2019-20 Business Plan

FINAL

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Brick by Brick Croydon Limited

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1. Introduction

1.1. Brick by Brick (BXB) is a development company that was established by Croydon Council to proactively lead the delivery of new homes, of all tenures, throughout the borough for the benefit of Croydon residents. It is a company limited by shares, commercial in character and 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 aims 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:

- 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;

- 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;

- 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.

- 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.

- 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.

- 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 BXB will continue to play over the coming years in contributing to the borough's success.

SECTION 2

Company Aims and Objectives



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 currently:

- 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 and this principle is inherent all decision-making of the company. Going forward BXB is also seeking to develop and implement 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.

SECTION 3

Progress to Date



3. Progress to Date

3.1 BXB has been actively trading since 2016. 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 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 39 schemes (incl. the existing consent for Fairfield Homes) which will enable it to deliver more than 1,250 units of housing. There are also a further 7 schemes currently submitted to the planning authority or being prepared for planning. All of this work has created the foundation for the company to start meeting the target of c.500 completed homes per annum from 2019 onwards.

3.4 Of the schemes that already have planning consent, 24 are in contract with building contractors and/or on-site, and a further 10 are being negotiated or prepared for 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 'BXB Shop' 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 the last year, 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. In 2018, the company also completed the TUPE transfer of all BXB related staff who were previously employed by Croydon Council to direct BXB employment.

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 c10 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. BXB are now considered to be a pioneer in council-led housing development, and the market leader in developing small sites responsibly with a focus on well designed and affordable housing.

SECTION 4

Market Analysis and Business Risk Assessment



4. Market Analysis and Business Risk Assessment

4.1 The dynamism of the land and property markets in London has been well documented over recent years. A wealth of information and publications continue to be produced providing detailed analysis on the housing market in the capital. However, commentators continue to report a mixed forecast for house prices in the medium term, with a range of different interpretations available concerning the impact of a number of key market factors.

4.2 Undoubtedly Brexit remains the biggest driver of uncertainty across the property market, as it does across the wider economy. In many ways the challenges posed to property developers are consistent with those in other sectors, concerned as they are with the availability of labour and the potential for cost inflation throughout the supply chain. The more unique challenge will of course be the specific impact Brexit has on the UK property market, in terms of both property values and the demand for housing.

4.3 This section examines a number of key indicators and draws together evidence regarding the impact that a range of factors (including Brexit) are having on the ability of Croydon residents to access housing. This is an important area of analysis in terms of the overall viability of the BXB business model, with implications for overall market demand, the current and future demand for affordable housing and the value of BXB housing products.

4.4 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 best undertaken at a local level, and is therefore carried out for every site that BXB assesses to ensure that the schemes it develops are both financially viable and meet local need. The company also aims to maintain a wider perspective on the Croydon and London markets to help make a strategic assessment of need, opportunity and risk.

Macro Trends in the UK Housing Market

4.5 The most commonly used term to describe the UK property market at the current time is 'subdued'. The latest figures released by Nationwide[1] in January 2019 indicated that annual house price growth had almost flat-lined at just 0.1%. Halifax[2] data for December 2018 was marginally more optimistic and reported house price increases for 2018 to have held at 1.3% (albeit this was towards the bottom end of their own projections at the beginning of the year).

4.6 Anecdotally, the impact of Brexit uncertainty has become more prevalent in the minds of both buyers and sellers as the exit date draws closer. This is consistent with the prevailing mood of softening consumer confidence across the economy which was in evidence as major retailers began to report their performance over the festive period. The overarching impact of this trend is most clearly seen in market data that tracks demand.

[1] Nationwide, *Nationwide House Price Index* (www.nationwide.co.uk/hpi), January 2019
[2] Halifax, *Halifax House Price Index* (administered by Markit), 08 January 2019

4.7 Halifax reported that the number of UK property sales has remained broadly flat over the last 5 years (with the monthly average over the last five years at 101,587 and performance in November 2018 only marginally lower at 100,930). However, the forward looking metrics are much less favourable with forecast mortgage approvals at their lowest rate since April 2018 having fallen by 4.5% in November (according to Bank of England figures). In addition the Royal Institute for Chartered Surveyors (RICS) reported that the figures in its most recent survey showed significant declines on all key metrics by the back end of 2018, particularly with regard to new buyer enquiries (which they estimated to have fallen by 21%).

4.8 Regional analysis provided by the Office for National Statistics (ONS)[3] reveals that London continues to be the weakest performing region in the UK and remains the only part of the country recording a negative house price index (with average prices having dropped by 0.7% over the year to November 2018). In fact, average prices in London have dropped in every month since July 2018.

4.9 The affordability gap in London, combined with sluggish performance at the top end of the market, are considered to be the key drivers for this continued decrease. The Bank of England's inflation report also noted that property in London continues to be disproportionately affected by regulatory and tax changes (such as stamp duty).

Outlook for 2019

4.10 The outlook for UK house prices in 2019 varies somewhat according to different reports. Market commentators are generally quite pessimistic, while estate agents and banks are managing to maintain a little more positivity. The table below identifies a series of forecasts from a range of sources across the sector, with it being clear that, at best, the pace of house prices growth will be at low single digits.

Organisation	2019
Halifax	2-4%
Savills	1.5%
JLL	0.5%
RICS	0%

Most analysts agree that London and the South East are likely to underperform relative to the rest of the country over the next 2 years.

4.11 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 2018 (see below).

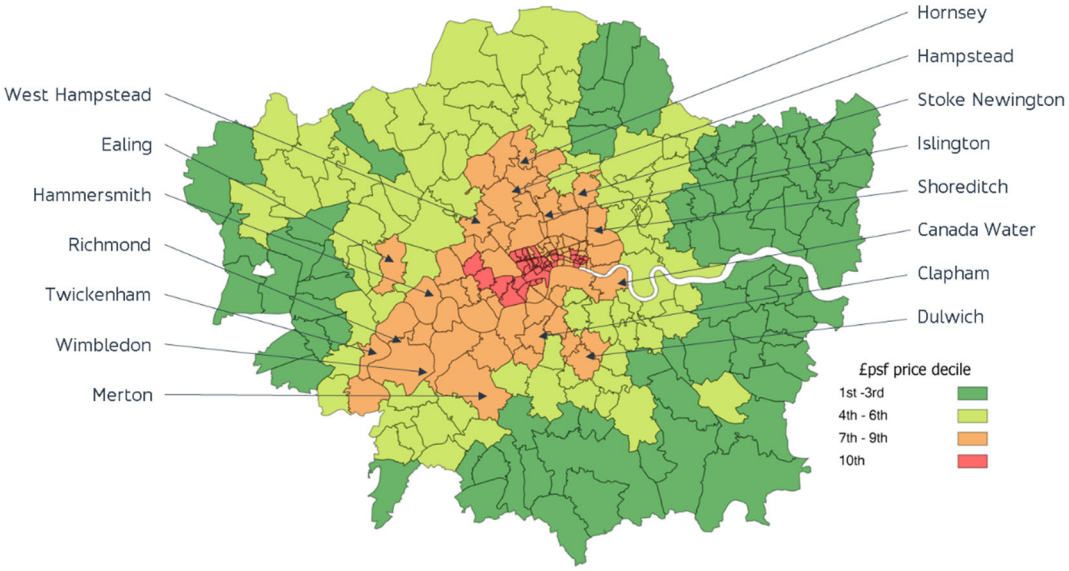
[3] Office for National Statistics, *UK House Price Index: November 2018*, 16 January 2019

	All Work	New Work	New Housing
2018 Q3 Construction Price Index[4]	2.7%	3.1%	3.0%

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 outpacing the HPI nationally. The relationship between these metrics is an important one as it could potentially present viability challenges to new schemes that BXB intends to bring forward, requiring even more innovation in the design process to control cost.

The Croydon Market

4.12 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[5] splits the London market into ten separate price bands (10 being the highest) which are distributed across post codes according to the diagram below.

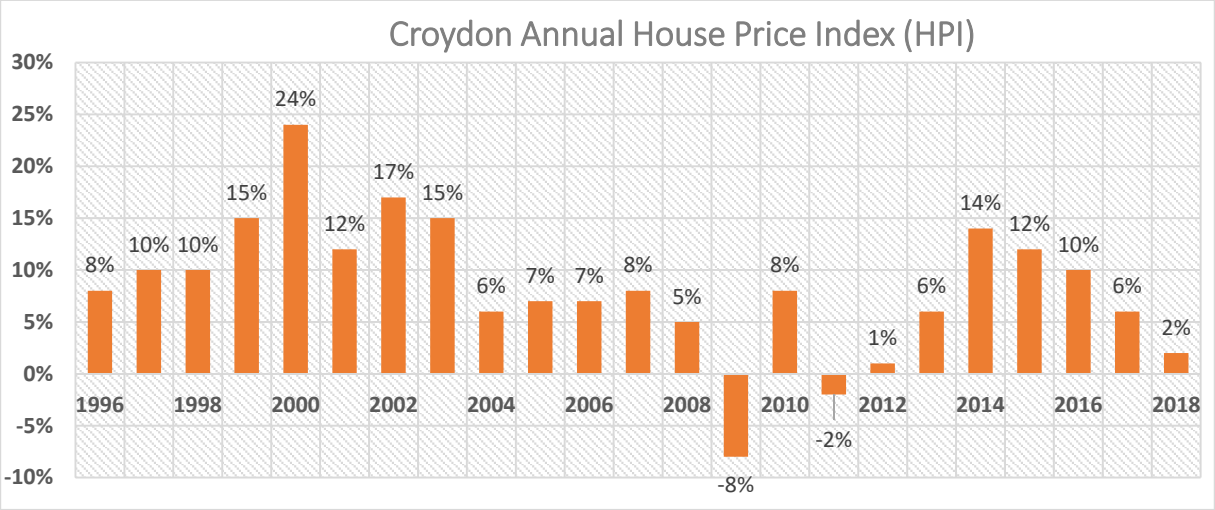


4.13 This allows house price analysis to be conducted separately for each range. Current forecasts indicate that the top three or four deciles will continue to see price decreases (with some agents very pessimistic about asking prices for 2019). However, for the first time the outlook is also starting to look more mixed for the middle and lower priced deciles (which covers much of Outer London). It is logical that as prices at the top of the market begin to show signs of correcting, there will be a knock-on effect elsewhere in the capital as affordability expectations for buyers also adjust.

4.14 The trend since 2014 was for these areas to largely outperform their inner London neighbours (which was partly sparked by stamp duty changes). PWC reported that on average outer London house prices had increased 9% faster than inner boroughs over this period.

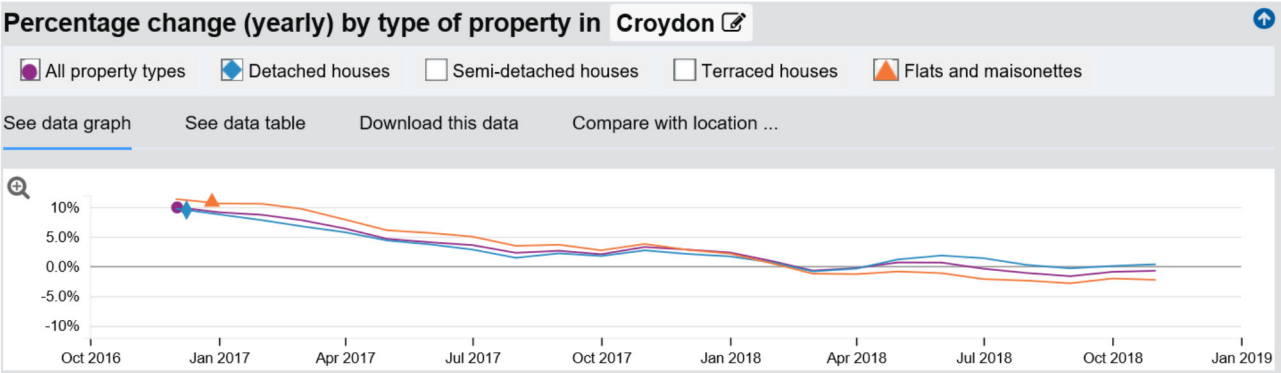
[4] Office for National Statistics (ONS), *Construction Output Price Indices (OPIs) Quarter 3 2018*, 14 November 2018
[5] Hometrack, *The London Housing Cycle - where next?* (www.hometrack.com/uk/insight/market-analysis), 21/04/17

4.15 This was positive news for Croydon which had been one of London's best performers in terms of house price growth over the five years running up to 2018 (and was estimated to be 68% according to CBRE Residential[6]). The table below shows BXB's own analysis of house price inflation in Croydon over the last two decades.



4.16 Increases in 2017 were slower than in previous years but still outperformed London (and the national average) at 6%. However, the trend line for Croydon across 2017 told a slightly less positive story, with the year-on-year percentage increase dropping throughout the year. By the beginning of 2018, the year-on-year trend for all property types had dropped to roughly 1.9%.

4.17 Data provided by BXB's valuation surveyors, Carter Jonas, shows that 2018 was one of the most challenging years for the Croydon property market for some time. Land registry data shows the trend on Croydon property values had nudged towards 0% (with some months showing negative performance). It had also been a particularly challenging year for flats and maisonettes, with prices for these types of home coming under the most pressure.



4.18 BXB's previous analysis of the Croydon market (undertaken in 2017) had indicated that a forecast HPI of 4.5% was a reasonable medium-term expectation to 2021. This projection

[6] CBRE, *London Living 2017 – A borough by borough review*, 08 November 2017

was supported by analysis across the sector. However, ongoing uncertainty surrounding Brexit has had a demonstrably larger bearing on the performance of the local property market than had been anticipated 2 years ago, which has led to much slower increases in 2018 (as described above).

4.19 There is a general expectation that the property market will pick up post-Brexit once the precise terms of a deal have become clearer and consumer confidence starts to return on the basis of improved economic clarity. Knight Frank[7] analysts, for example, are now projecting much more modest indices for London and the UK between now and 2022 (see below), but are still projecting that modest price inflation will return from 2020.

Year	2018 (actual)	2019	2020	2021	2022
UK HPI (Knight Frank)	1.3%	2.0%	3.0%	3.5%	4.0%
London HPI (Knight Frank)	(0.7%)	1.0%	3.0%	3.5%	4.0%
Croydon HPI (BXB Forecast)	1.9%	0.0%	3.0%	3.5%	4.0%

4.20 BXB have taken a much more prudent position in terms of their projections for Croydon. The evidence from Carter Jonas, which has been used to value the company's first units to launch for sale, indicates that the local market is likely to continue to stagnate. In fact, one of the main factors that is helping to hold the market firm for new build properties is the government's Help to Buy scheme (which BXB are signed up to). This suggests that Croydon values for new builds should stabilise at current values for 2019 at least.

Impact on BXB

4.21 With the Construction Price Index running at 3.0% for new housing as at September 2018 (see 4.11 above) and HPI forecast to drop to 0% for Croydon, BXB faces a challenging market context over the next 18 months.

4.22 However, a number mitigating factors should be considered in terms of the durability of the BXB business model. Firstly, most of the existing BXB programme is either in contract or have already received tenders from contractors. This removes much of the exposure to construction price inflation. Secondly, and perhaps more importantly, BXB scheme viability appraisals are always conducted using current prices and with no expectation of property value inflation factored into proposed schemes. This insulates much of the existing programme given that the initial viabilities can now be considered to contain fairly conservative unit values (given that there has been value growth to the end of 2018).

4.23 Secondly, the wider availability of grants to support the delivery of affordable housing will provide important support to the BXB programme. The GLA has increased the grant it offers for shared ownership units to £38k for starts on site over the next two years (from £28k). This will be extremely beneficial for the BXB programme, aiming as it does to deliver at least 50% affordable housing.

[7] Knight Frank, *Residential Research: UK Residential Market Forecast*, May 2018

4.24 Thirdly, unlike many other developers BXB has considerable potential to use tenure as a means of addressing any potential reduction in property values. This could include altering the proportions of private, shared ownership and affordable rent elements across the programme, or introducing new temporary tenures such as private rented, to address major value shifts. This is possible due to the established nature of the relationship between BXB and Croydon Affordable Homes, and also the non-cyclical nature of demand for affordable tenures in Croydon and London more widely.

4.25 It can therefore be surmised that the key risks present in the market analysis outlined in this section are most relevant to the BXB pipeline programme. However, the company's scheme gateway procedures and viability assessments ensure that schemes are only progressed where there is absolute confidence that they can be delivered. The design led nature of BXB schemes means that the panel of architects that help to deliver BXB schemes are fully involved in viability and cost efficiency considerations and are incentivised to bring forward schemes that maximise the development potential of BXB sites and which have already been rigorously tested for financial viability.

4.26 Finally the BXB pipeline programme, which is currently at initial feasibility as of January 2019 (see next section), is not forecast to deliver completed units in the second half of 2021. The market analysis conducted above indicates that there remains an expectation across experts in the sector that HPI in London (and Croydon) will recover from 2020 onwards and the new BXB pipeline schemes can be expected to benefit from this bounce.

SECTION 5

Planned Programme Activity



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
TOTALS		**1,093**	**522**	**48%**		

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 c500 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
TOTAL	**50**	**561**

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 shared ownership and 25% affordable rent (in line with its strategic targets). Based on its established development programme timescales, BXB will aim to start these schemes on site in summer 2020 with a view to completions being staged across the second half of 2021.

SECTION 6

Financial Projections



BRICK BRICK

6. Brick by Brick Ltd – Financial Projections

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.

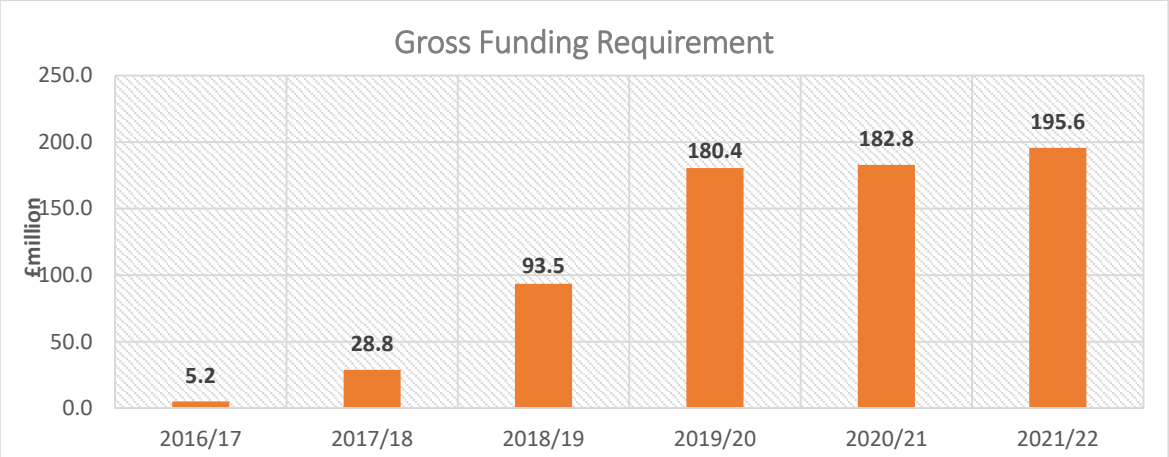
6.12 Finally, the new pipeline sites are at a much earlier stage of development than the other residential schemes in the BXB programme. Without any detailed design work having been undertaken, it is not possible to create detailed cost estimates for these schemes. However, broad capacity studies have 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	150.05	168.01	**582.46**
Fees & Contingency	41.46	17.84	26.34	**85.64**
Planning Costs	9.44	1.01	6.00	**16.45**
Capitalised Interest	10.91	17.38	6.93	**35.22**
Sales Costs	5.54	3.63	3.52	**12.69**
Working Capital	3.67	1.44	2.33	**7.44**
Grant	(10.86)	(13.84)	(6.57)	**(31.27)**
TOTAL	**324.56**	**177.51**	**206.56**	**708.63**

6.14 This combined development activity will be delivered over the next four years to 2022/23. Figure 1 shows the overall expenditure profile for the company over the period covered by this business plan (and the 3 previous years) 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.

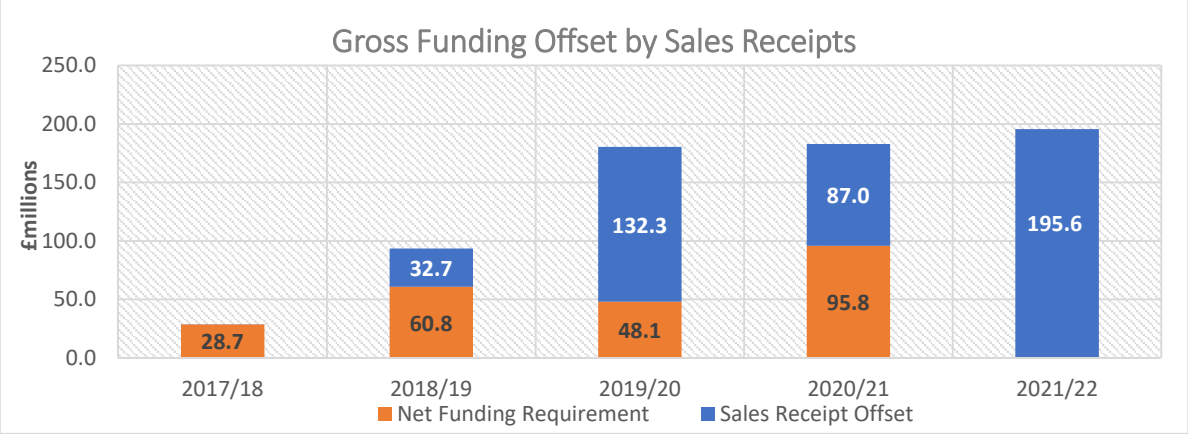
6.18 A summary of projected sales income is shown below.

Type of Sale	Existing Programme (£m)	College Green (£m)	Pipeline Programme (£m)	Total Development Revenue (£m)
Private	218.43	140.52	133.21	**492.16**
Shared Ownership	93.89	22.62	52.28	**168.79**
Affordable Rent	45.50	0.00	44.26	**89.76**
Commercial	3.47	12.03	0.00	**15.50**
Other	3.05	2.34	1.64	**7.03**
TOTAL	**364.34**	**177.51**	**231.39**	**773.24**
ESTIMATED PROFIT	**39.78**	**-**	**24.83**	**64.61**

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

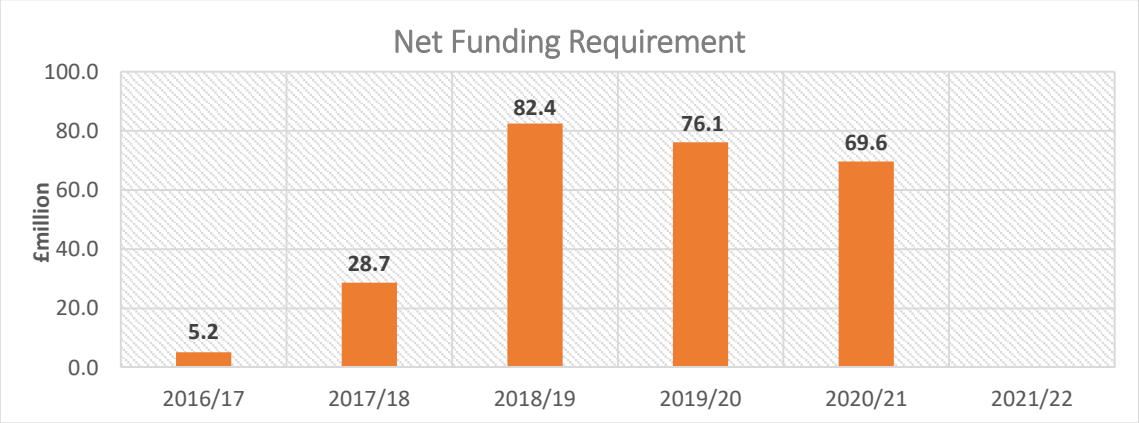


Financing Arrangements

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 £262m 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.

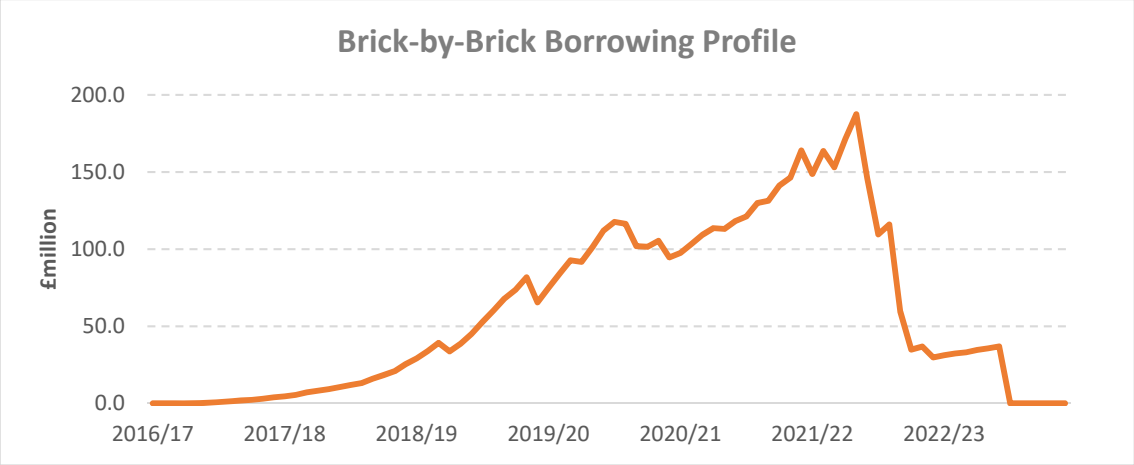
Figure 3 – Profile of net financing requirements



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 £196m. 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£35m 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	10.32	5.51	15.03	**30.86**
Land Value Released	3.04	2.21	3.86	**9.11**
Debt Repaid	0.00	0.00	118.80	**118.80**
Interest Accrued	6.44	7.91	8.46	**22.81**

*the 2021/22 projections exclude the pipeline programme (until more detailed financial viability assessments have been undertaken), although an expected projected profit margin is included at 6.18

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.

SECTION 7

Operating Costs



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 as 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)
TOTAL	**2,064**	**2,076**	**2,076**

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.

SECTION 8

Common Ground Architecture - Business Plan



BRICK BRICK

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 in the table 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	150	150	150
Existing BxB Projects	32	0	0
Existing External Projects	62	0	0
New Smaller Projects	560	650	650
TOTAL INCOME	**804**	**800**	**800**
Staff Costs	(511)	(500)	(500)
Supplies & Services	(20)	(20)	(20)
Operating Overheads	(150)	(150)	(150)
TOTAL EXPENDITURE	**(681)**	**(670)**	**(670)**
TARGET PROFIT	**123**	**130**	**130**
TARGET MARGIN	**15%**	**16%**	**16%**

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.