

**MKDP Business Plan
October 2016****Introduction**

Milton Keynes Development Partnership LLP (MKDP) present its annual business plan for consideration and approval by Cabinet in October each year.

The forthcoming review of MKDP by the council means that this should be considered an interim business plan that may be subject to change once the findings are known.

A number of key documents have emerged within the past 12 months most notably the Council Plan and MK Futures 2050 Commission's report. This business plan seeks to identify additional work streams that will help deliver on the aspirations contained in these initiatives and others.

Executive Summary

- 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 we have completed on 10 schemes generating capital receipts of c £7m, 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
- Reserves increased by £4.4m to £9.4m for the three years of trading with cash balances of c £4.6m enabling us potentially to fund new projects in 2016/17 and beyond.
- Due to delayed transactions capital receipts for the year ending 31st March 16 were below forecast however capital receipts for the financial year to date have been bolstered by previous 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 c £9.3m we have adjusted our risk factor and have increased our forecast for financial year 2016/17 to £6.98m.
- As confidence grows that we will be able to exceed our initial financial targets, we have recently recruited 3 more people and we are in the process of working up strategic plans for the development of key sites.

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 documents including the Council Plan and other important documents such as MK Futures 2050 report.

MKDP's core obligation to MKC is to generate sufficient receipts to either repay the debt taken out by the Council to fund the purchase of the HCA assets or cover the cost of debt charges on the outstanding borrowing and to provide MKC with an additional income of £580k per annum towards the Tariff Risk Reserve.

As plans and policies emerge MKDP will respond positively to new challenges and opportunities. The Council Plan 2016-20, MK Futures 2050 Commission's report and the impact of the government's Comprehensive Spending Review all impact on our evolving strategies.

Key Business Strategies

MKDP will help implement MKC's vision for the growth of Milton Keynes by the appropriate development of its own land assets, as well as land assets belonging to MKC by:

- exploring and identifying possible future uses for its portfolio of development land and built assets
- engaging with developers, investors and advisers to ensure that proposed uses create best economic and social value and are commercially viable and deliverable.
- investing in projects and programmes that give a positive commercial rate of return and create long term revenue opportunities
- ensuring appropriate consultation and engagement with elected members, parish/town councils, and other stakeholders in the preparation of development proposals (through MKC's Development Brief and Pre-App process).
- collaborating with other land owners interests to maximise opportunities for beneficial development.
- working collaboratively with appropriate public and private sector partners.
- encouraging private sector investment in Milton Keynes, through expansion or inward investment.
- bringing forward residential, commercial and ancillary development in line with MKC's core policy objectives.

Working Arrangements

MKDP submits a business plan annually for consideration and approval by MKC's Cabinet. The business plan includes revenue and capital budgets, human resources requirements and identifies sites considered for disposal or development in the work plan.

In addition, MKDP provides quarterly reports to Cabinet that include: a summary of progress against the business plan, transactions update, sites in negotiation, key initiatives and a financial overview.

MKDP operates 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 its Board.

MKDP operates commercially effective procurement processes aligned with public sector procurement practices.

Financial Arrangements

The tables below summarise the financial outturn for MKDP for the financial year to 31.3.16 and the 2016/17 Period 3 forecast.

The outturn for the 15/16 Financial Year shows that a surplus of £796K was achieved, which will be held in a revenue reserve for future years.

MKDP has delivered an excellent financial result returning £540K above budget for 2015/16. This was achieved through: improved efficiencies; securing land sales for an R&D facility at Winterhill; Monkston Park self-build residential plots and additional car parking from utilising sections of land around current sites.

This result highlights MKDP is meeting its objective to deliver an accruing profit reserve to service the interest on the remaining debt to MKC in 2018/19.

<i>2015/16 - Period 12 Actuals</i>	<i>Budget £000s</i>	<i>Actual £000s</i>	<i>Variance £000s</i>
<i>MKDP Management & Development</i>	924	659	(265)
<i>Asset Management</i>	(1074)	(1230)	(156)
<i>Car Parking</i>	(311)	(431)	(120)
<i>Contributions to MKC Costs</i>	205	205	
<i>(Profit)/Loss</i>	(256)	(796)	(540)

<i>2016/17 - Period 3 Forecast</i>	<i>Budget £000s</i>	<i>Forecast £000s</i>	<i>Variance £000s</i>
<i>MKDP Management & Development</i>	801	979	178
<i>Asset Management</i>	(839)	(715)	124
<i>Car Parking</i>	(508)	(596)	(88)
<i>Contributions to MKC Costs</i>	207	207	
<i>(Profit)/Loss</i>	(339)	(125)	214

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

Financial Projections

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. However, MKDP has increased its forecast of capital receipts in 2016/17 to

£7m due to reaching the previously estimated target 6 months into the year, which reflect payments anticipated from land sales.

During 2016/17 MKDP has succeeded in completing a number of high value sales, in particular two schools sites at Kents Hill and Shenley Wood equating to £1.7m. Residential plots at Queensbury Lane, Monkston Park have all completed shortly into this new financial year. B3.2 South and West Ashland have also both completed. Site D Wolverton Mill is exchanged awaiting planning. Site A West Ashland is at planning submission stage and no issues are currently anticipated. The remaining sites, Lilleshall Avenue residential plots, Site E Wolverton, Shenley Church End Independent School site and Aldwycks Close, Shenley Wood are all progressing well. Shenley Independent School has planning agreed and is expected to complete by early October 2016.

It should be noted that MKC has requested an additional £4m contribution payment from MKDP in March 2019 to assist with its budget delivery in that year. MKDP's funding of this additional contribution has been factored in to the business plan forecasts with delivery dependent upon revising future years risk factors and increasing capital receipts. Payment of this additional contribution will increase the MKDP's debt repayment period, debt finance costs and reduce short to medium term investment and development opportunities.

The table below summarises the forecast revenue and capital position for MKDP from 2016/17 to 2020/21.

Probability Factor Applied	75%	50%	75%	75%	75%	
2016-21 Financial Plan	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
	£000s	£000s	£000s	£000s	£000s	
<u>P&L</u>						
Expenditure	2,821	2,642	3,209	2,855	2,743	
Income	(2,946)	(2,818)	(2,818)	(2,938)	(3,078)	
Annual (Profit)/Loss	(125)	(176)	391	(83)	(335)	
Cumulative (Profit)/Loss (July 2016)	(1,650)	(1,826)	(1,435)	(1,518)	(1,853)	
Cumulative (Profit)/Loss (Dec 2015)	(888)	(1,228)	(1,771)	(2,206)	(2,560)	
<u>Capital Expenditure</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>TOTAL</u>
Site Preparation	1,940	548	4,635	400	400	7,923
Repay Debt	6,911	7,836	1,689	8,901	3,016	28,353
MKC Cost Contribution			4,000			4,000
MK Tariff Risk Share Reserve			580	580	580	1,740
Total Capital Expenditure	8,851	8,384	10,904	9,881	3,996	42,017
Capital Receipts	(6,980)	(11,474)	(7,813)	(9,881)	(5,996)	(42,145)
Net Capital Position	1,871	(3,091)	3,091	0	(2,000)	(129)
Cumulative Capital Position (July '16)	0	(3,091)	(0)	(0)	(2,000)	
Cumulative Capital Position (Dec '15)	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 as well as the additional funding requirements of MKC.

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 £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.

By the end of the current business plan period (2020/21) MKDP has the potential to generate £42m in capital receipts from approximately a third of the assets acquired in 2013. NOTE - MKDP's business strategy is focussed on the sale and development of its prime assets and receipts from future sales of residual land assets will be comparably lower.

Future Years Strategy

MKDP strikes a balance between generating capital receipts and regular income from the sale and development of its land.

MKDP continues to dispose of development assets to generate receipts to meet its debt obligation to MKC and to create a capital reserve for strategic acquisitions and investment in projects that will give a positive commercial rate of return.

MKDP's financial obligations to MKC are to repay the £32m debt taken out by the Council to fund the purchase of the HCA assets, cover any outstanding debt charges from March 2019 and provide MKC an income of £580k per annum towards the Tariff Risk Reserve.

MKDP shall make additional contributions to MKC's Capital Programme where reasonably requested.

MKDP will seek to build long dated and sustainable income streams through investment and direct development.

In strategic locations and where land uses are restricted, MKDP will seek to retain the freehold to protect its interests and provide opportunities for future income generation and control. Where such initiatives frustrate development opportunities MKDP reserves the right to dispose of the freehold interest.

As a consequence of increasing confidence in MKDP's ability to meet its financial obligations greater consideration is being given to more innovative projects that will assist MKC in achieving its ambitions. Initiatives include:

The purchase of land to assemble strategic development opportunities. -
. MKDP's acquisition of the remaining 8.5 acres of development land within the B4 grid square completes the assembly of a strategic site extending to c 25 acres (gross) and enables a more holistic approach when considering development proposals to be considered

The stimulation of stalled commercial development in CMK – The appointment of Sterling Property Ventures and the promotion of site B3.3N for an exceptional office led mixed use development is intended to address fundamental viability issues and stimulate a step change in the quality and scale of office development and promote CMK as a sustainable and regionally dominant office location. Acknowledging the significant scale of the proposed scheme on B3.3N alternate and smaller scale options for existing MK occupiers are being considered with site B3.2s to be marketed in Autumn 2016.

The stimulation of stalled residential development in CMK and Campbell Park - The development of residential accommodation in CMK and Campbell Park is hindered by onerous obligations. MKDP is working carefully with stakeholders and strategic development partners to encourage the development of high quality urban residential schemes that will contribute to the creation of a vibrant city centre. Crest Nicholson's scheme at Campbell Park Canalside and the current promotion of a major high quality residential led development at Campbell Park Northside are prime examples.

Direct investment and development of commercial schemes that generate positive commercial rates of return and the create of long dated income streams - MKDP is actively exploring direct investment and development of carefully selected opportunities that will generate long term revenue opportunities.

Residential Development - MKDP is actively exploring opportunities for the direct development of a variety of housing types and tenures to assist MKC in its Affordable City ambitions and to create additional rental stock. In addition MKDP is keen to address a number of the issues facing the UK housing construction market and is exploring opportunities to enhance the quality, speed and performance of housing development through modern methods of construction.

NOTE - MKDP had proposed Homeworld to showcase innovative housing construction and position Milton Keynes at the centre of the current debate on housing delivery in its 50th year. The aim was to enhance Milton Keynes' reputation as a leading smart city, attract interest from the best developers and improve the quality and speed of new homes delivery across Milton Keynes. The funding required to deliver Homeworld has been determined not to meet current council priorities and the it will not proceed. Initiatives identified during the feasibility study will continue to be explored and where appropriate will be incorporated within future housing schemes.

Rejuvenation of assets - MKDP has inherited a number of assets that require careful consideration and investment to deliver longer term, sustainable and beneficial uses. Detailed investigation and feasibility studies are proposed for a number of key assets including: MK Bowl, CMK Market, the former Bus Station, Westbury Farm etc.

Reallocation of land uses - MKDP will continue to investigate land use re-allocations to meet emerging demand, changes in the economy, changes to work practices etc. Where considered appropriate MKDP will promote land use changes and seek re-allocations where there is evidence to substantiate such change of use.

Key Strategies

As new plans and policies emerge MKDP continues to review and evolve its strategies in order to respond positively to new challenges. The Council Plan, MK Futures 2050 and the impact of the Government's Comprehensive Spending Review all impact on our work plan and strategies.

Housing - MKDP is actively looking to use its land for housing development. We have the potential to deliver up to approximately 5000 houses (CMK and out of town). Significant progress has been made on the residential site disposals at Campbell Park Canalside, Atterbury, Middleton and Monkston that have the potential to deliver over 550 units and generate a gross receipt of £15-£19m.

Key sites for promotion in the coming business plan period include Campbell Park Northside, Kents Hill and Walton with further development opportunities being considered at Walnut Tree, Shenley Church End and Shenley Wood.

Self Build opportunities will continue to be created. Within the past 12 months MKDP has completed on the sale of 7 self build plots with 2 under offer and a further 15 plots have been reserved for future sale within the proposed Atterbury scheme.

Affordable Housing – MKDP ensures the delivery of a minimum 30% Affordable Housing within relevant land sales contracts and has the potential to deliver c1500 units of affordable housing across its estate.

Affordable City – MKDP is keen to assist the ambitions set out in the Council Plan 2016-20 and is actively considering opportunities to deliver additional good quality affordable homes over and above its commitment to deliver 30% Affordable Housing. A number of initiatives are being explored and MKDP will work closely with colleagues within MKC and Your MK to assist Council Plan objectives

Renaissance CMK - MKDP has commenced initial discussions and will work with MKC to identify the most appropriate process and 'road map' to deliver the relevant MKDP elements of the six big projects identified in MK Futures 2050. It recognises that it has an important role as a major land owner in CMK to help deliver the vision outlined in MK Futures 2050 and in particular to outline the development and investment programme for the major sites that will be necessary to make Renaissance CMK happen.

This approach will require an initial investment to procure the advice necessary to inform the process. It will need to include the engagement of stakeholders in CMK, from major investors to local communities to review the vision resulting in the resurgence of CMK for both residents and visitors. The necessary budget to ensure the necessary work streams are properly resourced has not been provided for in this business plan

The 'road map' will need to facilitate the integration of development in CMK with the wider focus of MK Futures 2050, including the projects on the heart of the Cambridge -Milton Keynes - Oxford corridor, Smart Shared Sustainable Mobility, MK:IT (the new -style university for Milton Keynes) and the Creative and Cultured City.

MKDP's Current proposals on B.3.3, B4.4 and E4 (Midsummer Boulevard East) will need to be integrated into this 'road map' in the form of a prospectus to give confidence to potential investors.

Education - MKDP continues to work closely with MKC Children and Families to assist the delivery of new schools in Milton Keynes. To date three land transactions have completed that will facilitate the delivery of an additional: 4 entry forms at primary level, 5 entry forms at secondary level and special school facilities. In addition MKDP has sold a site to Milton Keynes Education Trust for an Alternative Provision School at Shenley Church End.

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** - MKDP is in the process of updating its comprehensive website which will be the primary reference point for information on MKDP's estate and where appropriate it will be supported by printed marketing collateral for key sites. The information provided on the website will include the annual approved business plan and quarterly reports on progress against projections contained in the business plan. It will also have a list and description of the main sites along with approved development briefs.
- **Direct Marketing** - Direct marketing will be limited and targeted at key sectors focussing on developers, agents, investors, institutions, housing associations, elected members and professional advisors. Currently it includes distribution of newsletters and site particulars to elicit expressions of interest, tender submissions etc.
- **Partnerships** - MKDP will continue to support a limited number of key multipliers including Invest MK and SEMLEP and may collaborate on marketing initiatives that have a direct benefit to MKDP, for example MKDP partners with Invest Milton Keynes at MIPIM UK.
- **Public Relations** - Acknowledging the requirement to better communicate our strategies and objectives and to enhance stakeholder engagement MKDP regularly communicates with the local media, organises briefing events and works with stakeholders to produce joint statements and news stories

MKDP's Role as Special Advisor to MKC

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

- **Western Expansion Area** – MKDP is representing MKC and is agreeing terms for a new collaboration agreement broadly in line with the unexecuted 2011 agreement that will ensure an equitable distribution of the infrastructure cost burden and land receipts.
- **YMCA, CMK** – MKDP has been invited to advise on redevelopment options, assess viability and negotiate disposal / joint venture terms.

- **Tickfordfield Farm** – MKDP is representing MKC and is engaged in the planning, master planning, promotion and development of the site which has the potential to deliver upto 1200 homes.

Work Plan

The attached work plan sets out sites to be progressed 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	Economy stalls following Brexit	<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. OJEU obligations	<ul style="list-style-type: none"> • Development Brief protocols streamlined. • Pre-approval of sites considered for disposal (subject to Development Brief Process) identified in the work plan. • 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. • Additional requirements 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	Future Council elections	<ul style="list-style-type: none"> • Cross party support for MKDP business plan.

Issue	Risk	Mitigation
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 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.