

Milton Keynes Development Partnership LLP

# MKDP Business Plan 2022-2025

February 2022

## Milton Keynes Development Partnership LLP

### Business plan 2022 to 2025

#### Section 1 - About Milton Keynes Development Partnership LLP

##### 1.1 Introduction and summary

- 1.1.1 Milton Keynes Development Partnership LLP (MKDP) has reached a very exciting stage in its existence, the company has an excellent track record of delivering outcomes that have benefited Milton Keynes. We have expertly utilised our portfolio of property and assets to create new high-quality developments, that have brought many new homes and jobs to the area and achieved positive placemaking outcomes.
- 1.1.2 2021/22 sees a major new opportunity for MKDP to continue to facilitate growth in Milton Keynes and the implementation of the Council's vision for the city's future, by driving forward the creation of a Local Housing Company to improve the quality and quantity of affordable homes across the borough, whilst also continuing to contribute to the placemaking agenda.
- 1.1.3 Creating a new LHC will shift the focus of MKDP and affect how we will look and feel in months and years ahead. It is a pivotal moment for the organisation. This Business Plan for the 2022/23-2024/25 period aims:
- to be clear how we plan and prepare for this change;
  - set out how we establish the new norm for the company and the roadmap for the journey ahead; and
  - to help us to articulate the vision for the type of organisation we will become as a result.
- 1.1.4 This is a major change in focus and emphasis, so this business plan also sets out how we will put in place the organisation resilience required achieve our ambitions including:
- a considered review of the resources required to ensure we have enough, suitably skilled resources to deliver our priorities while continuing to manage our assets effectively and efficiently;
  - a clear understanding of risk and our approach to managing risk and how we will further develop this; and
  - ensuring our governance arrangements fully support us as we change and ensure organisational efficiency.
- 1.1.5 In addition to our role in facilitating and delivering the Council's vision for Milton Keynes, MKDP also delivers a much needed return to the Council which helps fund essential services. This distribution is forecast to be £1.2m in 2021/22 rising to £2.513m<sup>1</sup> by 2024/25
- 1.1.6 Our three year business plan will be refreshed annually.

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<sup>1</sup> Including a £580k contribution to the Tariff Risk Reserve

## **1.2 Who we are and our vision**

- 1.2.2 Milton Keynes Development Partnership LLP (MKDP) was established in 2013 by Milton Keynes Council (MKC) to hold and promote the development of specific assets purchased from the Homes & Communities Agency and other assets belonging to MKC.
- 1.2.2 The primary objective and our vision set by the Council for MKDP is **to facilitate Milton Keynes growth and the implementation of the Council's vision for Milton Keynes future set out in the approved Council Plan, planning frameworks and other strategic documents.**
- 1.2.3 Although technically MKDP LLP is wholly owned by MKC, the Council, recognising the need for specialist skills, has delegated general responsibility for the operation of MDKP's business to an Independent Board.
- 1.2.4 The terms of this delegation are set out in the Members Agreement supported by a commissioning statement. It gives the MKDP Board general operational responsibility for MDKP's business in accordance with the approved business plan subject to a short list of reserved matters.
- 1.2.5 The Council receives 100% of the profit distributions made by MKDP, including a fixed contribution of £580,000 towards the Tariff Risk Reserve. The balance of these profit distributions helps to fund other Council services.

## **1.3 Our mission and the Council plan and Local Plan (PlanMK)**

- 1.3.1 MKDP's strategic mission is to:  
**Deliver the Council's aspirations for growth in the Council Plan and Council's Local Plan**
- 1.3.2 Milton Keynes Council (MKC) plan can be found [here](#) and the Local Plan can be found [here](#). Their vision is for a thriving Milton Keynes, growing to be the greenest and most sustainable city in the world, ensuring a fairer, hardworking and more equal Milton Keynes for all, within a Greater Milton Keynes of 500,000 people.
- 1.3.3 The Council seeks a prosperous, green and fair recovery from the pandemic, aiming to make a 21st Century Milton Keynes while preserving what makes Milton Keynes special. It wants to create a city of opportunity that is also affordable and healthy.
- 1.3.4 MDKP using its assets, has a unique role to play in helping to deliver the Council's vision.
- 1.3.5 Fundamental is our planned programme of nearly 2,000 affordable homes by 2031 that will provide a significant contribution towards Milton Keynes' requirement for more affordable homes. These homes will help the Council create an affordable, green, sustainable city as well as driving growth by attracting essential workers.
- 1.3.5 Our placemaking projects such as improvements to CMK market, our reimagining of station square and our work with the Council and partners to protect, renew and ensure the success of the City Centre will also make a significant contribution to the success of Milton Keynes as will our ability to, at pace, bring on board new sites, such as the recently purchased Brunel Centre in Bletchley and future joint venture opportunities to deliver the Council's vision.

## **1.4 Values**

- 1.4.1 Our values help to describe the ways we wish to work at MKDP. They inform our desired culture and guide our behaviours. They help us to give the best of ourselves.

#### 1.4.2 We will be:

- *Ambitious*
  - We want a great future for Milton Keynes we will engage, innovate, and push boundaries and not settle for sub-optimal solutions. We will think big and facilitate the Councils' vision for Milton Keynes and its growth to create a truly 21<sup>st</sup> century city.
- *Resourceful, dedicated and commercial*
  - We will pursue a clear vision at pace, bringing key players together, tackling issues head on, removing obstacles and facilitating giving Milton Keynes Council a strong voice at the table on national projects such as East West Rail.
- *Local*
  - We will always remember that this is all for the benefit of Milton Keynes, it's residents, their communities and its businesses.
- *Collaborative*
  - We will be an organisation that learns from, and collaborates with others, sharing our learning and experience far and wide. We will work closely with Milton Keynes Council, building trust between ourselves, the Council, and Milton Keynes residents, businesses and community groups.
- *Sustainable*
  - We are committed to a green and sustainable future, we want to have a positive long term impact.

## Section 2 - Achievements

#### 2.1 In the last three years we:

- Have increased the percentage of affordable housing on our sites from a policy compliant 31% to 36%.
- Have achieved planning consent on over 1000 homes on MKDP owned land and we managed the successful application for over 900 homes in Newport Pagnell for Milton Keynes Council.
- Have progressed Campbell Wharf, it's on site and is nearly 50% complete. The scheme is MKDP's flagship development site and will deliver over 380 homes, a marina, pub, café, restaurant and specialist retail units. The project recently won a regional RTPA Award for Planning Excellence.
- Have completed the pre-letting of BP Chargemaster's new headquarters office building and manufacturing facility in Linford Wood.
- Are currently on site or have recently completed three hotel projects with the stand-out, four star, Hotel LaTour due to open in 2022.

- Welcomed Cranfield University to Bouverie house, an important start on the journey of MK-U.
- We have been asked to play an active role in helping to deliver the £23m Town Deal initiative awarded to Bletchley and Fenny Stratford. Our focus is on landholdings around the station area, and the utilisation of a Revolving Development Fund to help unlock placemaking projects in the Bletchley Prospectus area.

So far we have completed on the Blue Light Hub in West Ashland which triggered the acquisition of the Fire and Police Station sites adjacent to Bletchley Station. We have also very recently acquired the Brunel shopping centre at Bletchley. Together these sites significantly unlock the Council's placemaking ambitions for Bletchley.

### Section 3 - Business Plan Aspirations

#### 3.1 Strategic Review

3.1.1 The strategic review considered by Board in July 2021 agreed the following priorities:

- The Local Housing Company.
- Deliver the Councils placemaking vision.
- Property and Financing.
- Governance and Organisational Efficiency.

3.1.2 This section of our business plan considers our specific ambitions for the Local Housing Company the delivery of the Councils placemaking vision using the leverage we have from our landholdings. Governance, resourcing, organisation efficiency and financing are considered in later sections of the plan.

#### 3.2 Specific ambitions

#### 3.3 Placemaking Delivery

3.3.1 **“The creation of places that people want to live, work, or explore and which add Social and Economic benefit.”**

3.3.2 A key element of MKDPs function is to facilitate and support MKCs placemaking aspirations and to specifically support and lead on the delivery of these aspirations. MKDP will concentrate on delivery of its placemaking projects and will co-ordinate this activity with the MKC Placemaking Team.

3.3.3 The Placemaking Focus for MKDP is principally Renaissance: CMK (R:CMK), a project derived from the MKC 2016 Futures Commission which led to the 2050 Futures report and subsequent strategy. It is about the revitalisation of CMK. Principally this will be delivered by the effective use of MKDP land assets.

3.3.4 In addition, MKDP has a role in moving forward the Bletchley and Fenny Stratford Town Investment Plan and in general input into the qualitative aspects of our property and housing work, as well as any other objectives that might be in the Council plan and Milton Keynes Local Plan (PlanMK) where MKDP are asked to support.

### 3.3.5 Key areas of activity are:

1. **Midsummer Boulevard East** - The creation of a High Street for Milton Keynes is a long-held aspiration for many. MKDP can facilitate this working with other landowners and partners to bring forward development supporting the creation of a substantial dynamic and vibrant public space. One key component of this public space and a catalyst for place is the Open Market in CMK.
2. **The Open Market (OM)** - Work is underway on the Open Market to enhance the layout and offer within the existing footprint. Further expansion is being explored to link with new operation/ management regime to be procured in 2022/23. Concepts include provision for “creative units” allowing retail beyond the existing offer. Current funding and relationships with adjacent owners mean that delivery is likely to be phased. Phase one being the enhancements currently underway.
3. **Station Square** - There are 2 elements to the Station Square project as agreed by Board in 2020. Meanwhile uses to create some immediate activity in the square through arts and cultural interventions along with public realm enhancements. This is being predominantly funded via MKC and grant funding. MKDP is facilitating this working with MKC’s culture team. MKDPs focus is on the second element essentially the redevelopment of Station Square itself retaining transport connections, public space whilst creating a dynamic and exciting entrance to Central Milton Keynes.
4. **Milton Keynes University (MK:U)** - MKDP is not directly involved in the establishment of the university project this is being led by MKC and their academic partner Cranfield University. However, MKDPs role on delivery mechanisms and enablement is pivotal. In addition, the contribution to Renaissance: CMK of the university cannot be underestimated.
5. **Strategic Approach** - derived from the 2050 Strategy and in partnership with MKC work is underway to formulate a suite of documents to formalise a strategy, vision and approach to. MKDP input on delivery will be fundamental in moving this forward Renaissance: CMK.
6. **Bletchley and Fenny Stratford Town Deal** - MKDP has been asked to play an active role in helping to deliver the Town Deal initiative. The focus will be on assisting with the Revolving Development Fund (an investment fund to help bring forward key developments) together with the Station Quarter/Innovation Hub. Business cases need to be finalised and prepared by March 2022.
7. **Delivery Approaches** - Whilst work on refining the inputs to Renaissance: CMK are moving forward and can be programmed, thought needs to be given to implementation. It is most likely that Joint Venture mechanisms, partnering, and land sales will be used but thought also needs to be given to direct development and facilitation (Frameworks, etc).

### 3.4 Property and Financing

3.4.1 Delivering the property elements of the MKDP priorities is critical to ensuring success.

3.4.2 The Delivery Team will utilise the current portfolio **to provide capital to fund the first phases of the Local Housing Company (LHC) and the land/property elements of the Placemaking projects, while also providing revenue to sustain the operational side of the business.**

- 3.4.3 MKDP's focus is to utilise the resource available to deliver the LHC projects until the LHC becomes strongly income producing in five years. At that point, a far more active acquisition / development / investment programme can be considered utilising the income generated from the LHC.
- 3.4.4 The Delivery Team's key objectives are to ensure completion of the forecast receipts and drive the initial transactions for the LHC ensuring they are contractually secure.
- 3.4.5 In addition to the Local Housing Company allocated sites (Appendix 4), MKDP still has a number other significant sites. These, along with their current status are also listed in Appendix 4. They are a mix of residential and commercial development; combined, the sites contribute up to c£45m of cash to seed fund the early phase of the Local Housing Company development. The delivery of these sites is critical to minimise additional borrowing costs and the Property Team will continue with their programme aiming to maximise value including where appropriate marketing these commercial sites for pre-let and /or speculative development.
- 3.4.6 During this business plan period we will also do a full review of our circa 500 small pieces of land to optimise value form these.

### **3.5 The Local Housing Company (LHC)**

- 3.5.1 MKDP will play a pivotable role in both **facilitating growth and creating an affordable city** by using its land holdings to produce affordable housing at scale across all tenures, creating decent homes for essential workers and others on low incomes including supportive provision for those often excluded by mainstream affordable housing providers.
- 3.5.2 As a landowner we can increase delivery in addition to planning requirements (currently 31%), raise the bar in terms of quality and play a greater role with the Council on delivering the placemaking agenda. We can secure the affordable housing for the city in a truly local and transparent way.
- 3.5.3 To enable this, we have set up a new Local Housing Company, Milton Keynes Housing Company Ltd (MKHC) as a wholly owned subsidiary of MKDP<sup>2</sup>. The Company will become both a Registered Provider of Social Housing and a Registered Charity, enabling MKHC to apply for grants from Homes England and minimise corporation tax liabilities. To satisfy the Regulator to enable it to become a Registered Provider of Social Housing it will need to, through its Board, be able to demonstrate independence especially on Regulatory matters. We will carry out further work to understand both the opportunities and risks from the governments Levelling Up Agenda for both the LHC and MKDP.
- 3.5.4 Setting up MKHC as a Registered provider regulated by the Regulator of Social Housing will give the Council certainty that the homes will be managed by the Independent Board of the MKHC as affordable housing for the entire length of the lease and provide protection on rents, value for money, viability and the standard of services delivered to MKHC's residents.
- 3.5.5 As a subsidiary of MKDP, MKHC will benefit from its linkage to the Council. It will be easier for MKHC to work closely with the Council to provide wrap around appropriate support packages for tenants where appropriate while also creating mixed communities and opportunities for all, costing this ambition into MKHC's business plan from inception and enabling the creation of an innovative

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<sup>2</sup> See also Milton Keynes Council Cabinet's decision on 13 July 2021, Delegated Decision of 28<sup>th</sup> September 2021 and Cabinet Decision of 14 December 2021

organisation. We will build on the lessons learnt by other Councils, many of which are successfully operating their own LHC's.

3.5.6 The process of registration has recently commenced. Normally it takes about two years to complete, and the project is being managed by a team that initially is made up of both Council and MKDP officers. There are two stages to the application process:

i) The preliminary application form (stage one): This enables the Regulator to assess if the applicant is:

- An English body, as defined in section 79 of the Housing and Regeneration Act (HRA) 2008.
- The applicant is a provider, or an intending provider, as defined in section 80 of the HRA 2008.
- The housing that the applicant provides or intends to provide, is social housing, as defined in Sections 68-71 of the HRA 2008.
- The social housing is or will be in England.

ii) The detailed application (also known as Stage 2): This sets out in detail how the applicant will meet all the Registration Criteria. This includes a detailed business plan with long term financial forecasts. At this stage the applicant also confirms the information provided at the preliminary stage remains unchanged or if it has changed) then the applicant must provide details of the changes. For example in our case this might be the addition of Tickford Fields as by that stage it may be sufficiently advanced to include.

3.5.7 MKDP are progressing the stage 1 application which is hoped will be submitted in spring this year. MKDP proposes to come back to the Council for a further Executive decision before the submission of the detailed application.

### 3.5.8 The LHC model

3.5.9 On the initial sites MDKP will use its existing partnership model, working with a developer who will build the homes under a building lease / licence. An experienced developer will offer resources and specialist skills as the programme scales up on the larger sites. Over the business plan period MDKP also intends to progress the smaller 100% affordable LHC sites, for these MKDP will engage in its own housebuilding and development teams / contractors to enable MKDP to directly develop the homes.

3.5.10 MKHC will acquire the completed affordable housing at practical completion from MKDP on a long lease of over 100 years<sup>3</sup>.

3.5.11 Returns will flow back to the Council through MKDP in the form of a premium on the lease and interest on the loan granted by MKDP to MKHC to enable it to pay the lease premium. In cash terms this will take the form of interest and loan principal repayments on the element of premium not front funded by Homes England Grant MKHC is able to obtain. The lease will also where relevant (and in a

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<sup>3</sup> If we obtain Homes England funding the right to shared ownership for homes funded under the 2021-2026 Homes England Programme means that 999 year leases may be required, we are taking advice on this and the final terms of the transfer will be subject to a council decision before the submission of the stage 2 application to the Regulator

form allowable by the Regulator) include an overage rent for transactions such as shared ownership staircasing and any Right to Acquire sales<sup>4</sup>.

- 3.5.12 Private market housing on the sites in this programme developed under the MKDP partnership model will be delivered directly to the market by our developer partners who will hold all the risk on the private market homes.
- 3.5.13 The affordable tenure mix (as a percentage of the total home built on the site) is initially proposed as 5% social rented let at formula rents, 6% shared\_ownership, with the remainder of the affordable housing at up to 80% of market rent depending on local affordability criteria compared to Local Housing Allowance Rates.
- 3.5.14 However the tenure mix on individual sites will vary and it is important that especially on the initial sites, MKHC has sufficient funds to cover the fixed costs of running the company. So, for the first site Kents Hill Park, the proposed mix is 5% social rented, with the remainder being affordable housing at 80% rent. This mix is also proposed, subject to viability, for the site at Walton Manor. We are not currently proposing any shared ownership on these sites to remove any sales risks to the new LHC however this may change if we apply for Homes England funding and they require it or if we are unable to renegotiate the existing S106 that is in place for Kent's Hill Park
- 3.5.15 Annual rent increases will be in line with the Regulator of Social Housing's Rent Standard or any such replacement regulation that the Regulator of Social Housing puts in place.
- 3.5.16 The Council will be given nomination rights, these will be drafted to allow for internal moves / transfers required for MKHC's tenants for example in the case of over / under occupation.
- 3.5.17 The target for total affordable housing will be set at 50% on larger sites (therefore maintaining a mixed and balanced community) and 100% (with a range of tenure types) on smaller infill sites as set out in the site list in Appendix 4.
- 3.5.18 The LHC sites
- 3.5.19 MKDP will initially bring forward 19 mixed-tenure sites (Appendix 4) for development in Milton Keynes at scale (one of which is currently in Council not MKDP ownership), which will produce up to 2,000 affordable homes in an overall programme in excess of 4,000 homes by 2031.
- 3.5.20 The final number of homes delivered will depend on the financial viability each site. Factors that will influence this include the value generated by any private market housing developed and the size and specification of the affordable homes. For example larger affordable homes (e.g more 3 or 4 bedroomed homes) would mean that fewer affordable homes can be provided.
- 3.5.21 To achieve this schedule MKDP has two main objectives for the period of this business plan. The first of these is to secure contractual commitments from partners to deliver circa 900 affordable homes on four critical sites in 2021/22: Campbell Park Northside, Kent's Hill, Walton and Tickford Fields Farm (on behalf of MKC); these four sites account for nearly 50% of the affordable homes program, which combined will deliver a of total 2,700 homes.

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<sup>4</sup> Or any replacements for this that the Government may legislate for from time to time and on any such terms as acceptable to the Regulator

3.5.22 Details for the first four partnership sites are:

- Campbell Park Northside: Partner engaged on half the site with outline planning.
  - Contracts now exchanged for whole site, includes option to take the affordable plots on the later phases.
- Kents Hill Park - Site has been marketed and partner selected.
  - Secure development contract - Q4 21/22.
- Walton Manor - Outline planning secured.
  - Finalise the design of new roundabout to facilitate access.
  - Market the site for a development Partner - Q1 22/23.
  - Review Development Partner Tenders - Q2 22/23.
  - Secure development contract - Q3 22/23.
- Tickford Fields - Tenders received July 2021
  - Review final tenders - January 2022
  - Secure development contract - February 2022.

3.5.23 The second objective for this business plan period is to work the smaller sites up to the detailed planning applications, with a view to, subject to viability, appointing contractors to build these homes from 2023/24 onwards.

### 3.6 **Managing our existing property holdings**

3.6.1 We hold a substantial number of sites in addition to those we are actively developing, some such as BP Chargemaster's new headquarters office building are let to commercial tenants, some are let to community organisations used such as the Westbury Arts Centre, we have the newly acquired Brunel Centre and there are iconic sites such as the Milton Keynes Bowl.

3.6.2 Previously these have been managed partly in house by MKDP and partly by managing agents (currently Dexter Brown). The Dexter Brown contract is coming to an end, so we are reviewing how we manage these assets in the future. We aim to improve the reporting, where appropriate enforce compliance with our leases, consolidate our approach to Health & Safety, improve our management of the assets and put in place a ten year planned works programme and have increased clarity on the way the properties are managed and where appropriate work closely with our colleagues in the Council. The plan is to enter the new contracts / service level agreements following approval by the MKDP Board and retain a resource in MKDP to manage these contracts going forward.

## **Section 4 - Achieving the ambitions**

4.1 MKDP is going through a period of change. This means that it is more critical than normal to ensure that we have sufficient resources, good governance and financial control in place. This section sets out our plans to achieve this.

### 4.2 **Governance workplan**

4.2.1 Good governance facilitates effective, efficient, ethical management to deliver long term success. It both helps an organisation achieve its key objectives and meet its legal, financial and regulatory

requirements. It is the system by which an organisation is directed and controlled, helps manage risk and sets out the rules by which the organisation will be run.

4.2.2 Governance should be regularly reviewed on an ongoing basis to ensure it is fit for purpose, the addition of the Local Housing Company means the work plan for this year will be more extensive than normal.

4.2.3 We are putting in place an ongoing governance workplan that covers:

- Review and if required update the Membership Agreement to ensure it appropriately accommodates the new LHC.
- Policies: to ensure these are both complete and up to date.
- Service level agreements.
- Detailed procedures where required: to ensure these are both complete and up to date.
- Putting in place a formal gateway process for the smaller LHC sites that we proposed to develop in house.
- Review of detailed delegations and budget managers to make these easy to use and fit for purpose.
- Improved risk management and KPI monitoring.

### 4.3 **Resourcing; non staff costs**

4.3.1 We need to make sure we have sufficient appropriate resources in place to deliver our plans and carefully manage this period of change. Sections 4.3 and 4.4 below summarise the additional resources we plan to put in place which are costed into our financial forecasts set out in Section 6 of this plan.

4.3.2 Ongoing support for the LHC registration process; The financial forecast includes an allowance for:

- ongoing legal support for the registration process of £65k for 2022/23 and an allowance of £22k for 2023/24.
- £45k in both 2022/23 and 2023/24 to provide support to ensure appropriate systems are put in place to ensure compliance with regulatory responsibilities.
- The registration process for the LHC which will take approximately two years. During this period additional resource will need to be kept in place to support the registration process, so £85k<sup>5</sup> has been included in 2022/23 for an interim resource to support the collation of all the documents required for Registration.
- A specific allowance of £5k per year has been included for the widely used Registered Provider specific business plan modelling tool used for the LHC.

Elements of this maybe able to be recharged to the LHC but no allowance has been made for this in the financial forecast.

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<sup>5</sup> £45k of this represents part of the £65k budget included in 2021/22 which is expected to be unused

4.3.3 Governance: A strong, effective Board is a fundamental requirement of good governance. Ongoing annual board skills assessments, appraisals and development help to ensure this. Historically no specific allowance was made in the MKDP budgets for this and £10k per year has been added from 2022/23 onwards in the forecast below.

4.3.4 KPI reporting and risk management: Reporting to the executive and the Board needs strengthening, both on the management of the existing sites and on risk management for our portfolio of projects. An allowance of £50k has been included in 2022/23 for the implementation of improved reporting systems, with an ongoing allowance for subsequent years of £10k.

4.3.5 Managing our existing property holdings: Allowance has been made in the financial forecasts for a new property management contract to be put in place (assumed at £150k for the basic service plus £184k for specific pieces of work such as rent reviews and renewals, the intent is this will have a much broader scope than the current contract and also cover non rent producing sites) as well as the ongoing direct costs of the Brunel Centre (£260k).

We have also allowed additional funds to enable us to resolve any issues that emerge as we take back and further professionalise the management of our existing portfolio, including an initial specific ten year planned programme commencing with £479k of already identified catch up repairs in 2022/23 with a programme for £140k in 2023/24 and £146k in 2024/25, an additional £65k for reactive maintenance that is irrecoverable from service charges and £20k for one off grounds / tree maintenance work, together with a general 5% contingency on all costs save for the planned works programme<sup>6</sup> to enable the Managing Director and the Board to be able to respond to any emerging issues at pace. The planned works programme is shown as a revenue cost in the financial forecast however we will review our ability to capitalise these costs as the programme is further developed.

4.3.6 Property and financing: Site acquisition and disposal fees have been specifically varied to reflect our ongoing programme and allowance. £200k has also been allowed in both 2022/23 and 2023/24 for options to be explored on some of our underutilised car parking sites. This will of course be kept under review depending on parking usage as the pandemic evolves and its use will be subject to Board approval. Our capitalised costs include allowance of £2.5m (£1.802m in 2022/23, with the balance in 2023/24) to enable us to deliver on our commitment to build the new Walton Roundabout.

4.3.7 Providing more affordable homes: An allowance of £750k (plus inflation in 2023/24 and 2024/25) has been made in each year of the plan to, subject to continued viability checks, take the next phase of smaller LHC sites through to planning with a view to being on site with development in 2023/24 and we have continued with the £100k per year budget we already have in place for Property Consultancy. No allowance has currently been made for the build costs or future income from these sites.

At this stage these are potentially abortive costs until each project goes on site so careful cost control will be exercised via a Gateway process with viability being continually reassessed and phased budgets approved by the MKDP Executive team and Board.

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<sup>6</sup> The planned works programme numbers already include 10% contingency

4.3.8 Special projects and Placemaking: £400k has been allowed in 2022/23 for the creation of development briefs and feasibility work on CMK Renaissance and Station Square, with an ongoing allowance for future schemes of circa £155k in future years. As above all budgets will be subjected to phased approval by Board / the Executive as the projects progress.

£150k has been allowed in 2022/23 for the procurement of a new market operator, along with £100k for further short term improvements to the market and £130k for further feasibility and viability work on the longer terms enhancement of the market.

A revolving cash allowance of £250k has been included for working up proposals for the Town Deal initiative for Bletchley

#### 4.4 **Additional staff resources**

4.4.1 We will also require additional staff resources to achieve our ambition. The proposed staffing structure is set out in Appendix 5. The following paragraphs set out the reasoning behind the additional resource requirements.

4.4.2 Providing more affordable homes; Now the creation of the Local Housing Company has started we plan to ramp up the delivery of affordable homes at pace. We have included allowance for two additional transaction / development managers in the financial forecast, the first from Sept 2022 onwards and the second assumed to start in September 2023.

4.4.3 Special projects and placemaking; Additional resource will be required as the projects listed in section 4.3 above start to move into the implementation phase. Two additional development manager posts are proposed, one focused on the property aspects and one on the planning aspects of placemaking. Recruitment is planned to start as soon as business plan approval is received.

4.4.4 Finance team: The first full set of Financial statements for the LHC are not likely to be needed until the 31 March 24 year end as the first homes are unlikely to transfer before 2024, but in the meantime, there will be a requirement to support the on-going business planning for our ambitious affordable homes programme. We also need to ensure in there is both capacity in the team to support any additional opportunities and to ensure there is a depth of cover for the LHC business planning process.

4.4.5 We are already in the process of transferring the direct provision of the finance service from MKC to MKDP. The service is currently provided initially by an interim resource following the resignation of the current MKC postholder while permanent recruitment takes place, having been previously provided by one dedicated resource and additional support from the Council's finance team.

4.4.6 To ensure we sufficient capacity for our ambitions, including our ambition for longer term financial forecasts for the next seven to ten years, and the additional viability work that will be required for the LHC, we will go out to recruitment for a full time Financial Controller (replacing the Commercial Accountant roll), supported by a full time more junior resource to handle the more transactional work. Allowance has also been included for Head of Finance from the start of 2023, on the assumption that MKDP during the set up phase will provide the initial finance service for the LHC. Ultimately the LHC element of the cost will be picked up by the LHC when it has an income stream, no allowance has been made for any recharges to the LHC in the forecast below.

- 4.4.7 Governance and ongoing support for MKDP and MKHC (the LHC)
- 4.4.8 Resources will also be required to deliver the ongoing Governance Workplan and to provide the Company Secretarial Services, and critically supporting MKHC in implementing appropriate monitoring of its compliance with Regulations. Therefore a Head of Governance / Company Secretarial role<sup>7</sup> that will support both MKDP and MKHC has been included in the business plan. Ultimately it is expected MKHC will pick up some of the cost of what will become a shared resource.
- 4.4.9 MKHC itself will also require a General Manager / Managing Director type role and as it grows its own small team, the size of which will depend on the approach used to managing the homes. These costs are not included in the resource requirements below which assume that these will be directly charged to MKHC's business plan.
- 4.4.10 Recruiting these staff will cost money so the recruitment budget has been adjusted to reflect this. As the Pension Fund is due an actuarial valuation as 31 March 2022, given current market uncertainty and inflationary pressures as a placeholder allowance has been made for a 1% increase in employer pension contributions from April 2023 onwards.

#### **4.5 Key performance indicators: how we will monitor our performance**

- 4.6.1 We will continue to develop how we monitor our performance over the course of this year.
- 4.6.2 While this more detailed work is ongoing, we will:
- report at least quarterly to Board on our property, placemaking and special projects summarising our progress on key projects on a page / in a table, improving our reporting so we don't just focus on the in-year plans but consider the entirety of the project;
  - report quarterly to Board on progress against our Governance, Property Management and LHC workplans, these reports will be underpinned by a more detailed project management at officer level for each of these projects and including for the LHC by an officer level project team that includes representatives from the Council, regular updates for Councillors and a Board working group that it is expected will meet monthly;
  - full management accounts monthly to the Executive and at least quarterly to Board a full set of management accounts that includes a reforecast for the year; and
  - a reforecast for the full period covered by this business plan every six months.

## **Section 5 –Risk Management**

### **5.1 MKDP's Risk Appetite**

- 5.1.1 Risk management is an integral part of good management and corporate governance. Good risk management helps MDKP achieve its ambitions by ensuring our risks are fully understood, that there is a clear understanding its risk tolerances and ensures they are appropriate to the scale and nature of the activities that being undertaken. It ensures critical controls are in place and provides an action plan for the proactive management of risk.

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<sup>7</sup> In part funded by the cessation of the current Company Secretarial service provide to MKDP by the Council

5.1.2 Fundamental to this is the risk appetite which defines both the level of risk the Board is willing to accept (which for us is defined principally by our majority Member, Milton Keynes Council) and the level of authority it is willing to delegate to the Senior Executive.

5.1.3 We are on a journey in terms of our risk management. MKDP will be as part of the Governance workplan focusing on risk management over the current year. As part of this we will work to set out in detail the Board’s risk appetite that will help us define the level of delegation to the Executive team moving forward as well as developing our risk register based on our recently approved risk management policy.

## 5.2 Risk Management Policy and Strategic risks

5.2.1 Our Strategic risks which have formed the basis for stress testing the business plan are summarised below

Risk	Comments
<b>Failure to successfully implement our strategy</b>	<p>Changes in external circumstances such a resurgence of the pandemic, rapid or severe changes in the economic environment or unexpected changes in government funding might result in a failure to deliver our strategic plans, or to otherwise meet Milton Keynes Council’s expectations on returns, placemaking or the Local Housing Company.</p> <p>We closely monitor macro-economic data and other external risk factors such as the pandemic and government regulations such as rates on lending, considering the likely impact of them on both the property market and our major projects.</p>
<b>Ability to attract and retain the best staff</b>	<p>The risk we are unable to acquire or retain the people needed to deliver our strategic objectives. Currently this is a significant risk for us as the pool of talent has reduced following the “great resignation”, while at the same time demand for property professionals has increased.</p> <p>We aim to be an employer of choice and carefully monitor the market to ensure our pay and reward packages are competitive, keeping our people motivated and engaged by providing and encouraging personal and professional development.</p>
<b>Income</b>	<p>Our tenants, managing agents and the counter parties of our development transactions might fail to pay amounts when they become due or to deliver on their other contractual promises. We assess all these parties, considering their financial position, past experience and other factors before entering into contract.</p>
<b>Liquidity shortfall</b>	<p>This is the risk of not having funds available to meet our commitments to make payments when they become due.</p> <p>This may arise as a result of inaccurate cash flow forecasting including: low income collection, property transactions not completing as expected and / or affordable loan finance not being available.</p> <p>We currently mitigate this risk using our £30 million working capital loan facility from Milton Keynes Council secured by a charge against £43.1m of our total investment property portfolio of £76.1m. This loan facility has recently been renewed through to 30 June 2022 and we are proposing to extend this to 30 September 2022, before reviewing it and likely opting for a lower facility depending on how our property sales progress.</p>

<b>Major or series of Health &amp; Safety incident(s) causing injury or death</b>	The Health & Safety of our staff, partners, tenants and members of the public who may be affected by our activities is an essential part of our risk management approach. We consider both our responsibilities a freeholder / head lessor and our customers Health & Safety obligations under their leases and licences.  We manage this risk by using professional property managers to deliver this service, supported by additional external consultants as and when required,
<b>Cyber-security</b>	There is a risk of a security breach through hacking, internal fraud or malware, that could render systems unusable or compromise the business data.  We manage this risk by purchasing our IT systems through Milton Keynes Council, enabling us to access a professionally provided robust IT service with government level security. We are rolling out the Council's awareness training across our business to ensure our people are aware of the threat landscape and what they need to do to help protect our business.
<b>Inflation ?</b>	Impact on your costs, ability to let at current levels and rents etc.

### 5.3 Stress testing the financial forecast

5.3.1 This section focuses on the financial impact of risk. In the current volatile economic environment scenario testing is even more important than normal and our immediate financial forecast is sensitive to both general inflation, and movements in property values.

5.3.2 In the longer term our financial forecasts, especially for the returns from LHC, will also be very sensitive to movements in rents, construction and building maintenance costs and we will focus on this as we extend MKDP's financial forecasts to ten years and as we start to work up the individual LHC sites more fully.

5.3.3 We have used two core scenarios to stress test the business plan forecast for the next three years. They are:

#### Scenario 1

	2023/24	2024/25
CPI Inflation	4.5%	4%
Differential to CPI inflation for:		
Affordable Rents (for the LHC: also a decision for the LHC Board)*	-3%	-2%
Car parking income change	-3%	-3%
Property costs	3.00%	1.50%
Staff overheads	5.00%	5.00%
Other overheads	0%	0%
Valuation of MKDP property portfolio	-15%	-10%
Bad debts on commercial rents	25%	25%
Borrowing rate (assumes Council on lending)	4.5%	4.6%

5.3.4 Under this scenario we start to show significant operating losses before asset sales, the surplus from asset sales which aren't already contracted for at a fixed price reduces and we start to eat into our distributable reserves at a rate of circa £2 to £3m per year after payment of the dividend, depending on the final level of asset sales assumed. The LHC sites become a lot less viable and we would have to accept much lower returns for them to proceed unless grant was forthcoming from

Homes England, We would require additional borrowing, the level of which would depend on how many asset sales we pulled away from in a declining market.

- 5.3.5 Should this scenario materialise, we would have to make choices and would need to slow down and reduce our ambitions, especially if this was accompanied by rising construction costs that would render the LHC sites less viable. The scenario emphasises the importance of good gateway and budget processes to ensure good financial control and of making surpluses on our commercial asset sales in buoyant markets and being prepared to pause work on sites where practical in adverse market conditions.

### Scenario 2

	2023/24	2024/25
CPI Inflation	3.4%	2.2%
Differential to CPI inflation for:		
Affordable Rents (for the LHC: also a decision for the LHC Board)*	-3%	-2%
Car parking income change	-3%	-3%
Property costs	1.00%	0.50%
Staff overheads	1.00%	1.00%
Other overheads	0%	0%
Valuation of MKDP property portfolio	-15%	-10%
Bad debts on commercial rents	25%	25%
Borrowing rate (assumes Council on lending)	3.5%	3.6%

- 5.3.6 In scenario 2 inflation has returned to more normal levels by 2024, this means that while there is an increase in operating losses primarily because of the assumed increase in commercial bad debts it is lower than in scenario one. However, the reduction in asset values and in the LHC returns as a result of reduced affordable rents means that asset sales would, as in scenario one, fail to replenish distributable reserves and there would be an increased borrowing requirement the level of which would depend on the volume of transactions that fell away.
- 5.3.7 Both these scenarios emphasise the importance of taking advantage of the buoyant market to provide sufficient working capital funding to work up the LHC sites in a controlled way, and how important it will be to make an appropriate allowance for risk when working through the LHC sites especially any smaller sites we will directly contract to build.
- 5.3.8 It shows how sensitive our finances are to the value of our sites at the point of disposal and for the LHC sites to rent levels as this drives how much the LHC can afford to pay MKDP (and the valuation of each LHC site).