



Milton Keynes
Development Partnership

Business Plan

2018

October 18
(Financial section updated 28.8.19)

Contents

Introduction	2
Summary	3
MKDP's Purpose	5
Working Arrangements.....	5
Board Arrangements.....	6
Management Arrangements	7
Future Resources.....	8
Office Relocation.....	9
Business Strategy	9
Implementation.....	10
General Disposal Strategies.....	12
Key Sites and Transactions.....	13
Work Plan.....	15
Financials.....	15
Financial Projections	16
Financial Contributions to MKC.....	18
Principal Risks to Business Plan.....	19

Introduction

Milton Keynes Development Partnership LLP (MKDP) presents its October '18 business plan for consideration and approval by MKC Cabinet.

This business plan is the first to be produced following receipt of the Accountability Framework that sets out Milton Keynes Council's (MKC) expectations. The submission of this Business Plan to MKC Cabinet has been delayed pending agreement with MKC on the status of the MKC/MKDP loan agreement and related issues around State Aid. Despite the impact of the unexpected interest charges on historic debt, I am delighted to report that MKDP has successfully met its initial financial target and is now in a position to meet the related costs of the £32m taken out to pay for the assets acquired from HCA. This has been achieved despite a shift in policy regards the status of the historic debt resulting in an additional £5.3m charge while also providing MKC cumulative returns of some £5.2m

MKDP has already started its transition to achieve its longer term financial goal; providing MKC with ongoing and increasing financial returns through the investment in, and retention of, land and property assets generating ongoing sustainable returns. We have changed the Board bringing in 3 new independent members with a wide range of skills and have also reorganised and expanded the executive team. Going forward in the short term our returns to MKC are expected to be c£950k rising to over £1.5m pa and by March 2022 we expect to have returned some £9.5m to MKC while also doubling the size of our business. All this will be achieved while continuing to play a substantial part in the development of Milton Keynes as a place and advising MKC on the best use of its own land assets.

As you will see from this plan, we have and are continuing to make significant progress towards completing the requirements of the Accountability Framework, such as already providing sites with the new level of 36% affordable housing and substantial progress on CMK Renaissance initiatives.

This success is predominantly down to the considerable efforts of the executive team and the board would like to recognise their terrific efforts. We believe we have a strong executive and Board teams in place but are already taking steps to take on additional people to both parts of our organisation to ensure we have all the skills required to enable us to deliver our wider brief going forward. We are in a strong position and therefore have confidence that we will provide MKC with increasing financial returns going forward as well as making a significant contribution towards making MKC a better place. In addition, we will continue to provide MKC with property and land expertise and advice.

Bob Green
Chair MKDP

Summary

MKDP operates as an independent legal entity, a Limited Liability Partnership wholly owned and accountable to its shareholders Milton Keynes Council. MKDP's overarching strategic objective, as confirmed within the Accountability Framework, is to generate commercial activity that delivers long-term sustainable commercial, social and financial value to MKDP, Milton Keynes Council and Milton Keynes as a place.

MKDP has made significant progress towards achieving MKC's expectations set out in the Accountability Framework. Since receipt of the Accountability Framework in Dec '17 MKDP has delivered the following:

- Return to MKC
 - By March 2019, MKDP will have returned £5.2m in cash value to MKC. This is expected to reach nearly £9.5m by March 2022
- Housing
 - Approved its first two schemes that will deliver 36% of the homes created as affordable units.
 - Undertaken a review of Transitional Sites originally promoted under an obligation to deliver 30% affordable units and now adjusted to deliver 36% affordable units.
 - Secured outline consent for 303 residential units
- Commercial
 - The completion of c 98,000 sq ft of commercial space.
 - The completion of MK's first BREEAM Excellent industrial unit.
 - Added to the total commercial schemes either completed, in construction or consented now totalling c 500,000 sq ft, creating or retaining over 1,000 jobs in MK
- MK Futures
 - Learning
 - Approved in principle the allocation of land in support of MK:U
 - CMK:Renaissance
 - Assisted MKC in preparation of the CMK:Renaissance Prospectus
 - Secured planning consent for Hotel La Tour a luxury landmark c250 bed hotel overlooking Campbell Park.
 - Marketed and appointed preferred developers on residential schemes with the potential to deliver c 1,800 units

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- Commencement of construction of Campbell Wharf a mixed use scheme comprising 383 new homes, café, restaurant, retail and 117 berth canal side marina
 - Instigated reviews, questionnaires and feasibility studies on key CMK development sites including Midsummer Boulevard East, Station Square
 - Collaboration with Santander to assemble site for new MK Tech Hub
- Finances
 - Generated capital receipts from land sales of c £10.5m
 - Delivered a net profit (including £1m exceptional items, and after revenue contributions to MKC of £208k) for the year to March 18 of £1,506,000. The forecast for the year ending 31 March 2019 is over £1m.
 - Total reserves (both revenue and capital) increased significantly in the year to March 18 to c£23m from £16m, arising largely from the sale of assets.
 - MKDP is to service historic debt requirements of c£5.3m and expects to generate returns of £950k rising to £1.7m annually for MKC over the plan period.
 - Management
 - Reviewed and updated its Members Agreement to effect required changes set out within the MKC Action Plan and Accountability Framework
 - Appointed a new independent board chair in Bob Green.
 - Appointed three new independent board members bringing a significant range of additional skills and experience.
 - Re-constituted working sub committees of the Board to ensure an effective framework for reviewing strategies, policies, procedures and governance. They are:
 - Finance, Audit and Governance
 - Property and Projects
 - Investment and development
 - Nominations and RemunerationsThese are working groups consisting of Independent members and executives to do a lot of the detailed work enabling the Board to concentrate on decision making and strategy.

MKDP continues to demonstrate an ability to tactically manage a varied and demanding property portfolio and assist MKC in its strategic property matters.

MKDP's performance to date and confidence in meeting its financial obligations enables us to evolve beyond the start-up phase and expand our commercial activity to include the investment, acquisition and development of property investments that will generate long term revenue streams. We are currently targeting spending £10m each year and will be looking at both direct development in completed revenue generating schemes and using our land as our investment stake in joint ventures. However, if

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opportunities to buy new land appear that offer a reasonable commercial gain and/or benefit to Milton Keynes as a place, they will be carefully considered.

The business strategies herein set out how MKDP intend to continue to deliver the expectations of its shareholders

MKDP's Purpose

MKDP's primary purpose is to facilitate Milton Keynes' growth by generating economic and social value from its portfolio and implement the vision for Milton Keynes' future as set out in the Council's approved Corporate Plan, its Core Strategy and other key documents.

The receipt of the MKC Accountability Framework further sets out MKC's expectations in creating and owning MKDP. The Accountability Framework confirms that MKDP's overarching strategic objective is to generate activity that delivers long-term and sustainable commercial, social and financial value to MKDP, Milton Keynes Council and Milton Keynes as a place. MKDP are to do this by acting as a land and property company to generate returns to the Council and sustain itself as a viable trading company for the long term by buying, selling and, increasingly, retaining assets.

In preparing the Accountability Framework MKC recognises that substantial and frequent changes to MKC policy objectives will undermine the delivery of long term objectives and projects. Long term stability and continuity are recognised as key to the success of MKDP as a commercial business.

To date MKDP's core obligation to MKC has been to generate sufficient receipts to the sums due on the purchase of the HCA assets and to provide MKC with an additional income of £580k per annum towards the Tariff Risk Reserve. MKDP has achieved this financial stability, developed a steadily increasing trend of both profit and capital receipts and will manage the £32m arising from the purchase of the assets. MKDP's financial stability enables it to evolve and implement strategies that will produce a steady income and continual profit stream by investment in property. In addition to the generation of enhanced revenue and the repayment of debt MKDP expects to contribute nearly £9.5m to MKC by March 2022.

Following receipt of the MKDP Action plan and Accountability Framework MKDP's role is clearer and is set to broaden.

Working Arrangements

MKDP is requested to provide a business plan update annually, quarterly interim progress updates for consideration and approval by MKC's Cabinet and to meet with the relevant Cabinet Portfolio Member quarterly to review progress.

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The receipt of the Councils Accountability Framework (annually) will trigger a review/revision of the MKDP Business Plan providing an opportunity to revise its business planning to assist the delivery of Council strategic objectives.

To ensure a degree of longevity it is proposed the business plan is prepared on a rolling three year basis and updated annually on receipt of the Councils Accountability Framework.

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.

Board Arrangements

The MKC Action Plan recommended a number of revisions to the constitution and governance of MKDP Board that have been implemented.

Amendments to MKDP's Members Agreement have been approved by Cabinet and the make-up of the Board revised to include:

- An independent Chair (appointed by MKC)
- 3 elected members (individuals to be proposed by each of the three main parties, applicants to be reviewed and appointed by the Board)
- The Council's Chief Executive or their nominee will be appointed to the Board
- Up to four independent members

Cllr Peter Marland as Leader of Milton Keynes Council has stepped down from MKDP Board.

Bob Green has been formally appointed Independent Chair by MKC. Bob was previously Vice Chair having been appointed MKDP Board member from Feb 2013.

Cllrs Rob Middleton, Jenni Ferrans and John Bint received the nomination from their respective groups.

New independent members have been recruited bringing a significant range of additional skills and experience. To date three of a potential four independent members have been appointed:

Bernadette Conroy, Huw Rhys Lewis and Stephen Mallen. Between them they bring considerable expertise in both public and private sectors bolstering experience of property development, regeneration and real estate and adding expertise in property research, asset management, housing, financial services, architecture, design, construction and procurement.

Governance and oversight arrangements have been and continue to be reviewed and updated to enhance the operation of the Board and a number of sub-committees of the Board have been constituted:

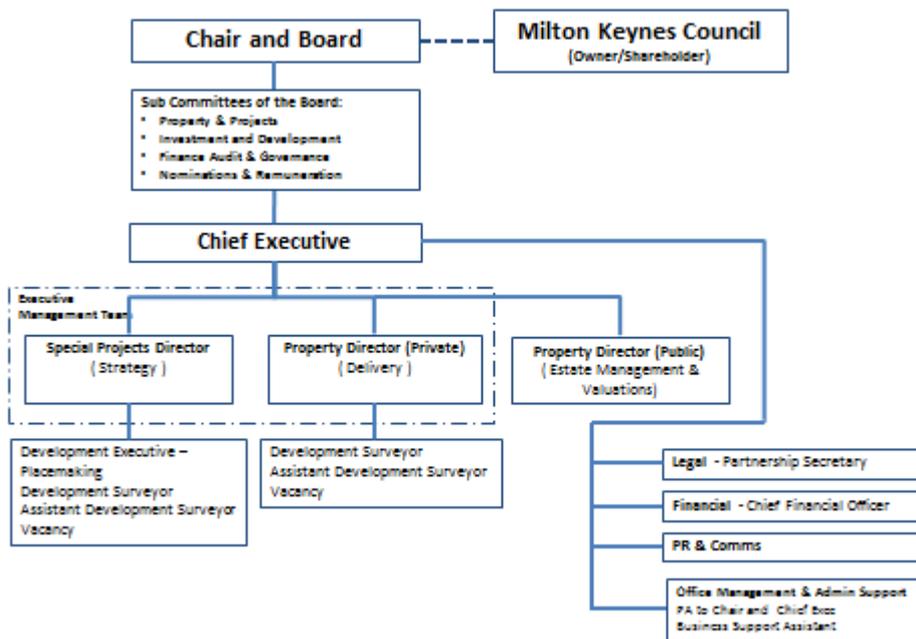
- Finance Audit and Governance
- Property and Projects
- Investment and Development
- Nominations and Remunerations

Management Arrangements

MKDP operates with a small and highly effective executive team. The team comprises executive management and three distinct areas of operation:

- Strategy – Lead on policy, planning, promotion, placemaking and stakeholder engagement. Operational lead on emerging initiatives and strategic sites eg Station Square, B4, National Bowl
- Delivery – Lead on site specific transactional, technical and legal work. Operational lead on approved and non-controversial site promotions, sales and direct development
- Estate Management and Valuation – Operational lead on estate management, annual asset valuations and general MKC property matters.

Organisational Chart



Within the previous Business Plan period MKDP appointed an Interim Chief Financial Officer to help refine and evaluate short to medium term financial objectives and ensure effective internal control, compliance and the provision of timely Management Information. Shortfalls in MKC’s ability to resource its Finance Service Level Agreement with MKDP has introduced uncertainty and in the absence of sustained improvement MKDP is considering bringing its finance system in house.

The completion of MKDP’s transition following the MKDP Review and the reconstitution of MKDP’s Board and creation of sub committees led to the recruitment of a new Partnership Secretary to address constitutional and governance matters and embark on the review and update of MKDP’s policies, procedures, rules and regulations. The forthcoming Business Plan period will see significant update of MKDP’s policies and regulations.

Future Resources

MKDP is self-financing and trading profitably (see Finance section).

Board – MKDP’s Members Agreement affords for the recruitment of a fourth independent Board member. Recruitment of the fourth member is underway.

Executive Team - Existing HR budgets provide for the requirement of two surveyors / project managers within the Business Plan period.

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MKDP bringing its finance system in house require the recruitment of a MKDP Finance Support Officer. This role will be funded from cost savings secured from the current Finance Service Level Agreement with MKC. We are proceeding with the appointment of a permanent Chief Financial Officer who will potentially also have operational responsibilities.

MKDP is also expanding its existing PR and Comms arrangements.

External Advisors and Resources – project specific support, technical and legal support will be outsourced and will be provided by procured external consultants.

Office Relocation

Within this Business Plan period MKDP has to relocate to alternate premises from Saxon Court by June 2019. Alternate locations are being actively considered with MKDP anticipating relocation in advance of the long stop date. Existing office relocation budgets provide for relocation, fit out and occupational costs.

Business Strategy

The receipt of MKC's Accountability Framework reinforces key business strategies stated in preceding Business Plans.

MKDP will continue to help implement MKC's vision by the appropriate development of its land assets and where appropriate assist MKC in the promotion, development and disposal of MKC's own land holdings. This will be achieved by:

- Bringing forward residential, commercial and ancillary development in line with MKC's Accountability Framework and core policy objectives.
- Ensuring the delivery of Affordable Housing increasing provision to provide, where viable, 36% affordable units. MKDP to consider innovative ways to deliver a variety of models of housing ownership and affordability including the provision of larger family homes.
- Supporting the 'Big Six' projects identified by the MK 2050 Vision Commission and specifically engage with: Renaissance CMK, MK:U and the growth Strategy to 2050.
- Exploring and identifying possible future uses for its portfolio of development land and built assets
- Ensuring appropriate consultation and early engagement with elected members, parish/town councils, and other stakeholders at the initiation of any land or property project and in addition to the established requirements of the Development Brief process.
- Engaging with developers, investors and advisers to ensure that proposed uses create best economic and social value and are commercially viable and deliverable.

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- Investing in projects and programmes that give a positive commercial rate of return and create long term revenue opportunities
- Collaborating with other land owners 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.
- Establish the basis for a Corporate Social Responsibility Fund to assist in the provision of locally identified needs that will not be met as part of the planning process during the development of MKDP sites.
- Working collaboratively with MKC's economic development function

Implementation

MKDP's ability to meet the aspirations of the Council as set out within the Accountability Framework while maintaining long term stability and viability are contingent upon a number of factors including:

- The impact of future Accountability Framework Agreements on the sustainability and viability of development.
- The delivery of land sales under contract.
- The delivery of residential development and increased affordable housing provision
- MKDP continuing to act as critical friend to MKC, offering independent advice and comment on emerging Council Policy that impacts on the viability and deliverability of development on MKDP and MKC land.
- Approval and implementation of MKDP Investment and Development Strategy and the creation of additional revenue streams
- Maintaining sufficient financial and HR resources to deliver emerging strategies.
- External risk factors (see page 9).

Increased Affordable Housing Levels - Confirmation of the Council's strategic objectives is welcome however the impact of these objectives on MKDP's programme of disposals is yet to be fully assessed. The increase in Affordable Housing allocations to 36% and the retrospective application of increased Affordable Housing will impact on future capital receipts, affordable allocations on suburban schemes will negatively impact forecast capital receipts however such schemes are anticipated to remain viable. The impact of Affordable Housing allocations on dense town centre and urban schemes and in particular Private Rented Sector (PRS) schemes is stark and MKC have been advised that schemes may have to be subject to formal viability assessments in ensure ongoing and sustainable delivery and contribution to the ambitions of Renaissance:CMK

Delivery of land sales under contract - MKDP has formal contracts for sale on 8 sites with projected capital receipts from these disposals being c £17.5m. In addition, 8

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further contracts are in legal with the potential of yielding a further £18.5m in capital receipts. Capital receipts and delivery are typically subject to the receipt of detailed planning consent and the delays in the planning process that have been experienced in the past 12 months will have a significant detrimental impact on our business and our ability to generate returns to MKC.

The delivery of residential development and increased affordable housing provision – MKDP is promoting land for the delivery of additional housing to increase the overall rate of build out in Milton Keynes. The existing Accountability Framework requires the delivery of 36% affordable homes within a variety of models of housing ownership and affordability. To assist the Council MKDP is exploring alternate delivery options to assist the delivery of a wider range of affordable units including the potential assessment of affordable numbers by reference to habitable or bedroom numbers.

MKDP as Critical Friend - MKDP acts as critical friend to MKC and should continue to be a key consultee on emerging MKC policy that potentially impacts on the deliverability and viability of commercial and residential development. MKDP reserves the right to formally object to policy decisions that adversely impact on the viability and sustainability of development.

Investment and Development Strategy - MKDP's performance to date and forecast capital and revenue position gives confidence that MKDP will meet and then exceed its core financial obligations to MKC. This confidence provides an opportunity for MKDP to evolve beyond its start-up phase and expand its commercial activity to include the acquisition of investment property and the direct development of its land portfolio in pursuit of long dated property income.

To facilitate investment and development MKDP Board will put in place effective management, policy and governance arrangements. Within this business plan period MKDP is to target investment acquisitions of up to £10m per annum (funded through debt and ongoing capital receipts). Acquisitions and/or additional capital investment in direct development in excess of an aggregated £10m per annum will remain a MKC Reserved Matter.

Opportunities for the direct development of land within the estate have been identified and are actively being pursued (see key sites and transactions section).

To facilitate investment and developments, capital and revenue reserves are to be retained and utilised together with additional borrowings where required and approved by MKC.

Financial Resources - Austerity and its impact on the Councils Medium Term Financial Plan are acknowledged and MKDP accept its role in the delivery of significant and sustainable financial contributions to MKC.

MKDP is a profitable entity building up capital and revenue reserves to service the sums due to MKC while also meeting the additional requests to assist MKC's Medium Term Financial Plan.

Within this Business plan period, MKDP is building reserves to facilitate investment and development activities in pursuit of sustainable long term revenue streams which in turn will sustain future revenue returns to MKC.

Within the Accountability Framework MKC acknowledge that any remittances to MKC need to be reasonable and financially sustainable. In addition, MKC acknowledge that substantial and frequent changes to MKC policy objectives may impact and undermine MKDP's ability to deliver long term objectives and projects.

MKDP is comforted that the long term stability and continuity of MKDP is recognised by MKC as being a key to the success of MKDP as a commercial business.

External risk factors - Economic stability during Brexit /No-Deal Brexit negotiations, consumer confidence, and affordability of housing and house price stagnation / recession are key areas of risk that will be monitored throughout the business plan process. With a significant proportion of MKDP receipts dependant on a strong housing sector and sustained residential development demand, small fluctuations in market conditions and sentiments may have a significant impact on future capital receipts and delivery.

Planning risk, delays in the planning process and uncertainties in the delivery of key Council Policies have a marked impact on MKDP. Where appropriate MKDP is liaising with MKC to identify and address areas of risk and in doing so MKDP is to act and is to be treated as if it were any other private developer / land owner.

General Disposal Strategies

The findings of the Independent Review, receipt of the Council's Action Plan and Accountability Framework have not materially altered the MKDP's general disposal strategies (save for Affordable Housing provision) and the precedent strategies that appeared in earlier versions of the MKDP Business Plan.

The Accountability Framework highlights distinct Asset Categorisation advocating the use of MKDP assets in the following way:

- (a) *Central Milton Keynes (CMK) – primarily for the benefit of place making including delivering additional housing*
- (b) *MK Bowl – as a specific and dedicated asset benefitting the wider economy of Milton Keynes*
- (c) *All other sites should deliver direct financial benefit to MKDP, whether as capital receipts or ongoing income*

On appropriate sites MKDP will work to promote and support the delivery of additional housing to increase the overall rate of build out in Milton Keynes. Under the above asset categorisation the Board would not be responsible for delivering social and community value for small non-CMK sites save for the

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specific requirements set out in the Accountability Framework or any planning requirements.

Central Milton Keynes (CMK) – MKC have requested MKDP take a more leading role in the delivery of Renaissance CMK, building on the preliminary prospectus work undertaken by MKC.

Placemaking is recognized as an essential element of CMK Renaissance and will be linked to strong urban design and architecture to capitalize on the quality of CMK's existing virtues and values aligned with MKC's planning policy.

This approach will necessitate investment in research and stakeholder engagement to review the vision and assist the resurgence and revitalisation of CMK for residents, occupiers, visitors and inward investors.

To assist in its placemaking objectives MKDP has appointed a full time Development Executive with a planning and urban design background.

MK Bowl – MKDP have been actively engaged in a detailed feasibility study focussed on the modernisation and the reinvigoration of the MK Bowl as a major concert and events facility. However, the findings raise concerns about the suitability and viability of the scheme proposals and the long term prospects of the Bowl as a major music venue. Therefore, during this business plan period further investigations looking at alternate uses and the use of the Bowl as potential enabling development in support of wider MKDP and MKC objectives will be undertaken.

Other sites - MKDP continue to promote land for inward investment and development. Where appropriate MKDP are continuing to investigate land use re-allocations to meet emerging demand and extract value. MKDP is actively exploring opportunities to promote land for residential development assisting with the development of affordable housing and other housing tenures.

Key Sites and Transactions

Residential Development sites

- Lilleshall Avenue, Monkston – Building Lease complete. 24 unit residential scheme with Abbey New Homes. Currently nearing completion.
- Atterbury – this is a residential scheme of 131 homes with 30% affordable and which incorporate 15 self-build plots to be latterly marketed by MKDP. Planning consent granted and work should start in early 2019.
- Worrelle Ave, Middleton – Planning granted for 21 plot residential scheme. Work to commence early 2019.
- Campbell Wharf –residential led mixed use scheme comprising 380 units of 2, 3, and 4 bed apartments and townhouses including 30% affordable homes, with a children's nursery, convenience store, restaurant, bar and a 100 berth marina. Construction work underway with first occupations from October 2019.

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- Campbell Park Northside – Development Brief presented for consultation for a project of approximately 1500 residential units. Legals ongoing for the appointment of two development partners.
- Lichfield Down, Walnut Tree – Planning application submitted for 50 unit retirement scheme including 15 affordable retirement properties.
- Ladbroke Grove – Planning application submitted for 28 residential units.
- D4.4 – Planning application submitted for 325 private rented residential units above commercial and leisure space around a central square.
- Shenley Brook End – MKDP pre-let to co-op food store with a residential development of c.30 units. BPHA appointed as development partner for the scheme and planning to be submitted in 2019.
- Hampstead Gate, Bradwell Common – tenders received for residential development of this 1 acre site

Commercial Development sites

- West Ashland North - Construction underway for “Blue Light Hub”
- Rooksley - Deltic Avenue – Construction underway for a builder’s merchant and trade counter scheme
- B3.3N - Office led scheme to include large scale, high rise buildings (office, residential, ground floor A1, A3 uses). Stakeholder, pre-app discussions and pre-let marketing ongoing.
- Knowlhill V – two industrial units totalling c50,000 sq ft on site, practical completion due 2019.
- Snelshall Site A/B – sale agreed to a logistics operator for its own occupation of 200,000 sq ft distribution unit.
- Shenley Wood E – Sale agreed to Integral Powertrain. Planning approved, start onsite of c.40k sq ft Office/RnD building proposed shortly.
- Walton – Sale completed to MSD for expansion of existing operation.
- Linford Wood Site G – Sale agreed to Chargemaster. c40k sq ft Office/Production building to start on site shortly.
- B3.1S – Tendered. Planning application for hotel submitted awaiting determination.
- E2.4S – 4 star plus hotel c 250 beds with conference facilities, roof top bar and restaurant. Planning consent granted.
- Willen Lake – Legal contracts in negotiation for sale to Parks Trust for hotel operation.

Investment and Development Proposals

- Pineham – Warehousing and Logistics investment and development
- Shenley Brook End – Retail investment
- Kents Hill – Retail Investment
- Shenley Wood B – Warehousing / Industrial development
- Knowlhill P – Warehousing / Industrial development
- Westcroft – Nursing Home development

Other

- Fishermead Gurnards Avenue – Lawyers appointed for acquisition by MKC, sublet to YourMK for a temporary housing scheme. Planning granted for scheme 70 modular style units.
- YMCA - MKDP is working with MKC to assist the YMCA bringing forward their improvement plans for their site.
- Old Bus Station – First floor tenants in occupation. Upgrade works to skate park and externals underway.
- B4 – Heads of Terms agreed for acquisition of remaining site (B4.4) from the HCA. Terms in discussion with MKC for University provision.

Work Plan

The attached work plan (See Annex A2) 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.

Financials

The tables below summarise the financial outturn for MKDP for the financial year to 31 March 2018, and the draft outturn forecast for the three years to 31 March 2022.

It should be noted that in the year to 31 March 2018, MKDP has generated a net surplus (after revenue contributions to MKC of £208,000) of £1.506m, against a budget of £395K. An exceptional item of £1 million accounted for a significant proportion of this variance, but the underlying surplus from the revenue activities exceeded budget expectations.

This result highlights MKDP's ongoing ability to accrue the necessary revenue profits that are required to service future funding obligations that will become due from March 2019.

	<i>2017/18 Budget £000s</i>	<i>2017/18 Actual £000s</i>	<i>2017/18 Variance £000s</i>
<i>MKDP Management & Development</i>	-795	-673	+122
<i>Asset Management (net)</i>	251	1,003	+752
<i>Car Parking</i>	1,148	1,381	+233
<i>Contributions to MKC Costs</i>	-209	-205	+4
<i>Profit</i>	£395	£1,506	£1,111

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Asset Management includes a deduction for costs associated with land maintenance and brought in services, which lead to additional capital receipts, as well as support for local initiatives and project development, which are not directly attributable to individual sites.

Financial Projections

MKDP, in its sixth year of operation, has significantly exceeded expectations in terms of financial performance and, as previously reported, will be in a position, at the end of the current financial year, to repay the majority of the original sum due on the acquisition of the land. This was incurred to finance the acquisition of the land bank from the HCA.

MKDP has generated surpluses in the region of £19 million arising from land disposals and trading activities, with a further £4 million attributable to the revaluation of properties still under investigation in terms of creating best value

The revenue position is expected to become more challenging over the following years. This is due to cost pressures within the medium term including:

- Increase in staffing levels and consultancy fees to meet the demands of the wider activities of MKDP
- Additional costs to support Council initiatives eg CMK:Renaissance and inward investment promotion activities.
- Property costs from the relocation from Saxon Court at the end of 2018/19.
- Cost and revenue assumptions associated with the proposed development projects

A significant proportion of the overhead expenditure of MKDP is attributable to land disposals and transactions and, historically, all those costs have been allocated to the profit and loss account. A significant portion of these costs are actually attributable to the activity of land disposals and, whilst there may be perceived pressure on the costs when compared to the revenue income, there should be recognition that these activities generate significant capital returns and profits arising from land disposals.

In addition, income from tenancies is assumed to reduce over the next 2 financial years to reflect the risk and uncertainty around a number of lease expiries and lease renewals.

The capital position continues to look very positive, with expected capital receipts over the medium term of £55m which will provide capital to invest to generate both further capital receipts and regular revenue income for MKDP /MKC in the future.

The table below summarises the forecast revenue and capital position for MKDP from 2018/19 to 2021/22. The figures assume MKDP continue to carry the outstanding debt to MKC in full for a period of time while MKDP re-assess its capital position and investment strategy. MKDP have appointed a full time Financial Director (starting 1st November) and anticipate a renewal of this Business Plan in Dec '19.

MKDP Business Plan Draft v10

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	18/19		19 /20	20/21	21/22
	<i>Opening</i>	<i>Additional Changes</i>			
CASH FLOW	<i>£,000</i>	<i>£,000</i>	<i>£,000</i>	<i>£,000</i>	<i>£,000</i>
Net operating profit /(Loss)		£0	£1,533	£2,118	£2,571
Working Capital Movement (land debtor/creditors)		-£578	£2,000	£40	
Site Preparation			-£765	-£492	-£350
MKC Loan Repayment		-£1,813	£144	£0	£0
Interest - MKC Loan			-£810	-£810	-£810
Contribution to MTFP				-£500	-£500
MKC / HCA Creditor repayment			£0	£0	£0
MTFP Capital Payment		-£4,000			
Tariff Risk Reserve Contribution		-£580	-£580	-£580	-£580
MKC Distribution (State Aid etc)		-£5,320			
Interest charges 14.01.18 - 31.3.19		-£1,286	£0	£0	£0
Agreed Mitigations/ Offsets					
MTFP Capital Payment		£4,000			
Revised Contributions to TRR		£580	£580	£160	£0
INVESTMENT & DEVELOPMENT					
Site Disposals			£14,662	£8,259	£12,675
BP Chargemaster			-£6,790		
Office investment acquisition			-£5,700	£0	
Acquisitions / Capital spend				-£10,000	-£13,600
Inflow/(outflow)		-£8,997	£4,274	-£1,805	-£594
Bank - Opening Position		£31,088	£22,091	£26,365	£24,560
Bank - Closing Position	£31,088	£22,091	£26,365	£24,560	£23,966
CASH RESERVES ALLOCATION					
Contribution to general reserve		-£6,000	£0	£0	£0
General Reserve maintained at £6m		£6,000	£6,000	£6,000	£6,000
Contribution to Cap Ex Timing Reserve		-£10,000	£0	£0	£0
Cap Ex Timing Reserve		£10,000	£10,000	£10,000	£10,000
Total in year		-£24,997	£4,274	-£1,805	-£594
Contribution to Unallocated Reserves		-£24,997	£4,274	-£1,805	-£594
Unallocated Reserves Total	£31,088	£6,091	£10,365	£8,560	£7,966
Allocated Reserves Total	£0	£16,000	£16,000	£16,000	£16,000
MKC DEBT	£31,669	£29,856	£30,000	£30,000	£30,000

Note : All figures Net Of VAT

Financial Contributions to MKC

MKDP continues to dispose of development assets to generate receipts to enable the repayment the debt to MKC and create a capital reserve for strategic acquisitions and investment. MKDP is now starting to invest in projects that will give a positive commercial rate of return and hence grow profits and returns to MKC.

MKDP's core financial obligation is to repay and manage the sum due from the purchase of the HCA assets and provide MKC capital contributions of £580k per annum towards the Tariff Risk Reserve.

In addition, MKDP is now required to make an additional £5.3m in historic interest payments. These payments are to be received by MKC as revenue and therefore able to be deployed by MKC to fund additional services.

To meet the unexpected historic interest charge it is agreed with MKC that MKDP mitigated this cost by offsetting the previously budgeted capital contribution of £4m and reducing contribution in 18/19 by £580k, 19/20 by £580k and 20/21 £160k.

Total returns to MKC under this plan are:

Returns to MKC	b/f	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>
		£000s	£000s	£000s	£000s
Existing Contributions					
Planning & project contributions	£836	£213	£213	£213	£213
Tariff Risk Reserve (Capital)		£0	£0	£420	£580
Contribution to MTFP				£500	£500
Profit margin to MKC on loans *					
Historic Interest Charges		£3,347			
Unsecured loan		£809			
Secured loan			£435	£435	£435
Total Annual Contributions		£4,369	£948	£1,568	£1,728
Cumulative Contributions	£836	£5,205	£6,153	£7,721	£9,449

* Payments less MKC's cost of debt

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, investment decisions are delayed or postponed	Prudent estimates of potential sales and income generation.
	Availability of finance for development	Where appropriate MKDP to help de-risk schemes by entering into JV's, co-investment, equity participation to reduce the financial burden. MKDP to provide more flexible deal structures including freehold interests and delayed completions.
	Brexit / No Deal Brexit	Prudent estimates of potential sales and income generation MKDP have the ability to offer flexible deal structures to reduce the capital burden on substantial and capital intensive schemes
Organisational Risk	<p>Protracted decision making process.</p> <p>Public Policy restrictions.</p> <p>Stakeholder discord</p>	<p>MKC Accountability Framework intended to streamline process and provide greater clarity and certainty</p> <p>MKDP to be a key consultee and to act as 'critical friend' to help MKC identify potential policy issues relating to development</p> <p>Policies and procedures to be reviewed and updated to provide clarity and consistency</p> <p>Reviewed MKDP Scheme of Delegations drafted to ensure operational flexibility and appropriate delegation of authority.</p> <p>Procurement rules reviewed to provide greater operational flexibility and autonomy.</p> <p>Development Brief protocols and stakeholder engagement to be continually reviewed and enhanced.</p> <p>Pre-approval of sites considered for disposal (subject to Development Brief Process) identified in the work plan.</p>

XXXXX

		At the initiation of land or property projects engage with local Borough Councillors to alert them to ideas being considered
	Recruitment and Human Resources	Specialist consultants retained to assist appointment of Independent Members Ongoing recruitment drive for Executive posts. Review of terms and conditions to assist retention of staff
Resource / Revenue Risk	MKC requests for additional revenue / dividend Uncertainty of income from investment assets including CMK Market and car parking.	Prudent business planning. Investment and development strategy proposed to enhance medium and longer term revenue. Prudent and risk adjusted estimates of rents achievable and net car parking income.
Political Risk	Future Council elections	Cross party support for MKDP business plan. MKDP's ability to respond to the Accountability Framework annually by Business Plan updates
Planning Risk	Business Plan assumes significant opportunities for land use re-allocations	Sites to be promoted through the Development Brief process. Exceptions rule to be tuned and better defined Enhanced stakeholder engagement and utilisation of Stakeholder Advisory Groups MKDP to enable developers to run viability tests when deemed necessary and appropriate.
Financial Risk	The forecasts assume use allocations will be reviewed and changes of use will be forthcoming. The imposition of development obligations over and above planning policy. Investment and development risk	Prudent assumptions on the timing and allocation of land uses. Ongoing assessment and review of opportunity costs Detailed financial modelling, due diligence and review of development and investment opportunities against pre-determined criteria