXB schemes (including 24 Station Road, 44B Portland Road, Avenue Road, Fairfield Homes Block 7 and the BXB office at 62 George St)
- 8.3 On an annual basis, CGA prepares a planned programme which demonstrates the projects that it expects to work on (both internal and external), the fees generated by these projects, and how this will offset the cost of running the practice in order to contribute a profit to BXB as a whole. This also allows the practice to undertake capacity planning where demand for services is expected to exceed current resourcing constraints, and make provision in the form of short term temporary injections of architectural capacity or permanent recruitment (where the uplift in demand is expected to be more permanent).
- 8.4 The 2019/20 summary Business Plan for Common Ground Architecture is outlined below. This is based on an expectation that the practice has capacity to work on 12 smaller projects each year with a build cost of c£2.5m, alongside the corporate design role for BxB outlined above.

	2019/20 (£000s)	2020/21 (£000s)	2021/22 (£000s)
BxB Corporate Design Services	200	200	200
Existing BxB Projects	32	0	0
Existing External Projects	62	0	0
New Smaller Projects	560	650	650
<b>TOTAL INCOME</b>	<b>854</b>	<b>850</b>	<b>850</b>
Staff Costs	(511)	(500)	(500)
Supplies & Services	(20)	(20)	(20)
Operating Overheads	(150)	(150)	(150)
<b>TOTAL EXPENDITURE</b>	<b>(681)</b>	<b>(670)</b>	<b>(670)</b>
<b>TARGET PROFIT</b>	<b>173</b>	<b>180</b>	<b>180</b>
<b>TARGET MARGIN</b>	<b>20%</b>	<b>21%</b>	<b>21%</b>

- 8.5 This model is considered to be beneficial for BXB because the profit generated by the practice is returned to the company's annual profit and loss position overall. This means that the profit margin that would otherwise be paid to an external practice as part of their fee for undertaking the design of a scheme is actually retained by the business. Furthermore, it allows the company to maintain a level of internal expertise which provides valuable quality control for the wider BXB programme.

