

Executive Summary

This paper is the 2015 annual business plan for Milton Keynes Development Partnership LLP (MKDP). It sets out the purpose, objectives and guidance on the strategy to realise value from the sale and development of its assets.

Appended to this paper is MKDP's September 15 quarterly report confirming that MKDP is making solid progress against the 2014-2015 Business Plan and is building up a strong pipeline of transactions to meet the short and medium term objectives set out in the Plan.

Key points of progress against the 2014-2015 Business Plan include:

- Two land disposals have completed generating capital receipts of over £1.2m. The most significant transaction being in the granting of a long leasehold to Honda F1 Power a scheme that will generate c 65 jobs
- Contracts have been exchanged on a further 8 land transactions with solicitors progressing contracts on 10 more which in commercial terms will facilitate over 100,000 sq. ft. of new floorspace, creating upwards of 550 jobs and potentially generating over £6.8 m
- In residential terms site disposals for over 550 units are agreed which will generate a gross receipt of c £15 - 19m* (* Note gross receipt will be subject to abnormal cost deductions.)
- We are actively engaged with MKC to aid the expansion of educational facilities in Milton Keynes with four transactions on c 25 acres creating an additional 4 entry forms at primary level and 5 entry forms at secondary level as well as purpose built Special and Alternate Provision school facilities
- We are exploring options to encourage the development of grade A office development in CMK and seeking to establish a vision for some of the key strategic sites in our portfolio including land around the shopping centre, B4, Station Square and the balance of our land in Campbell Park

Strategic development advice continues to be provided to MKC on request with negotiations concluding on key transactions including the Western Expansion Area, the YMCA and the Agora Shopping Centre.

Introduction

MKDP is a Limited Liability Partnership established in 2012 to manage and promote the assets purchased from the Homes and Communities Agency by Milton Keynes Council in January 2013.

MKDP is an independent legal entity wholly owned by the Council. The Board comprises four Elected Members including the Leader of the Council and five Independent Members including an Independent Chair.

MKDP is empowered to take an entrepreneurial approach to deliver long-term economic value and social benefits for all the citizens of Milton Keynes. It is wholly owned by and accountable to MKC.

MKDP's Purpose

MKDP's purpose is to facilitate Milton Keynes' growth and the implementation of the vision for Milton Keynes' future that is set out in the Council's approved Corporate Plan, in its Core Strategy and with other key Council Strategies.

MKDP was set up to manage the c£32m asset portfolio which was acquired by the Council from the Homes & Communities Agency in January 2013. In developing this and previous Business

Plans, a programme has been produced to guide the development of these land assets that will support the Council in the delivery of key strategies.

MKDP will support the Council in its role of planning and leading growth for the borough, and the aspirations for the Milton Keynes area as it continues to grow, with the aim of delivering a further 28,000 new homes and over 40,000 new jobs by 2026, as set out in the Core Strategy.

There are a number of other key strategies that influence and will be supported by this Business Plan, including the Council's Economic Development Strategy and Inward Investment plan.

Key business strategies (How we are to operate)

MKDP will help to facilitate the implementation of MKC's vision for the growth of Milton Keynes by the appropriate development of its land assets, and other land assets belonging to MKC by:

- exploring possible future uses for assets previously owned by the HCA and various assets already owned by MKC.
- engaging with third party developers, investors and advisers to ensure that proposed uses create best value and are commercially viable and deliverable.
- ensuring appropriate consultation and engagement with elected members, parish/town councils, and other stakeholders in the preparation of development briefs for the sites as required under the development brief protocol.
- collaborating with other land interests to maximise the opportunities for beneficial development.
- working collaboratively with public and private sector partners and taking a proactive approach to commercial development.
- encouraging private sector investment in Milton Keynes, whether by way of expansion or inward investment.
- bringing 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.

Working Arrangements

MKDP will prepare and submit a business plan annually for consideration and approval by Cabinet. The Business Plan will include revenue and capital budgets, human resources requirements and will identify sites considered for disposal, or development in the work plan.

In addition MKDP provide quarterly reports to Cabinet to include: a summary of progress against the Business Plan, transactions update, sites in negotiation, key initiatives and a statement of MKDP's financial position. September's report on the 2014-15 Business Plan is appended to this report.

Unless and until the Board of MKDP decides otherwise, MKC will provide the necessary support services, including Payroll, Business Support, Performance Reporting, Human Resources, ICT, Procurement, Law and Governance, Finance and Accounting. A fee will be payable for these and any other services procured from MKC / MKSP by MKDP.

Staffing support from and their related Service Level Agreements with MKC continue to be reviewed and enhanced in the context of the working arrangements and strategies for the sale and development of its assets as set out in the proposed Work Plan.

MKDP have taken ownership of the bulk of the assets being transferred from the HCA, with the rest transferring to MKC. Subsequently, further assets with development potential (whether previously owned by the HCA or not) may be transferred from MKC to the MKDP and assets may be transferred from MKDP to MKC where appropriate with the agreement of Cabinet.

MKDP will operate in accordance with Local Authority accounting principles as its accounts will be consolidated with those of MKC as the ultimate owner. MKDP has developed its own

Financial Regulations, Procurement Rules and Scheme of Delegation that have been approved by the Board.

MKDP will also provide management accounts on a commercial basis (reconciled with MKC's reporting requirements) with monthly financial reporting to the Finance Sub-Group, quarterly financial reports to Board and quarterly reports to Cabinet to include a statement of MKDP's financial position.

MKDP will operate commercially effective procurement processes aligned with public sector procurement practices.

Financial Arrangements

The tables below summarise the financial out turn position for MKDP for the financial year to 31.3.15 and the 2015/16 Period 5 forecast.

The out turn for the 14/15 Financial Year shows that a surplus of £503k was achieved, which will be held in a revenue reserve for future years.

MKDP have delivered an excellent financial result returning £500,778 above budget for 2014/15. This was achieved through: negotiating enhanced rental income on the CMK Station Car Park lease, completing the CMK Market lease thereby removing the risk reserve, a £100,000 underspend on costs and £76,000 parking income negating the £99,000 business rates which were an unexpected cost at the beginning of the year.

This result highlights MKDP are meeting their objective to deliver an accruing profit reserve to service the interest on the £32m debt to MKC in 2018/19.

<i>Financial Year to 31.3.15</i>	<i>Budget £000s</i>	<i>Actual £000s</i>	<i>Variance £000s</i>
<i>MKDP Management & Development</i>	712	619	(93)
<i>Asset Management</i>	(674)	(970)	(296)
<i>Car Parking</i>	(243)	(355)	(111)
<i>Contributions to MKC</i>	203	203	0
<i>(Profit)/Loss</i>	(2)	(503)	(501)

<i>2015/16 - Period 5 Forecast</i>	<i>Budget £000s</i>	<i>Forecast £000s</i>	<i>Variance £000s</i>
<i>MKDP Management & Development</i>	924	848	(75)
<i>Asset Management</i>	(1074)	(1107)	(33)
<i>Car Parking</i>	(311)	(319)	(8)
<i>Contributions to MKC</i>	205	205	
<i>(Profit)/Loss</i>	(256)	(373)	(117)

Note: Due to MKC accounting conventions figures in () represent surpluses

Financial Projections

MKDP are also forecasting capital receipts of £4.6m in 2015/16 which reflect payments anticipated from land sales. Projected land sales in early years are subject to a significant risk factor and until exchange of contracts all potential receipts have been heavily discounted. The priority is to build up a pipeline of opportunities to reduce the risk in future years.

During 2015/16 MKDP has succeeded in completing its first large sale of land at Winterhill securing a capital receipt of £1.060m. Residential plots at Queensbury Lane, Monkston Park are progressing well and receipts should be secured by the end of 2015/16. B3.2 South is awaiting exchange with planning secured. Site D Wolverton Mill is exchanged awaiting planning. Site A West Ashland is at planning submission stage and no issues are currently anticipated.

It should be noted that the forecast capital receipt for 2015/16 has not been revised following planning issues on the Wyvale site that have delayed the proposed transaction. With significant progress is being made on other transactions it is anticipated that forecasts can still be met. The delay of the Wyvale receipt does however reduce MKDP's ability to accommodate any further transactional delays during the financial year. Delivery of MKDP's forecast capital receipt is in part dependent on the sale of the Kents Hill school site which is understood to be in MKC's capital programme for 15/16 financial year. Completion of all 2015-16 transactions excluding Wyvale has the potential to stimulate receipts exceeding £6.3m

The table below summarises the forecast revenue and capital position for MKDP from 2015/16 to 2019/20.

2014-20 Financial Plan	2015/16 £000s	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s
<u>P&L</u>					
Expenditure	2,379	2,249	2,210	2,695	2,420
Income	(2,751)	(2,550)	(2,621)	(2,621)	(2,621)
Annual (Profit)/Loss	(373)	(301)	(411)	74	(201)
Cumulative (Profit)/Loss (Sept 2015)	(896)	(1,196)	(1,608)	(1,534)	(1,735)
Cumulative (Profit)/Loss (June 2015)	(724)	(1,024)	(1,436)	(1,362)	(1,563)
Capital Expenditure					
Site Preparation	310	176	165	72	388
Repay Debt	4,582	5,451	1,807	9,281	9,899
MK Tariff Risk Share Reserve				580	580
Total Capital Expenditure	4,892	5,627	1,972	9,933	10,867
Capital Receipts	(4,686)	(5,627)	(1,972)	(9,933)	(12,867)
Net Capital Position	206	0	(0)	(0)	(2,000)
Cumulative Capital Position (June 2015)	206	206	206	206	(1,794)
Business Plan Cumulative Capital (Mar 2015)	(0)	0	0	0	(2,000)

In summary MKDP still expects to meet the loan interest costs and the MK tariff risk share reserve charges that apply from 2018/19 and beyond.

The improving profit line to 2017/18 is as a result of the site preparation and development brief costs reducing over the period while MKDP is not liable for the debt on its assets. In the initial period of operation development brief costs will need to be higher while investment plans are implemented to enable sites to be progressed. The increase in the expenditure position in 2018/19 is due to the provision for interest referred to above.

MKDP has generated a revenue reserve of £0.523m in the first 2 years of operation to support the cost of debt charges in 2018/19. Annual revenue projections of £1.534m provide sound reassurance that debt and interest charges will continue to be met in future years. The capital receipts created 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.

Future Years Strategy

MKDP is aiming to strike a balance between generating capital receipts and regular income from the sale and development of land to be able to repay the £32m of debt and/or service the payment of interest on that debt from a steadily increasing revenue income stream.

It is intended to build the income stream over time by considering options for long-term leasehold or other ongoing arrangements rather than simply asset sales, and may require some re-investment of early profits from the sale of sites. The CMK Station Car Park Lease is one such site generating £0.5m per annum boosting revenue reserves and a strong foundation for future debt interest repayments.

Previous iterations of the plan assumed a relatively small recurring income from the sale of long leasehold interest on appropriate residential commercial development sites. MKDP will continue to explore this initiative however it has become evident from tender returns that the discount applied to long leasehold & ground rent offers is penal. To generate long dated income streams alternate strategies will need to be explored and capital receipts may need to be reinvested into standing investments

In respect of development in Central Milton Keynes the retention of the freehold interest provides potential opportunities for future income generation and control. Where possible MKDP will continue its strategy of long leasehold disposals however exceptions will be made on less strategic sites and/or where such title restrictions frustrate investment and development opportunities.

It is recognised that these financial goals cannot be achieved immediately. The plan provides for MKC to meet the annual costs of debt relating to the sites until 2018/19 to allow the best value options to be considered and delivered.

Financial projections are subject to the risks identified above and include prudent estimates of potential sales and ongoing income generation. Due to the complexity of property transactions the exact timing of the receipts are expected to vary, but the financial analysis demonstrates that MKDP can cover the debt costs and the contributions required by MKC.

Human Resources

MKDP operate with a small and effective team. As a consequence of the growing pipeline of development opportunities additional Human Resources will need to be recruited. During the Plan period MKDP propose to appoint additional direct resources and consultants on task and finish initiatives.

Direct human resources will be funded through annual reserves with consultants appointed on task and finish initiatives capitalised as a cost to the specific scheme

Key Strategies

Housing

MKDP are actively looking to bring forward land for housing development. We have the potential to deliver up to approximately 5000 houses (CMK and out of town) including 1500 units of affordable housing (assuming a minimum 30% delivery of affordable housing on MKDP land).

Within the past 12 months four key residential sites in Campbell Park, Atterbury, Middleton and Monkston have been tendered and preferred developers have been appointed. The schemes have the potential to deliver over 550 units and generate a gross receipt of £15-£19m.

Consultation and pre-marketing preparations continues on sites including: Walton, part Kents Hill, Wylie End Bradville, Lichfield Down Walnut Tree, Highgate Over Walnut Tree. Further sites to be considered within the immediate Business Plan period include: Land adj Marlborough Gate CMK, part Independent School Site Shenley Church End, sites adjacent Westbury Farm Shenley Wood.

We aspire to better conceptual design and architecture, particularly for residential development on our land and we are seeking to promote enhanced sustainability and energy performance requirements where appropriate and viable. This is illustrated in the vision statement included in the Campbell Park H4 and Newlands development brief.

Self Build

In the context of the above MKDP wishes to provide a broad range of housing opportunities, responding to the current local interest in self build plots, and the Governments right to build proposals. The self-build plots designation will also include custom build and other similar schemes.

It is proposed for MKDP residential development sites of 1 ha or more, that there is an aspiration for 10% of the sale units to be developed as self-builds, subject to individual circumstances.

For sites of less than 1 Ha, a percentage approach is unlikely to be a practical way forward for all occasions, and provision will be made on case by case basis.

Self build for affordable units will be considered in particular cases.

Within the past 12 months we have tendered 10 self build plots and a further 15 plots have been reserved for future sale to self-builders within the proposed Atterbury scheme.

Note: Contracts for the sale of self build plots require the purchaser to agree that they will occupy the property as their primary residence for a minimum period of two years

Education

MKDP are actively engaged with MKC Children and Families and aiding the facilitation of new schools in Milton Keynes. To date three Milton Keynes Council schemes are progressing that will create an additional: 4 entry forms at primary level, 5 entry forms at secondary level and special school facilities. In addition MKDP have sold a site to Milton Keynes Education Trust for an Alternate Provision School

Sustainability

MKDP are exploring opportunities to enhance the sustainability and energy performance of developments and have engaged with the National Energy Foundation (NEF), an independent charity at the forefront of improving the use of energy in buildings and recognised as experts in their field.

The intention is to use emerging transactions to assess and enhance performance in an effort to inform / improve the quality of development and help draft a policy framework for future developments in Milton Keynes.

Key Initiatives:

Additional Revenue Enhancement Opportunities – MKDP continue to consider participation in joint ventures, co-investment and equity participation when considered appropriate and deemed to achieve the Partnership's objectives. Initiatives will have to demonstrate the potential for enhanced returns, accelerated delivery or help de-risk the development process to encourage investment and development by third parties.

Previous Business Plans highlighted potential opportunities for Joint Ventures. While not dismissed in entirety legal restrictions, OJEU and the associated time constraints have prevented our pursuing these initiatives with vigour. To achieve desired outcomes MKDP have varied strategies and are pursuing land transactions with overage provisions that replicate many of the advantages associated with more formal Joint Ventures

Method of Sale – In most cases it is intended that sites will be brought to the open market by way of informal tender. Consideration will be given to off market private treaty disposals at best consideration where:

- An investor / owner occupier requires the scheme for their own occupation.
- A developer / third party has a formal binding commitment by an occupier /occupiers to deliver a scheme with a minimum 50% occupation.
- MKDP elect to partner in a scheme by way of joint venture, co investment, equity participation or land transactions with overage provisions.
- Independent franking valuations support best consideration.

Tenure – It remains MKDP's preference to transfer land for development by long leaseholds subject to premium, reviewable annual ground rent, development obligations and where applicable land use restrictions.

MKDP acknowledge that title restrictions (long leaseholds) can frustrate investment and development and consideration will be given to freehold disposals in non-strategic locations outside CMK and within CMK in exceptional cases.

Re-allocation of land uses - MKDP is actively investigating potential land use re-allocations to meet emerging demand, local and national policies, changes in the economy, changes to work practices, enhancement of the local amenity etc. Where considered appropriate MKDP will promote land use changes through the Development Brief process and seek re-allocations where there is evidence to substantiate such change of use.

Sites promoted for alternate uses include:

- Atterbury
- Kents Hill
- Walton
- Shenley Wood

Enhancement of existing portfolio - MKDP continue to explore opportunities to enhance the existing portfolio including the refurbishment and re-use of built assets and stimulate development by infrastructure investment and access improvements. This includes a strategic view of future requirements and collaborative working with other organisations such as MKC, Milton Keynes Parks Trust, SEMLEP and relevant Government Departments.

Development Briefs - MKDP continue to commission Development Briefs and Pre-Apps on sites considered for disposal.

The Development Brief, in effect being a planning brief for each site is recognised as essential to effective stakeholder engagement including, Ward Members, Parish/Town Councils and other stakeholders. We are working with MKC to continually improve this process whilst ensuring the necessary commercial confidence for the promotion and disposal of sites as per the business plan.

MKDP anticipate opportunities to speed up the process of bringing sites to the market and it is proposed that it may be appropriate to treat these as exceptions to the Business Plan and Development Brief process. Approval of such transactions will be subject to MKDP Board and MKC Cabinet approval.

Marketing

Clear and effective communication of MKDP's objectives, open access to information on sites considered for disposal and site specific marketing is essential. The key goals are:

- **Website / Information Portal** – MKDP have a comprehensive website setting out MKDP's core objectives, methodologies and identifying the assets considered for disposal. The website is to be the primary reference point for information on the MKDP's estate and where appropriate it will be supported by printed marketing collateral for key sites. The information provided on the website includes the annual approved business plan and quarterly reports on progress against that business plan, a list and description of the main sites, and approved development briefs.
- **Direct Marketing** - Direct marketing will be limited and targeted on key sectors including: developers, key agents, investors, institutions, housing associations etc. MKDP to support a limited number of key multipliers including Invest MK and SEMLEP and may elect to collaborate on marketing initiatives that have a direct benefit to MKDP. By way of example MKDP are partnering with Invest Milton Keynes at MIPIM UK.
- **Public Relations** – Acknowledging the requirement to better communicate our strategies and objectives and to enhance stakeholder engagement additional PR resources have been sourced

MKDP Vision and Ambitions

MKDP has been successful in building a strong pipeline of transactions through the marketing, and sale of sites for development. The growing pipeline provides comfort that the financial obligations on MKDP to meet the interest costs and the MK tariff risk share reserve charges from 2018/19 will be met.

This growing confidence in our ability to deliver our financial obligations provides an opportunity to draw up more visionary and ambitious proposals for a number of key sites including:

- B4.1– B4.4 – MKDP are in active negotiations with HCA to acquire their interest in B4.4 thereby completing the assembly of the entire B4 grid square. Comprehensive master planning for the delivery of a high density mixed use scheme is proposed with the scheme potentially comprising but not exclusively: offices, conference centre, hotel uses, residential (incl PRS) multi storey car parks.
- The Bowl – With Badminton England pulling out and the withdrawal of preferred bidder status from Moirai Capital MKDP are provided an opportunity to reconsider options for the promotion of leisure and sporting facilities and the enhancement of arena facilities at the Bowl. In the short term measures have been put in place to enhance the prospects of attracting major events for example the recent Foo Fighters concerts.
- Campbell Park Northside (Sites F1,G1,H1) – MKDP are actively considering the marketing of development sites to the North of Campbell Park to identify a Strategic

Development Partner to pursue planning and accelerate the development of a comprehensive residential / mixed use.

- Campbell Park Southside (G4) – consideration is being given to the promotion of a Housing Festival Site on the south side of Campbell Park to coincide with MK’s 50th anniversary in 2017.
- Midsummer Boulevard East – MKDP are actively engaged with developers and investors in the pursuit of enhanced mixed use schemes that will include retail, leisure, residential and hotel sites

During this Business Plan period MKDP will set out ambitious plans for a number of these key sites in a series preliminary master plans and strategic briefs.

MKDP’s Role as Special Advisor to MKC

MKDP continue to provide expert property and property development advice to MKC as required. MKDP are currently advising on the following:

- **Western Expansion Area** – MKDP are representing MKC and are seeking a new collaboration agreement broadly in lines of the unexecuted 2011 agreement that will ensure an equitable distribution of the infrastructure cost burden and land receipts.
- **Agora Shopping Centre, Wolverton** - MKDP are advising on redevelopment options and the sale of Milton Keynes Councils freehold interest.
- **YMCA, CMK** – MKDP have been invited to advise on redevelopment options, assess viability and negotiate disposal / joint venture terms.
- **Tickfordfield Farm** – MKDP have been invited to advise on the promotion and development on behalf of MKC

Work Plan

The attached work plan sets out sites to be brought forward during the business plan period.

The work plan identifies priority sites, proposed uses planning proposals and whether the sites are intended for a Development Brief or Pre-App.

Principal Risks to Business Plan

The management of the business and the execution of the Business Strategy are subject to a number of risks. The key business risks are summarised below:

Issue	Risk	Mitigation
Economic Risk	Economic recovery stalls Interest rate increases	<ul style="list-style-type: none"> • Prudent estimates of potential sales and income generation.
	Availability of finance for development	<ul style="list-style-type: none"> • MKDP to consider JV’s, co-investment and equity participation to de-risk schemes and reduce financial burden. • MKDP to provide more flexible deal structures including freehold interests and delayed completions.
Organisational Risk	Protracted decision making process. Public Policy restrictions.	<ul style="list-style-type: none"> • Development Brief protocols streamlined. • Pre-approval of sites considered for

	OJEU obligations	<p>disposal (subject to Development Brief Process) identified in the work plan.</p> <ul style="list-style-type: none"> • Procurement issues to be addressed and more prudent estimates of project timescales to be introduced.
	Recruitment and Human Resources	<ul style="list-style-type: none"> • Key personnel recruited with additional requirement to be considered as required.
Resource / Revenue Risk	Uncertainty of income from investment assets including CMK Market and car parking.	<ul style="list-style-type: none"> • Prudent estimates of rents achievable and net car parking income.
Political Risk	Ongoing Council elections	<ul style="list-style-type: none"> • Cross party support for MKDP Business Plan.
Planning Risk	<p>Business Plan assumes significant opportunities for land use re-allocations</p> <p>Potential impact of CMK Alliance Plan</p>	<ul style="list-style-type: none"> • Sites to be promoted through the Development Brief process. • MKDP supporting MKC initiatives to provide an evidence base to emerging Plan MK. • MKDP to consult with CMK Town Council and Planning officers to aid interpretation of policy
Financial Risk	The forecasts assume use allocations will be reviewed and changes of use will be forthcoming	<ul style="list-style-type: none"> • Prudent assumptions on the timing and allocation of land uses.