

REPORT TO:	Cabinet 15 November 2021
SUBJECT:	1st Quarterly update on progress of performance for Brick by Brick Croydon Ltd.
LEAD OFFICER:	Katherine Kerswell - Chief Executive Richard Ennis – Interim Corporate Director of Resources
CABINET MEMBER:	Councillor Hamida Ali - Leader of the Council Councillor Stuart King - Cabinet Member for Croydon Renewal
COUNCIL PRIORITIES 2020-2024	
Delivery of the Croydon Renewal plan, to minimise the financial impact to the Council of Brick by Brick Croydon Ltd and to report on progress on delivery of actions previously identified.	
FINANCIAL IMPACT	
This report provides a progress update on Brick by Brick Croydon Limited (Brick by Brick/ BBB) on the various decisions the Cabinet took in February 21, May 21 and July 21 Cabinet reports on the company.	
The report also provides an update on the financial performance of the Company for 2021/22 including progress being made on the repayment of the loan the Council has with the Company.	
FORWARD PLAN KEY DECISION REFERENCE NO.: This is not a Key Decision.	
1. CABINET RECOMMENDATIONS	
Cabinet is recommended (acting, where relevant, on behalf of the Council exercising its functions as sole shareholder of Brick by Brick Croydon Ltd) to:	
1.1 Note that BBB has not needed to call upon the additional £10m working capital facility that was requested within July 2021 Cabinet Report	
1.2 Note that the Council has now shared a draft Protocol with Brick by Brick on the disposal of 5 out of 6 sites that were approved for disposal in the July 2021 Brick by Brick Cabinet report and this is close to being finalised so that the assets can be progressed to be marketed. Details are provided within section 4.	
1.3 Note the change in consideration on the Belgrave & Grosvenor site, as detailed in Section 4 in order that a detailed due diligence and assessment of regeneration opportunities for the site can be carried out for the benefit of the Council. Further approval will be sought from Cabinet in the event that the outcome of the assessment favours development rather than disposing the site.	
1.4 Note the progress being made on repayment of the loan as advised within the confidential Part B, Appendix 1, of this report. As at end of August 2021, it is	

envisaged that the Company will pay £139m back to the Council against an outstanding loan balance of £161m.

- 1.5 Note that, in accordance with the February and July Cabinet reports, sales receipts have been recycled by Brick by Brick and to total of £17.18m
- 1.6 Note that (if approved) the Governance and Performance monitoring of Brick by Brick will be carried out under Brick by Brick Shareholder Cabinet Advisory Board (the “Advisory Board”) as advised by the Governance of Brick By Brick Croydon Ltd report also being presented at the same Cabinet as this report.

2. EXECUTIVE SUMMARY

- 2.1 The purpose of this report is to provide Cabinet with a progress update on various decisions that the Cabinet made within the February, May and July 2021 Cabinet reports on Brick by Brick. Cabinet will note that previous reports highlighted some of the key challenges faced by the Company along with options the Council has been considering overcoming the challenges.
- 2.2 Previous reports on Brick by Brick have allowed the Council to inaugurate a clear strategy on the future of the company and this report seeks to provide the first holistic progress update on the actions and recommendations agreed by Cabinet.
- 2.3 The key areas of update this report details are:
 - 2.3.1 Progress on Disposal of 6 Sites that had not entered into contracts as agreed within the July 2021 Cabinet report
 - 2.3.2 Progress on delivery of the remaining 23 sites currently in contract
 - 2.3.3 Update to Cabinet as advised within the July Cabinet Report on the financial position of the Company and its ability to pay back the outstanding loan balance of £161.56m.
 - 2.3.4 Update on the amount of Capital Receipts generated by the Company and the amount that has been recycled since the start of the financial year
 - 2.3.5 Update on the drawdown of the additional working capital facility that was awarded as part of the May 2021 Cabinet report
 - 2.3.6 Update on the Council’s acquisition of 104 residential units from Brick by Brick
- 2.4 It is important that the Council as the shareholder and the lender to Brick by Brick continue to focus on the corrective actions that have been identified through various external advisor engagements. This mainly includes the recommendations as advised within the original PwC findings on Council Companies presented to Cabinet in February and the RIPI Recommendations as advised by the Council’s external auditor, Grant Thornton.
- 2.5 The Council has implemented regular Brick by Brick Shareholder and Investment meetings, which meet on a monthly basis. These meetings will now (if approved) become the Brick by Brick Shareholder Cabinet Advisory Board (the “Advisory

Board”) with the purposes and responsibilities described within the Governance of Brick By Brick Croydon Ltd report, being presented alongside this report as a separate Agenda item

- 2.6 The shareholder and investment board meetings has consisted a joint meeting between Senior Council Members & Officers with Brick by Brick Directors and representatives enabling a platform to track progress on performance of the company during this transition period.

3. Brick by Brick Resourcing

- 3.1 Consultation commenced on 9th September 2021 on restructuring staff resources within Brick By Brick to align roles with the reduced level of the development programme work available. There are 7 roles at risk in Phase 1, which concludes in January 2022, and a further 13 roles at risk in Phase 2, which will be in spring 2023. Action has been taken to secure the services of key staff so to reduce delivery risks for the company.
- 3.2 The company is also taking action to strengthen capacity by securing support from external companies, and has been engaging with the market in relation to ongoing development and sales support. Full HR considerations will be applied to the further support and ensuring this does not result in long-term costs to the company.
- 3.3 The company is working closely with the council to strengthen the board by recruiting additional non-exec directors with relevant development skills and knowledge. With the resignation of the current Chief Executive officer and other resignations, it is important that the Company have the right skills and experience to see through completion of the remaining sites.
- 3.4 The delegation to officers is requested to ensure the Council can appoint the directors before January 2022, as this is when the current Chief Executive will step down. Waiting for the next Cabinet meeting will risk delay and result in management gaps within the Company, which could affect delivery of the business plan.

4. Disposal of 6 Sites

- 4.1 The February 2021 Cabinet agreed that Brick by Brick would be funded to build out 29 sites, the majority of which were expected at that time to be completed by October 2021. At that time, it was assumed that works would commence on all sites. However, as indicated within the July 2021 update report the six sites had not commenced works on site. The 6 Sites are:

Site	No of units	Position as at end of July 2021
Academy	9	Not on site
Belgrave and Grosvenor	102	Not on site
Coombe road	9	Not on site
Eagle Hill	8	Not on site
Malton	9	Not on site
Regina road	19	Not on site

- 4.2 The work carried out by Savill's indicated that under the proposed schemes on these sites there was a higher risk of successful financial delivery, thus recommended the Council instruct Brick by Brick to cease development activity with these sites and a more pragmatic approach would be to dispose of in the open market. The decision not to deliver the full development cycle of these sites would reduce the Council's risk exposure, by disposing of the sites with the pre-construction development activity undertaken the Council may receive a larger receipt enabling Brick by Brick to pay down a larger element of the outstanding loan.
- 4.3 It was agreed by Cabinet that the sites would be marketed for sale on the basis that site ownership will either remain with Brick by Brick or transfer to the Council, whichever is most efficient for maximising value or the efficiency of the sale process.
- 4.4 A protocol has been drafted with Brick by Brick to ensure all parties are clear around the expectations of the process involved in the disposal. BBB will appoint marketing agents, approved by the Council. These will need to be procured in line with BBB's procurement process and governance and approved by the Council.
- 4.5 All proceeds, less direct disposal costs will be ring-fenced for repayment of the loan the Council has with Brick by Brick (in compliance with the Revised Loan Agreement), the funds will not be allowed to be recycled. The brief should enable bids for the freehold purchase of the sites either individually or collectively, whichever secures best receipt from reputable purchasers whom have proven ability to transact.
- 4.6 Of the six sites indicated in paragraph 3.1, Belgrave and Grosvenor, is the largest, likely to generate a significant value. Upon a subsequent review of the site on the grounds of potential future Council regeneration needs, it is best that this site is not sold immediately. It is therefore recommended that further due

diligence is carried out to assess potentially other usage of the site rather than a disposal. Should those options not generate the right level of opportunity the Council will seek to dispose of the site as previously approved.

- 4.7 The Council and Brick by Brick are finalising terms and the protocol to progress with marketing the five sites imminently. The Council has received commercial advice on the valuations of each site, which is commercially sensitive so not to damage the outcome of the marketing process by indicating expectations. These have been disclosed within Part B Appendix 1.

5. Progress update on delivery of 23 sites

- 5.1 Brick by Brick have made good progress on delivering their schemes and as indicated within the July Cabinet Report, 21 of the 23 sites are close to practical completion.
- 5.2 The company remains projected to deliver 752 residential units, 385 expected to be affordable homes.
- 5.3 Original anticipated practical completion for the majority of these sites was October 2021, three of these sites have slipped through to December 2021 for legal and technical reasons (planning, road closures and sub-contractor issues) which are all being managed effectively and have no current detrimental impact on the unit sales process, which continues in line with the performance management plan.
- 5.4 Brick by Brick have progressed well with their sales plan and have not experienced significant issues going to market with their completed units. This has provided the company with consistent cash flow, which has resulted in not needing extra Council funding.

6. Council's acquisition of 104 units from Brick by Brick

- 6.1 The transactional terms for the proposal for the Council to acquire 104 units (44 1-bedroom, 57 2-bedroom; 3 3-bedroom units) is progressing well.
- 6.2 Legal due diligence continues, with some planning matters remaining to be resolved (final signing of s106 agreements), land registration (application made and in progress) and GLA funding support issues being the outstanding issues to the commercial closure. The latter may have a minor financial impact on three units being acquired, but commercially this provides a satisfactory outcome for all parties and would be within parameters of the previous Cabinet report.

7. Financial Update

- 7.1 The July Cabinet report advised to Cabinet that a regular financial quarterly update will be provided and a large part of this update has been provided within the confidential Part B at Appendix 1.

- 7.2 It is important to note that whilst in the May Cabinet report Cabinet approved that the Council enter into an additional £10m working capital loan facility, that facility has not been entered into as Brick by Brick have felt comfortable managing their cash position from existing receipts. The Council and Brick by Brick will continue the work to enter into that additional working capital loan agreement as it felt that having the facility in place will provide the company with the cashflow needs should delays occur within the development cycle.
- 7.3 The Council has been receiving monthly financial information from Brick by Brick as required under the Revised Loan Agreement and in order for the company to fulfil its duties to the shareholder function; progress on the finances will be presented to the Brick by Brick Shareholder Cabinet Advisory Board on a monthly basis.
- 7.4 The July 2021 Cabinet report delegated approval to the Council's Section 151 Officer to recycle capital receipts generated by Brick by Brick into delivering the remaining sites. This was done to ensure that no further funding would be needed directly from the Council. As at the end of August 2021 Brick by Brick had recycled a total of £17.18m of receipts to cover ongoing development costs of the remaining sites.
- 7.5 There continue to be risks involved with the company within its development programme as well as company operations. The economic climate currently indicates significant challenges for the construction sector in terms of staff and building resources. This could impact on the delivery programme and timing of the capital receipts which could create further cash flow pressures. The development and operational challenges will be monitored through the Council's regular Shareholder and Investment Board meetings.

8. CONSULTATION

- 8.1 No formal consultation has been made on this report, other than factual accuracy checks with external third parties including with the Directors of Brick by Brick.

9. FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

- 9.1 There are no direct costs associated with this report. However, as indicated within the confidential Part B appendix 1, in the event that not all debt held with Brick by Brick is paid off the Council will need to carry that debt for a period of 40 years and pay for it using the Minimum Revenue Provision. This will be an opportunity cost for the revenue budget as revenue resources will be used to pay down the debt rather than used for services.
- 9.2 The key financial exposure for the Council in relation to Brick by Brick is the £161million of loans that it has provided to the company, which includes accrued interest income. As of 2021/22, the Council started to provide for Minimum Revenue provision (MRP) within its General Fund revenue budget for the amount that the Council assessed to be at risk of non-payback.

- 9.3 The sale of the five unbuilt sites will result in receipts being returned to the Council, which will be used to pay back the outstanding debt and therefore help the Council's MTFS by reducing the need for MRP and bring down the Council's interest costs. The Council's 2022/23 MTFS has factored in the risks based on the financial position presented within Confidential Part B Appendix 1.
- 9.4 Approved by: Richard Ennis, Interim Corporate Director of Resources.

10. LEGAL CONSIDERATIONS

- 10.1 The Interim Head of Commercial and Property Law comments on behalf of the Interim Director of Law & Governance that the contents of this report are for Cabinet to note and no decisions have therefore been requested from Cabinet as part of this report.
- 10.2 Approved by: Nigel Channer, Interim Head of Commercial and Property Law on behalf of the Interim Director of Legal Services.

11. HUMAN RESOURCES IMPACT

- 11.1 There are no immediate HR considerations in this report for Council employees or staff. If any should arise these will be managed under the Council's policies and procedures.
- 11.2 Approved by: Gillian Bevan, Head of Human Resources (Resources & ACE).

12. EQUALITIES IMPACT

- 12.1 There are no equalities impacts arising from this report. However, the implications of the issues raised and how they are addressed may have an effect on the medium term financial plan. Any subsequent savings plans that have a staffing impact or impact on vulnerable and/or groups that share a protected characteristic will be subject to agreed HR procedures, formal consultation and equality analysis.
- 12.2 Any subsequent recruitment to Non-Executive Director roles will be in line with the fair recruitment policy of the Council and the interview panels will be diverse in accordance with the equality strategy.
- 12.3 Approved by: Denise McCausland, Equality Programme Manager

13. ENVIRONMENTAL IMPACT

- 13.1 There are no environmental impacts arising from this report

14. CRIME AND DISORDER REDUCTION IMPACT

14.1 There are no Crime and disorder reduction impacts arising from this report

15. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

15.1 The reasons for the decision are embedded within the report. The Council needs to ensure that it receives value for money on its assets and that the assets are made available for future needs whilst also reducing the council's financial exposure.

16. OPTIONS CONSIDERED AND REJECTED

16.1 The July 2021 Cabinet report indicated that the larger site should be disposed, however whilst that option is still possible the Council needs to consider other broader opportunities with the site to ensure it also meets future Council needs.

17. DATA PROTECTION IMPLICATIONS

17.1 **WILL THE SUBJECT OF THE REPORT INVOLVE THE PROCESSING OF 'PERSONAL DATA'?**

NO

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

NO

17.3 Approved by: Nish Popat, Head of Finance (Corporate & Treasury Management).

CONTACT OFFICER:

Peter Mitchell, Interim Director of Commercial Investment
Nish Popat, Interim Head of Corporate Finance.

APPENDICES TO THIS REPORT: All on restricted agenda

Appendix 1 – Confidential (Part B) Financial Analysis on Brick by Brick

BACKGROUND DOCUMENTS:

None.