

REVIEW OF MILTON KEYNES DEVELOPMENT PARTNERSHIP

February 2017

Contents

1. Purpose of report

2. Executive Summary

3. Recommendations

4. Outline of Review Methodology

5. Findings

5.1 Objectives of MKDP

5.2 Governance arrangements for MKDP

5.3 Stakeholder relations

5.4 Financial arrangements

5.5 MKDP Executive team

5.6 MKDP real estate operations

5.7 Strategic alignment of MKDP to the wider objectives of Milton Keynes Council

5.8 Implementing the conclusions of this review

Appendices

Appendix A – Terms of reference for the review

Appendix B – List of interviewees

Appendix C – Background to Milton Keynes Development Partnership (MKDP)

Appendix D – Summary financial information

1. Purpose of the report

This report provides a summary of the review of the Milton Keynes Development Partnership (MKDP), commissioned by Milton Keynes Council (MKC) in September 2016. The terms of reference for the review are attached at Appendix A.

The review was undertaken by Steve Mallen Consulting (the consultant) and completed in January 2017. This report summarises the key findings and presents the recommendations reached by that review, to support decision making by members of Milton Keynes Council.

2. Executive summary

Following MKC Cabinet approval in November 2012, MKDP was formally established in January 2013 as a wholly owned limited liability partnership (LLP) structure charged with advancing the financial, development and economic potential of the residual real estate assets previously held by the Homes & Communities Agency (HCA) in Milton Keynes.

From a standing start in 2013, with no personnel or infrastructure, MKDP has made substantial progress demonstrating an ability to tactically manage a varied and demanding property portfolio, meeting most, if not all of its financial targets and facilitating the delivery of multiple real estate projects to the development and investment sectors. The company is only just emerging from its start-up/incubation phase and yet is in robust financial health with a strong project pipeline. This has been assisted by the recruitment of a highly competent executive team, by a five year exemption from capital and interest repayments granted by MKC and the significant, largely voluntary contribution of existing Board members. MKDP is presently projected to have paid down approximately 50% of the capital on its original £32 million loan by 2018/19 (i.e. the value of the initial asset transfer) and to have voided this debt entirely by 2020/21 at the end of the current plan period. This is forecast to be achieved against total, cumulative capital receipts of at least £40 million since inception with an operating surplus projected for all but one year in the current Business Plan.

However, this success has come with some issues, difficulties and controversies. It is important that these are now addressed if MKDP is to realise its full potential for Milton Keynes and help to maintain the growth and comparative advantages of the city. Hence this review was commissioned by MKC to help resolve these issues and challenges. This report presents a summary of the findings of the MKDP review, with particular emphasis on identifying actions to address current issues and enhance the prospects for future success.

The key conclusions drawn by the review are as follows. MKDP had clear financial and property management targets at inception. In recent times, however, MKC has significantly advanced its place making and urban visioning policies and operations for the city, which were not explicit in the original terms of reference for MKDP. The resultant ambiguity around MKDP's role in respect of place making, regeneration and its wider social and economic responsibilities has created tension and confusion, both internal and external. Weaknesses around governance, which MKDP have been slow to address, have exacerbated the position. This has led to stakeholder dispute and fragmentation and by default, has essentially left MKDP to function as a real estate asset work-out vehicle with a tapering remit as assets are transferred for investment and development over time. The latent placemaking potential of MKDP has thus not been fully realised. In consequence, the consultant contends that the city has not enjoyed the extent of investment and place making success that it might have done, most especially in the city centre.

In its present form, the LLP structure may well not withstand the due diligence which a major, long term investment partner would typically apply in considering a large, strategic investment. Although an unlikely eventuality, this arises from the technical ability of MKC to dissolve the LLP at the sole discretion of the Leader of the Council, the currently shifting composition of independent Board members and the potential for political variations associated with changing Councillor representation on the Board.

Notwithstanding the valuable contribution of existing Board members to date, membership should be reviewed as a matter of priority to provide an appropriate mix of skills and experience to deliver MKDP's agreed objectives in future. Membership should reflect a broader demographic, and bring in valuable, independent expertise from beyond Milton Keynes. While conflicts have been declared there have been perceptions of conflicts of interest which have been damaging. There should be a firm presumption against the recruitment of Board members who are likely to generate concerns of this nature and there should be an equally firm presumption against Board members engaging in activities which are likely to lead to similar concerns in the future. The format of Board meetings should be improved and a clear definition must be made between the functions and objectives of the Board and those of the Property Working Group (PWG). The LLP structure should also be reviewed to remove potential strategic partner uncertainty.

The current stakeholder environment of MKDP combines both positive and negative elements. Overall however, perspectives are extremely polarised and highly divisive. MKDP have developed new and positive relations with incoming stakeholders to good effect. However, MKDP's relations with elements of the established MK property community have not been as positive or as beneficial to date as they should have been. In the view of the consultant, there is also significant misalignment between MKDP and the Council's Economic Development function. There are reports of poor relations and a lack of co-ordination between these two bodies. MKC should review the city's overall offer and economic development programme and the role of each stakeholder, most especially MKDP, within that offer.

There is an urgent need to achieve greater clarity and stability with regard to the financial obligations which MKDP has to MKC, including the annual management charge and the MK Tariff Risk Share Reserve (arising from the HCA asset transfer), which will potentially sum to many millions of pounds over a period of years. Whilst entirely legitimate, MKC must also give careful consideration to the impact and ramifications of one-off capital contributions from MKDP to its budget via imposed charges.

Over the past four years, MKDP has not been as well resourced as it might have been at executive level. Although further recruitment is pending, concern remains that resources may still not match the scale of MKDP's asset base. MKDP should now grow its executive in line with the revised objectives stemming from this review. If MKDP is to become a key force in the strategic growth of Milton Keynes, aligned with the vision for the city, then expanded skill sets will be required in key areas such as place making, urban regeneration, master planning and partnership structuring.

The original April 2013 Development Brief Protocol for MKDP's assets was excessively cumbersome. Protocol improvements, ratified in September 2013 and January 2015, have greatly improved the Development Brief preparation process and this is welcomed by all stakeholders. It is important that both MKDP and elected members fully accept the Briefs approved by MKC. Brief aligned proposals are not intended to afford the opportunity to debate site potential all the way from first principles which leads to unnecessary delay.

Despite the 2015 Protocol amendment, the digital market interface of MKDP with regard to adopted Development Briefs and their underlying inward investment potential is poor. It is very difficult to rapidly identify and access those market-ready site opportunities over which MKDP has control. The city's market interface with regard to real estate related development and investment opportunities is confusing and fragmented. This should be rectified rapidly with consolidation and offer enhancement as key priorities.

MKDP executive presently has the operational flexibility and skill sets required to successfully promote their assets and realise their development and investment potential. Further definition and focus is, however, suggested through managing MKDP assets in three work streams:

- *Small sized assets outside of CMK* (Milton Keynes city centre), with modest values and clear land use designations should be the focus of an accelerated programme to deliver financial benefits (whether receipts or ongoing income) and support the delivery of additional housing;
- *Larger assets and assets within CMK* - MKC to consider positioning MKDP as a primary force in regenerating and upgrading CMK, using the assets held in the city centre;
- *Milton Keynes Bowl* becomes the focus of a specific and dedicated inward investment initiative with a dedicated and skilled team.

The outputs of the MKFutures programme set out a visionary agenda for the creation of a leading 21st century city. Reinforced by the recent government announcements on the east-west, Oxford-MK-Cambridge Corridor, very significant benefits beckon in relation to this initiative. As perhaps the most important land and asset holder in the city, in relation to both capital value and place making potential, MKDP must be aligned with this agenda.

Stakeholder fragmentation and discord is a key finding of this review. MKDP will be unlikely to be able to progress effectively until this is addressed. The longer term aspirations for the city are also unlikely to be realised in the current environment. The implementation of the findings of this review provide a key opportunity to start to rebuild these relationships.

The review makes recommendations to clarify the objectives of MKDP, to strengthen its governance and executive arrangements and improve stakeholder relations. This will enable it to work more effectively in partnership with MKC to deliver its vision for Milton Keynes as expressed in the Council Plan and the MK Futures 2050 vision. These findings and recommendations are presented according to the themes identified by the consultant during the review as a means of grouping related issues. The implementation of the findings of the review will require a dedicated transformation resource and designated responsibility to be identified. Implementation should also be informed by good practice and experience derived from other regeneration and city growth projects across the country.

3. Recommendations

The objectives of MKDP

- 1) MKDP Board and Milton Keynes Council (MKC) must work together to produce, ratify and publicise a clearly defined role for MKDP and a number of measurable targets which can be monitored to assess performance.
- 2) MKDP's role with regard to place-making and strategic visioning should be clearly defined.

MKDP Board and governance arrangements

- 3) Review whether the LLP (limited liability partnership) structure is still a suitable form for MKDP in light of the potential uncertainty this may create for investors.
- 4) Revise the composition of the Board and governance arrangements for MKDP, to address the following:
 - a. The composition of the Board, which needs a skill set to reflect the purpose of the organisation and in particular to bring greater experience from outside of Milton Keynes. Increasing the skill set and obtaining the right skills mix for the future may require appropriate remuneration.
 - b. Councillor representation on the MKDP Board should be restricted to those in key positions aligned to the purpose of MKDP. This could be the Leader and Cabinet Member for property.
 - c. Officers of the Council should also be appointed to the Board, probably in a non-Executive capacity.
 - d. All Board members should be prohibited from engaging in any activities which may lead to accusations of conflict of interest. There should be a firm presumption against Board members engaging in activities which are likely to lead to conflicts of interest in the future. There also needs to be a clear Conflict of Interest protocol.

The governance arrangements for MKDP and the Board should also be revised to address the following:

- e. Reformatting the Board meetings to clarify roles and attendees, with a clear distinction between Board members, executive representation and invited guests, with appropriate protocols.
- f. There should be a clear distinction between the Property Working Group and the Board. It is unlikely all Board members should attend Property Working Group.
- g. The Property Working Group should focus on progress reporting on individual assets and asset level discussions.
- h. The Property Working Group should not include councillors, but Council officers with place-making, planning and economic development should be included.

- i. The Board should focus on making decisions about assets; the interface with MKC; meeting governance responsibilities; financial reporting, stakeholder alignment and delivering on the ambitions for Milton Keynes.
- j. Following the appointment of the company secretary for MKDP, attention should now be given to improving processes and procedures. Themes for attention include: code of conduct protocols, media relations, confidentiality, document circulation; public disclosure requirements and business continuity planning.
- k. Financial reporting to the Board needs to be more detailed and better incorporated into decision making. The financial advisor role to MKDP also needs reviewing and links to MKC finance should be strengthened.
- l. If the role and membership of the Board is revised, the frequency of meetings could be reduced from monthly at present to meeting once each quarter.

Stakeholder relations

- 5) The following stakeholder themes require attention with regard to MKDP:
 - a. Relationships with elements of Milton Keynes property community.
 - b. The clear purpose and role for MKDP (see recommendation 1).
 - c. The relationship with MKC's Economic Development function. It is also recommended that MKC review the economic development function for the city in order to provide a clear, single "front door" and ensure that the investor interface is managed more effectively.

Financial arrangements

- 6) The financial commitments MKDP inherited on formation need to be revisited, to ensure there is a better understanding of the annual Management Charge and Tariff Risk Reserve Fund contributions due to MKC and how they relate to the assets owned by MKDP. Consideration should be given as to whether there is a better way to structure these requirements or replace them with an alternative approach.
- 7) Whilst it is legitimate and expected that MKDP may be required to make one-off financial contributions to the Council, such requirements must be sensitive to the Business Plan and must also weigh the possible loss of opportunity for new investment associated with such requirements against the Council's need for capital.

MKDP Executive

- 8) The MKDP executive should be adequately resourced to reflect the scale of the asset base and volume of work arising. This is not presently the case. The executive must also have the ability to acquire skills required to deliver on its revised purpose and financial returns.
- 9) MKDP and MKC should use this review to produce a more stable, sustainable, less controversial and positively branded company for the future. This more positive brand will support the further recruitment of top-class individuals to meet the defined role of the company (see recommendation 1).

MKDP real estate operations

- 10) MKDP, with the support of MKC, needs to develop strategies to unify the stakeholder community, reduce fragmentation and minimise disputes at project level.
- 11) Full consensus and support is required for the Development Brief process from all stakeholders. Brief aligned proposals should not create the opportunity to reconsider site principles, as if the Development Brief had not been defined. It is recommended that MKDP and MKC communicate this to stakeholders and that adopted Development Briefs should be more readily available to potential investors.
- 12) The functions of MKDP should be split into separate work streams to clearly define the purpose and enable effective performance management. These work streams should be as follows:
 - a. **Small sized assets outside of CMK** (Milton Keynes city centre), with modest values and clear land use designations should be the focus of an accelerated programme to deliver financial benefits (whether receipts or ongoing income) and support the delivery of additional housing.
 - b. **Larger assets and assets within CMK** - MKC should consider positioning MKDP as a primary force in regenerating and upgrading CMK, using the assets held in the city centre.
 - c. **Milton Keynes Bowl** becomes the focus of a specific and dedicated inward investment initiative with a dedicated and skilled team.
- 13) Opportunities for alignment between stakeholders and initiatives covering new partnership arrangements, council responsibilities, YourMK and other external opportunities should be encouraged.

Strategic alignment of MKDP with wider objectives

- 14) MKDP must be aligned both to the MK Futures 2050 report and Oxford-MK-Cambridge arc visions and implementation plans. The role and function of MKDP must be considered in light of its potential to play a significant role in this visionary agenda. (This role will also influence the composition of the Board and the executive function of MKDP for the future – see recommendations 1 & 8).

Implementation of the review

- 15) In order to make MKDP successful and to achieve the long-term aspirations of Milton Keynes, stakeholder fragmentation and discord must be addressed. Consideration should be given to mechanisms to address this, including mediated stakeholder forums to consider the findings of the review.
- 16) The scope of the revisions proposed in this review suggest that a Transformation Group should now be formed and a Transformation Manager appointed to guide and oversee the reformulation of MKDP in line with its revised objectives.
- 17) Comparative analysis and visits should be undertaken to draw on wider learning and experience, including consideration of successful urban regeneration projects; inward

investment vehicles and other large scale urban vision projects in UK city centres to inform the direction of travel and form adopted for MKDP.

4. Outline of review methodology

The Consultant approached the review in three stages:

Stage 1 – Progress review

The progress of MKDP since its inception was reviewed, mainly by reference to key documentation including:

- The original Cabinet papers associated with formation of MKDP with regard to its objectives and operating principles
- The company formation papers with particular regard to MKDP's LLP structure
- Papers relating to transfer of HCA assets
- Papers relating to the Development Brief process
- MKC strategic and development plans, including The Council Plan
- Financial information relating to MKDP
- MKFutures 2050 outputs

Stage 2 – Stakeholder consultation

Stakeholder relationships will continue to be critical to the success of MKDP. The consultant placed particular emphasis on stakeholder consultation. In consultation with MKDP, MKC identified a range of stakeholders to be included in the review. The consultant undertook in-depth interviews with 25 individual stakeholders. These interviews were undertaken on a confidential, non-attributable basis. The range of stakeholders interviewed included:

- Key officers and board members at MKDP
- Relevant elected members at MKC
- Key officers at MKC (Place, Finance, Planning, and Economic Development)
- Representatives of the property services function at MKC
- Previous asset buyers and developers with whom MKDP have been active
- Existing joint venture partners and collaborators
- Relevant private sector enterprises and employers
- Representatives from the property agency and advisory sector
- Relevant community representatives.

The consultant, on behalf of MKC, would like to thank all stakeholders interviewed for their assistance and inputs to the review process. All interviewees demonstrated their commitment to the continuing success of Milton Keynes.

A full list of interviewees is attached at Appendix B.

Stage 3 - Strategic alignment

The consultant placed the findings of the progress review and stakeholder interviews in the wider context of the strategic development and future opportunities for Milton Keynes. This included a review of property market and investment trends, success factors in other regional growth and regeneration centres and opportunities such as the Cambridge – Milton Keynes – Oxford development corridor. The strategic implications of the regeneration work of YourMK and the outputs of the MKFutures 2050 programme were also considered.

5. Findings

5.1 The objectives of MKDP

The objectives of MKDP require reformulation since the company has been greatly impaired by lack of clarity regarding its objectives and the absence of measurable targets since its inception. Not surprisingly, this has created confusion and friction amongst stakeholders with widely varying perspectives regarding MKDP's central mission and purpose. The objectives of MKDP, as expressed at the time of its creation, are provided at Appendix C, along with some further background information about the organisation. In a complex, multiple stakeholder environment it is imperative that MKDP be afforded a comprehensive, measurable and accountable set of operating parameters and objectives. Left unaddressed, MKDP is likely to continue to develop its own tactical protocols and strategic policies which, in a complex stakeholder context, will only perpetuate confusion and friction. As a priority, the objectives of MKDP require thorough reassessment and restatement. This will require the MKDP Board to work closely with MKC to produce, ratify and publicise a new MKDP strategy to guide its operations.

Working with the MKDP Board & Executive, MKC must give detailed thought to the longer term objectives for MKDP with regard to the company's role and potential in respect of placemaking and achieving the city's macro-economic and social goals. As a custodian of key assets with very considerable placemaking potential and substantial financial value, MKDP objectives must be aligned with those of the city as a whole. This is essential if the city is to compete effectively with other UK centres. It is therefore recommended that MKDP's role with regard to placemaking and strategic visioning is formally evaluated and clearly defined.

5.2 MKDP Board and governance arrangements

A formal review should be undertaken to consider, in the first instance, whether the current LLP structure of MKDP is suitable for present operations. The present structure is inherently unstable and exposes MKDP to significant political and business continuity risk. The technical ability of MKC, through the Leader of the Council, to dissolve the LLP at its discretion, together with the shifting political profile of Board members, may be of particular concern to potential long term investment partners.

In its present form, the LLP structure may well not withstand the due diligence which a major, long term investment partner would typically apply in considering a potentially very large, strategic investment. MKDP will be better able to deliver on its objectives with an operating model which is more robust from a corporate structuring perspective and more divorced from short term political considerations.

The Board of MKDP comprises four councillors, four independent members, and **an** independent Chair. Notwithstanding the significant, largely voluntary contribution of existing Board members in establishing MKDP, the current composition of the MKDP Board requires revision in order to improve process, develop accountability, repair reputation and enhance operational success. For both tactical and strategic reasons, Board membership should be reviewed as a matter of priority to provide an appropriate mix of skills and experience to deliver MKDP's agreed objectives in future. Membership should reflect a broader demographic, provide a better blend of skills and bring in valuable, independent expertise from beyond Milton Keynes. In the consultant's opinion, the Board needs to move from being essentially a committed, volunteer oriented organisation towards a more professional composition to provide effective, auditable governance and drive MKDP's potential role in

realising Milton Keynes' strategic, macro-economic and placemaking objectives. In line with this, the approach to Board meetings should be reformulated.

Elected Member representation on the MKDP Board should be restricted to appropriately qualified representatives and key office holders, aligned to the purpose of MKDP. The Leader of the Council and the portfolio holder(s) with responsibilities for property and placemaking are likely to be sufficient. Appropriate MKC Officers should also be appointed to the MKDP Board, probably in a non-Executive capacity. In the view of the consultant, it would seem logical that the MKC chief executive should be a member of the MKDP Board. This will promote the alignment of MKDP with MKC's overall objectives.

Clear definition must be made between the functions and objectives of the Board and those of the Property Working Group (PWG). Ambiguity here is leading to inefficiencies at the current time. Tactical, asset level activities and progress reporting should be devolved to the PWG, leaving the Board to focus on asset decision ratification, the interface with MKC, its governance responsibilities, financial reporting and its strategic alignment with stakeholders and the city's overall objectives. It is unlikely that all Board members should attend PWG meetings as at present. It would be more appropriate for officers of MKC to attend PWG rather than elected members. Officer attendance should significantly enhance the ability to align asset level decisions with the Council's wider policies and planning control systems. Placemaking, planning and economic development are obvious and required areas of officer input at PWG level.

As is the case with similar organisations in many UK cities, all Board members should be prohibited from engaging in any activities which might lead to accusations of conflict of interest. This has been a potent and destructive theme to date. Whilst a Conflict of Interest protocol is essential, there should be a firm presumption against the recruitment of Board members who are likely to generate concerns of this nature and there should be an equally firm presumption against Board members engaging in activities which are likely to lead to concerns of this nature in the future. The essentially locally based current Board membership increases the risks of such perceptions developing.

The recent appointment of Mazars to provide a Company Secretary function has filled a gap which existed previously. This has highlighted multiple areas of improvement with regard to governance, also raised by many stakeholders. Key areas of attention include code of conduct protocols; media relations; confidentiality; document circulation; business continuity planning and public disclosure requirements. Although much improved recently, financial reporting via the MKDP Board has been considered inconsistent, lacking in detail and sometimes without full and appropriate designated authority. Whether on a full or part time basis, the designated authority for finance within MKDP should be reviewed and reporting and communications with the MKC finance function should be strengthened.

With the above factors and issues addressed, it may not be necessary or appropriate for the Board to meet monthly (as at present). Quarterly meetings, in line with existing formal policy, may be sufficient. Exceptional meetings can always be convened.

5.3 Stakeholder relations

The current stakeholder environment of MKDP combines both positive and negative elements. Overall, however, perspectives are extremely polarised and highly divisive. MKDP have developed new and positive relations with incoming stakeholders to good effect and this is to be applauded and developed further. MKDP's relations with elements of the established MK property community have not been as positive or as beneficial to date as

they should have been. There is a lack of consistency amongst MKC members and officers regarding the role and central objectives of MKDP, together with its position within the overall offer of the city. There is a need to achieve better consensus within the Council, otherwise MKDP and potential investors will continue to be exposed to differing views and perspectives which compromises MKDP's ability to deliver on its objectives.

In the view of the consultant, there is significant misalignment between MKDP and the Council's Economic Development function which is of concern. There are reports of poor relations and a lack of co-ordination between these two bodies. It is recommended that MKC review the city's overall economic development programme and the role of each stakeholder, most especially MKDP, within that offer. The city presently has too many "front doors" and a muddled investor interface. It is important that this be addressed if the city is to meet its strategic objectives.

Despite notable positive progress in managing individual assets, MKDP's stakeholder relations are in need of significant improvement. As currently manifest, poor stakeholder relations in a number of key areas are holding back the progress of both MKDP and the city as a whole.

5.4 Financial arrangements

Summary financial information for MKDP is provided at Appendix D. It is recommended that MKC review, in detail, with the MKDP Board & Executive, the composition and impact of both the current annual management charge in favour of MKC and the MK Tariff Risk Share Reserve, which accompanied the HCA assets on their transfer to MKDP. The basis for these charges is currently not well understood by MKDP. There is an urgent need to achieve greater clarity and stability with regard to these financial obligations which will potentially sum to many millions of pounds over a period of years. Enhanced transparency with regard to these obligations will both improve understanding and foster better financial planning and forecasting. Alternative methods of meeting or mitigating these costs could be considered.

Whilst entirely legitimate, MKC must give careful consideration to the impact and ramifications of one-off capital contributions from MKDP to its budget via imposed charges which MKDP have no choice but to adopt. If the recent £4 million contribution for 2018/19 were to set a precedent (as it might), MKC need to appreciate that this will have a potentially deep impact on MKDP asset management strategies, as the work programme is manoeuvred to meet new and unexpected financial demands. This may in turn lead to misalignment with social need and placemaking imperatives.

Such requirements will not only create substantial additional work, but will also impact on capital investment in new initiatives and reduce working capital. This will be important if MKDP is to take a more strategic role in the long term development of the city, requiring deeper resources and larger investment. Large and unanticipated financial contributions to MKC may impair MKDP's ability to form successful and beneficial strategic asset partnerships via mechanisms such as joint venture agreements. This may impede the progress and possible financial performance of key assets.

5.5 MKDP Executive

Over the past four years, MKDP has not been as well resourced as it might have been at executive level for a variety of reasons and the Board is still larger than the executive team. The team has grown recently and further recruitment is pending. However, ongoing concern remains that resources may still not match the scale of MKDP's asset base and its

concomitant scope of work. It is imperative that MKDP now grow its executive in line with the revised objectives stemming from this review.

Under resourcing largely explains the valid criticisms made of MKDP during this Review regarding poor stakeholder communications and slow response times. This has inevitably created frustration. It is recommended that the MKDP Executive generate new policies and protocols in this area as the team expands in order to ensure that it is more responsive to stakeholder interests and concerns.

The executive team have lacked the complete governance, compliance and fiduciary skill sets required to run the MKDP LLP to the highest standards. The recent appointment of company secretary support should help to alleviate this concern. This should remain a key area of ongoing focus and monitoring.

The public sector culture of MKDP, together with its current market perception, are not conducive to recruiting and attracting first-rate commercially orientated personnel and MKDP has experienced some labour market challenges as a result. It is important that MKC and the MKDP Board utilise the current review to produce a more stable, sustainable, less controversial and positively branded company which will prove attractive to the necessary personnel on which the success of the company will depend.

As a property-based asset management and asset work-out vehicle, the current executive profile, grown organically, will meet need. If however, as strongly favoured by the Board, MKDP is to become a key force in the strategic growth of Milton Keynes, aligned with the vision for the city, then expanded skill sets will be required in key areas such as placemaking, urban regeneration, master planning and partnership structuring.

5.6 MKDP real estate operations

In a relatively short space of time, MKDP has, via site sales, facilitated the delivery of many notable and positive project successes to Milton Keynes. There is also a strong pipeline of future projects which will add value to the city. More than 600 houses are under development and more than 120,000 sq. ft. of commercial property has been completed or is under construction. Significant progress has also been made in advancing provision for the education, emergency service and social sectors.

With an extensive and complex asset base, inevitably some projects will not be delivered so effectively. The recent hiatus surrounding the former Bus Station (“The Buszy”) does not reflect well on MKDP. Notwithstanding the lessons to be learnt in respect of The Buszy from both a property process and public relations perspective. MKDP, with the support of MKC, need to develop strategies which will unify the stakeholder community, reduce fragmentation and minimise disputes at project level.

The original April 2013 Development Brief Protocol for MKDP’s assets was excessively cumbersome. Protocol improvements, ratified in September 2013 and January 2015, have greatly improved the Brief preparation process and this is welcomed by all stakeholders. No fundamental revisions are thought necessary for the Development Brief process and nor should Briefs be diluted or abandoned. A weaker protocol here would lead to market frustration and wasted effort. It is important that both MKDP and elected members fully accept the Briefs approved by MKC, which is not always the case at present. Brief aligned proposals are not intended to afford the opportunity to debate site potential all the way from first principles which leads to unnecessary delay. It is recommended that MKDP and MKC communicate this to stakeholders.

Despite the 2015 Protocol amendment, the digital market interface of MKDP with regard to adopted Development Briefs and their underlying inward investment potential is poor. It is very difficult to rapidly identify and access those market-ready site opportunities over which MKDP has control. Furthermore, this applies to Milton Keynes as whole, with opportunities spread in a disparate fashion across multiple outlets associated with various stakeholders. The city's market interface with regard to real estate related development and investment opportunities is confusing and fragmented. This should be rectified rapidly with consolidation and offer enhancement as key priorities.

MKDP presently has the operational flexibility and skill sets required to successfully promote their assets and realise their development and investment potential. Indeed, MKDP's profile in this regard is superior to some other comparable vehicles in other UK cities. MKDP already undertake detailed asset appraisals, generating proposed and adopted work plans which set out priorities and progress through the development system. Further definition and focus is, however, recommended through the adoption of three work streams as follows:

- Firstly, MKDP assets which are small in size, located outside Milton Keynes city centre (CMK), of modest value and with clear land use designations and uncontroversial community profiles should be the focus of an accelerated asset disposal programme via a dedicated team. This will increase new development, especially housing, and raise much needed capital and revenue. Once advanced, MKDP will have more time and resource to focus on strategic, higher value and more complex assets, primarily within CMK.
- Secondly, it is proposed that MKC consider positioning MKDP as a primary force in regenerating and upgrading CMK, areas of which have now declined to a level likely to deter new investment. This is entirely logical given MKDP's CMK holdings and tactical property expertise. The advancement of CMK is supported by all stakeholders and is also one of the main priorities to emerge from the MKFutures initiative. In order to achieve a more co-ordinated and integrated approach to CMK, however, considerable work is required to align stakeholders behind a common agenda. MKDP's relations with other CMK stakeholders require further development.
- Thirdly, it is recommended that Milton Keynes Bowl be the focus of a specific and dedicated inward investment initiative, probably via a dedicated and skilled team within MKDP with a marketing budget commensurate with an international promotion campaign. The Bowl is potentially of national, perhaps international significance, with very substantial and transformative financial, economic and social value. Despite recent focus and attention, this asset is presently languishing with its very considerable potential benefits left largely unrealised.

In order to progress both CMK and the Bowl, MKC must consider whether the current profile and perception of MKDP is appropriate for the attraction of market leading development, investment and corporate partners. Large, partner based investments will be subject to considerable due diligence, as noted under the Board and Governance section above, especially if partners are drawn from overseas with a higher sensitivity to risk. MKDP will be the first point of contact for the major assets in CMK and the Bowl and also the platform from which new structures will be generated. The current corporate structure, stakeholder configuration and market presentation of MKDP is unlikely to withstand the deep due diligence which a major investor would undertake, especially if that investor is from overseas. Unaddressed, this will impair MKDP's ability to optimise its asset base and deliver benefits to the city.

MKDP has provided advice and support to MKC in relation to Council owned assets. However, this has been occasional rather than systemic and MKDP is arguably still not adequately resourced to fulfil this role given the demands of its own, time intensive portfolio. It is suggested that the reformulation of the MKDP Board and the expansion of the executive team both be undertaken on the specific understanding that all MKC property assets will benefit.

MKC are in advanced discussion regarding a joint venture arrangement with a private sector partner. This is primarily designed to administer the MKC property portfolio from a facilities and estate management perspective. This initiative may extend to development and promotion of Council owned assets. As proposed, despite substantial efficiency and cost benefits, this new arrangement will introduce another stakeholder to a complex stakeholder community. Opportunities for consolidation and alignment between stakeholders and initiatives should be considered, in particular how MKDP may be able to assist in the promotion and development of assets owned directly by MKC.

5.7 Strategic alignment of MKDP with wider objectives

Reinforced by the recent government announcements on the east-west, Oxford-MK-Cambridge Corridor and the very significant benefits which beckon in relation to this initiative, the outputs of the MKFutures programme set out a visionary agenda for the creation of a leading 21st century city. As perhaps the most important land and asset holder in the city, in relation to both capital value and place making potential, MKDP must be aligned with this agenda.

Of the Big Six Projects encapsulated in MKFutures, MKDP has a potentially pivotal role to play in three: the east-west “Brain Belt”, MK:IT and RenaissanceCMK. It is imperative that MKDP now be reviewed in light of these macro objectives for the city. Without full alignment, the chances of success with regard to these three Big Projects will be severely impaired. MKDP is the natural platform from which to develop an entity to drive forward the required regeneration of CMK. Many of the revisions proposed to MKDP in light of this review would facilitate this process and create an organisation better able to take on this strategic role.

5.8 Implementation of the review

Stakeholder fragmentation and discord is a key finding of this review. MKDP will be unlikely to be able to progress efficiently until this is addressed. The longer term aspirations for the city are also unlikely to be realised in the current environment.

The consultant recommends that MKC holds a mediated stakeholder forum as part of the response to this report. This should bring together all relevant stakeholders in an appropriate setting for open and structured dialogue with a view to reducing tension, resolving outstanding issues, clarifying objectives and achieving the high level of consensus now required for the city to move forward.

The scope of the revisions proposed in this review suggest that a transformation group should be formed and transformation manager identified to guide and oversee the reformulation of MKDP in line with its revised objectives.

In reformulating MKDP in light of this report and in advancing the prospects for the city more generally, a specific work stream involving comparative analysis and study visits should be initiated which incorporates selected other successful urban regeneration and inward

investment vehicles across the UK. This should also include specific, large-scale urban vision projects in other UK centres as a reference base for the progression of CMK.

Appendix A – Terms of reference for the review of MKDP

Purpose and Outcome

MKDP was formed on 13 January 2013. After 40 months of operation there is an opportunity to consider how MKC secures the best from MKDP, including how it has met the aspirations and objectives set for the development partnership by the council and what changes might be considered going forward to build on progress to-date, in the context of a new Council Plan with some key deliverables for the new administration in its partnership with Liberal Democrats against the background of a very challenging medium term financial position.

At the meeting of Cabinet on 7 November 2012 Cabinet agreed to establish an LLP with the following key elements:

- the Council will retain its responsibility for planning and development control. Member/stakeholder engagement in the preparation of development briefs for the larger development sites should be enhanced, with a view to promoting greater consensus around emerging development proposals at an earlier stage in the process,
- the vehicle's underlying purpose should be to support the implementation of the Council's key corporate strategies (e.g. the Corporate Plan, Core Strategy, Economic Development Strategy, Regeneration Strategy etc.); and it should operate within strategic parameters set by MKC. The key process for Council's control over the new entity will be through annual approval of a rolling Business Plan,
- the new vehicle will own the HCA assets, employ its own people and will have a board with an equal number of member "directors" and "directors from the private sector", plus an independent chair from the private sector with the appropriate commercial and property experience,
- the new vehicle will be charged with building a reputation of "being open for business" and being professional and straightforward to deal with. It will need to provide an attractive 'offer' to potential private sector investor and development partners, with a view to introducing appropriate commercial expertise and private sector funding,
- it will be empowered to take an entrepreneurial approach to the creation of long term value that could be used to achieve social and economic benefits for Milton Keynes, including the marketing, development and disposal of property assets with development potential,
- a three year rolling business plan, the first year of which will be the annual budget, will be prepared by the Board of the new vehicle each year. This plan will contain a clear strategy statement for each major site, based on the preparation of development briefs through consultation. It will set operational revenue and expenditure targets and will be submitted for approval by MKC on an annual basis,
- operational decision will be the responsibility of the board and will then be insulated from detailed involvement by elected members and from unnecessary Council bureaucracy. This will be vital if the arrangements are to attract private sector involvement, establish credibility with investors and developers and operate as intended,
- the new vehicle will report on performance and outcomes regularly using clear and transparent reporting processes on a quarterly basis to cabinet.

The review will look at:

Part One:

- How the Development Partnership has performed against the aspirations and objectives set by the council in 2012.
- How MKDP engages with stakeholders.
- The clarity and effectiveness of the Governance arrangements in helping to achieve MKDP objectives including the involvement of the Board in operational matters and avoiding bureaucracy.
- The tension between creating quality places and securing income/receipts and how this is managed including the mechanism for cash to flow back to the Council.

Part Two:

- If the objectives of MKDP may need more clarity or revision in order to deliver the new Council Plan and the aspirations of the MK Futures 2050 Commission.
- The role of MKDP in providing strategic advice to Milton Keynes Council.
- The relationship between council landholdings and MKDP landholdings.
- The role of MKDP in the relationship(s) between MKDP, Milton Keynes Council, YourMK and any other possible joint venture(s) established by Milton Keynes Council.
- How development options for each site are determined in meeting the objectives of MKDP and the Council and if the process can be improved or clarified.

Therefore the outcomes from this review will be as follows:

- An evidenced baseline for current service delivery against the 2012 objectives.
- A recommended best structure to support the delivery of the Council Plan and meets the aspirations of Milton Keynes Council.
- A recommended model for MKDP.
- Recommendations on the future governance of MKDP.
- A recommendation on a model for how Milton Keynes Council can best manage all landholdings and property.
- Recommendations on how strategic advice should be obtained by Milton Keynes Council.
- A recommendation on how MKDP can best engage stakeholders.

Scope

This review will cover MKDP operations as a whole, including stakeholder feedback, both internal and external and the relationship with MKC, particularly property services.

Process for the Review

This review will be conducted by an independent party, who will collect information through:

- Interviews with key stakeholders
- Evidence from MKDP performance updates against the Business Plan
- MKDP financial reports and forecasts

Governance

Sponsor: Carole Mills

Project Board: Duncan Sharkey, Charles MacDonald, Tim Hannam/ Nicole Jones

Project Manager: TBC

The project manager will report to the Project Board on a fortnightly basis

Timescale

The complete process from the beginning of the review to the production of an evaluation report is expected to take 6-8 weeks, once a project manager is appointed.

The report will be produced for the Project Board meeting on tbc.

Communications

An initial communication will be agreed by the Council and MKDP and a communications plan will be developed once recommendations become clearer.

Appendix B – List of interviewees

John Duggan - Independent Chair, MKDP
Bob Green - Independent Board Member, MKDP
John Walker – Independent Member, MKDP
Bob Hill - Independent Board Member, MKDP
Will Cousins - Independent Board Member, MKDP
Peter Marland - Leader of the Council
John Bint - Councillor
Jenni Ferrans – Councillor
Rob Middleton – Councillor
Charles Macdonald - Chief Executive, MKDP
Matthew Green - MKDP Property Director (Private Sector), MKDP
Carole Mills - Chief Executive, MKC
Nicole Jones - Service Director, Finance & Resources, MKC
Anna Rose - Service Director, Planning & Transport, MKC
Duncan Sharkey - Corporate Director, Place, MKC
Tim Hannam – Corporate Director, Resources, MKC
Pam Gosal – Head of Corporate Economic Development & Inward Investment, MKC
David Foster – Chief Executive, The Parks Trust
Ian Jackson – Director, Hampton Brook
Luke Tillison- Head of Agency, Kirkby Diamond
Melanie Beck – City Centre Manager, Milton Keynes City Centre Management
Chris Reynolds – Ambit Properties
Lee Shostak – Director, Shared Intelligence

Appendix C – Background to Milton Keynes Development Partnership (MKDP)

The creation of MKDP

Following MKC Cabinet approval in November 2012, MKDP was formally established in January 2013 as a wholly owned Limited Liability Partnership (LLP) structure charged with advancing the financial, development and economic potential of the residual real estate assets previously held by the Homes & Communities Agency (HCA) in Milton Keynes. The Board of MKDP consists of an independent Chair, councillor and independent members and the chief executive of MKDP.

The transfer from HCA was complex and required resolution of a number of legal issues. It was, however, considered imperative that MKC assumed control over a substantial proportion of the land and property assets associated with its future economic prosperity. Furthermore, the capital and revenue potential of these assets is extremely important to the financial position of MKC.

The decision was taken to constitute the former HCA assets in a wholly owned but separate vehicle with a specific remit to encourage development and investment in the city. The main priorities and operational assumptions for MKDP on formulation included:

- Planning & development control to reside with MKC;
- MKDP to support the Council's Core Strategy and corporate objectives;
- MKDP to have a dedicated Board, who should observe the Nolan principles relating to public governance, and its own executives;
- The new vehicle to be "open for business", promoting economic development;
- Empowerment to take an "entrepreneurial approach" to create long term value;
- The creation of a rolling, three-year Business Plan;
- "Insulation" from elected Members and council bureaucracy;
- An explicit private sector interface to attract new investment;
- Regular, quarterly reporting on performance.

It is important to note that MKDP was little more than a legally constituted, paper based entity for much of the first year of operation, lacking employees, infrastructure, materials, branding and detailed operating protocols.

In assessing the performance of MKDP since inception, the "standing start" position from which the company was created should be noted. Standard business formulation models typically permit 3-4 years of corporate development before evaluations can properly be made. In assessing progress, it is therefore important that expectations regarding performance are realistic and set within a proper context. MKDP is only just now maturing into an established entity and its performance should be seen in this light.

MKDP objectives

The consultant has found it difficult to identify any coherent and comprehensive statement of objectives for MKDP in a single document or set of documents. The impression is that MKDP's objectives have grown organically, along with the company itself. This has created

confusion and friction amongst stakeholders with widely varying perspectives regarding MKDP's central mission and purpose.

The original business plan for MKDP lists the following under 'Aims and Objectives', derived from the original Members Agreement:

- explore possible future uses for assets previously owned by the HCA and various assets already owned by MKC;
- engage with third party developers, investors and advisers to ensure any proposed uses are commercially viable and deliverable;
- ensure appropriate consultation and engagement with elected members, parish/town councils and other stakeholders in the preparation of development briefs for the sites in question;
- collaborate with other land interests to maximise the opportunities for beneficial development;
- work collaboratively with public and private sector partners and take a proactive approach to commercial development;
- encourage private sector investment in Milton Keynes, whether expansion or inward investment;
- bring forward residential, commercial and ancillary development in line with the objectives of the Council's Corporate Plan and other key strategies, particularly the Core Strategy and Economic Development Strategy.

In addition to these objectives, MKDP was charged with achieving a set of financial targets. In summary, MKDP was charged with:

- commencing in year five, repaying the interest associated with the capital transfer of the former HCA assets;
- repaying the capital cost associated with the HCA asset transfer from 2018/19;
- honouring its commitment under the transferred responsibilities associated with the Tariff Reserve Fund.

This review was intended to consider MKDP's performance in the light of its founding objectives. This has proved difficult since the objectives for the company were never fully nor properly defined. Furthermore, financial and asset management objectives aside, where objectives have been identified, they have been inconsistently expressed. Of particular note, aside from some value derived, number based financial indices, there is an almost complete lack of measurable and time specific objectives, although MKDP might have been expected to produce these. This makes it difficult to assess MKDP's progress in other than largely qualitative and subjective terms.

Appendix D – Summary financial information

At its inception, some 40 assets were transferred from the HCA to MKDP, with a transfer valuation of £32 million.

MKDP is charged with making the following payments to MKC, from March 2019 following a five year 'payment holiday' after inception:

- to pay down the debt of £32 million (arising from the asset transfers) and / or pay interest on the balance of debt outstanding
- the 'MK Tariff Risk Share Reserve' calculated at £580k per annum (a financial procedure inherited from the HCA which pools section 106 planning capital receipts for the purposes of infrastructure provision across development sites over time)
- the MK cost contribution, to make reasonable additional contributions towards MKC's capital programme. In 2018-19 MKDP will incur a one-off charge of £4 million to contribute towards the MKC budget. To put this in context, this is equivalent to an annualised return of 2.4% against the assets of £32 million. However, MKPD has annual revenue of under £3 million and is projecting an operating loss of £870k in 2018-19.

In addition to the above, MKDP is subject to an annual management charge of £205k to reflect the oversight and inputs from MKC in establishing the new vehicle.

Financial highlights from the MKDP Business Plan, Oct 2016

The MKDP Business Plan is prepared on the basis of a rolling five year statement, updated annually and presented to the MKC Cabinet. This is augmented by quarterly updates and a company formation requirement to hold at least 4 Board meetings a year. The metrics in the Business Plan are principally financial. The executive summary of the current Plan includes the following:

- MKDP continues to make solid progress against financial targets and anticipates being able to generate sufficient capital and/or income to pay down the debt of £32m and/or pay the interest on the balance of any remaining debt from March 2019 as required by MKC.
- Within the past 12 months MKDP have completed on 10 schemes generating capital receipts of circa £7m and exchanged contracts on a further 9 land transactions.
- The financial statement for the year ending 31st March 2016 recorded a profit of £3.8m with increased profits coming from land sales, the revaluation of investment assets and additional car parking income.
- Paper reserves increased by £4.4m to £9.4m for the three years of trading with cash balances of circa £4.6m enabling MKDP to potentially fund new projects in 2016/17 and beyond.
- Due to delayed transactions capital receipts for the year ending 31st March 2016 were below forecast. However capital receipts for the financial year to date have been bolstered by previously delayed transactions and currently stand at £5.9m, exceeding the 2016/17 Business Plan budget of £5.63m.

- With strong performance to date and potential land sale receipts for the year of circa £9.3m, MKDP have adjusted its risk factor and have increased its forecast for financial year 2016/17 to £6.98m.
- As confidence grows that MKDP will be able to exceed its initial financial targets, it has recently recruited three more people and is in the process of working up strategic plans for the development of key sites.

From the 2016 Business Plan, it is reported that MKDP has generated a revenue reserve of £1.5m in the first 3 years of operation to support the cost of debt charges in 2018/19. Annual revenue projections of £2.9m provide reassurance that debt and interest charges will continue to be met in future years. The forecast capital receipts will be available to pay down outstanding debt if required to do so resulting in a debt liability of at least half the original £32m by the end of 2018/19 and full debt repayment by 2020/21.

The above indicates a positive financial profile for MKDP as it approaches its 4th year of operation with the company meeting and in some cases exceeding its financial targets.