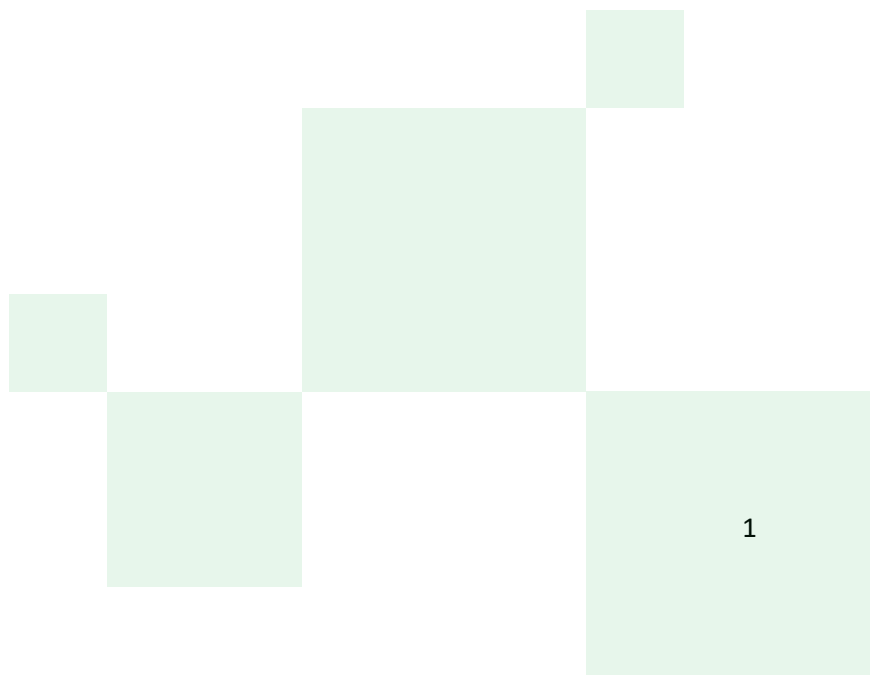




**Milton Keynes**  
Development Partnership

## **Business Plan 2023-2027**

**June 2023**



# 1 About Milton Keynes Development Partnership

- 1.1 Milton Keynes Development Partnership LLP (MKDP) was established in 2013 as a separate commercial legal entity and purchased a significant portfolio of land and assets from Milton Keynes City Council (MKCC) and the Homes & Communities Agency.
- 1.2 Having promoted and developed that land, MKDP has now evolved into the city's local delivery vehicle, with a particular focus on placemaking through urban regeneration and the delivery of affordable housing.
- 1.3 With in-house expertise and an independent board, MKDP is uniquely placed to act commercially to deliver projects and investments that achieve the city's social, environmental, and economic goals. It has the ability to take decisions that ensure the assets are used to maximise the benefits to the company, the shareholder and the city of Milton Keynes.
- 1.4 MKDP's objectives are for Milton Keynes to be an even stronger, high-performing economy, a true regional economic centre, whilst ensuring that new development respects the city's distinctive heritage and to fully capitalise on the advantage it has with the level of land ownership across the city.
- 1.5 Placemaking underpins every layer of MKDP and is integrated into everything we do. We aim to help Milton Keynes seize the opportunity to be one of the most desirable places to live and do business and to leverage our assets and opportunities to achieve positive benefits and outcomes and move forward with our ESG (Environmental, Social and Governance) ambitions.
- 1.6 Our overall mission is simple – we plan to use our assets, resources and expertise to deliver positive outcomes for the city, and continue to act commercially and responsibly in securing the best we can for Milton Keynes.

## 2 Summary

- 2.1 The strategic review considered by Board in July 2021 agreed the following priorities:
- Milton Keynes Housing Company
  - Deliver the city's placemaking objectives
  - Property and financing
  - Governance and organisational efficiency
- 2.2 This section of our business plan considers our specific ambitions for Milton Keynes Housing Company and the delivery of our placemaking vision using the leverage we have from our landholdings. Governance, resourcing, organisation efficiency and financing are considered in later sections of the plan.
- 2.3 Our 2023-2027 business plan builds on the successes of our 2022-25 plan. We are continuing to drive forward the creation of our housing subsidiary, Milton Keynes Housing Company (MKHC), a "to be" Registered Provider, to improve the quality and quantity of affordable homes across the city. Whilst also continuing to push forward our urban regeneration projects, focusing on Central Milton Keynes and Bletchley.
- 2.4 MKHC 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 2023/24-2026/27 period aims:
- to be clear how we continue to implement this change
  - establish the new norm for the company and the roadmap for the journey ahead
  - to help us to articulate the vision for the type of organisation we will become as a result.
- 2.5 This is a major change in focus and emphasis, so this business plan also sets out how we will continue to ensure we have the organisation resilience required achieve our ambitions.
- 2.6 MKDP also delivers a much-needed return to our majority LLP Member, Milton Keynes City Council (MKCC), which helps them fund essential services. This distribution is forecast to be £1.2m in 2022/23 rising to £2.5m by 2024/25.
- 2.7 Our business plan focuses on the next five years but includes a seven year financial forecast to ensure we understand the longer-term impact of our decisions. It will be refreshed annually.
- 2.8 Our immediate specific ambitions for the coming year are:
- a) Finalise the establishment of our housing subsidiary in order to have the 78 units at Kents Hill Park transferred to it in spring 2024 and confirm the pipeline approach for next 3 schemes.
  - b) Use our assets to achieve our key placemaking outcomes in Central Milton Keynes, specifically Lower Westside and Midsummer Boulevard East, and the Bletchley and Fenny Stratford Town Deal area.
  - c) Continue to progress our planned land sales and other transactions.
  - d) Obtain sign off for our new proposed governance structure which will enable us, as the nature of MKDP changes, to safely respond nimbly to the market and continue to deliver our ambitions efficiently and effectively.

- e) Provide a Profit Distribution to our majority Member, MKCC in line with the amounts they have budgeted.
- f) Assist the Council with shaping the New Local Plan and implementing Placemaking across the City.
- g) In view of current macro-economic environment, a review of our disposals programme, retaining the ability to move quickly to resource potential acquisitions or development opportunities that would deliver risk appropriate, attractive, returns.

### 3 Milton Keynes Housing Company (MKHC)

#### 3.1 Background

- 3.1.1 MKDP plans to play a key placemaking role in our city, using our land holdings to create warm, safe, secure affordable homes for essential workers and others on low incomes.
- 3.1.2 Our wholly owned subsidiary MKHC is in the process of becoming a Registered Provider of Social Housing. This will give the Council certainty that the homes will be managed 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.
- 3.1.3 As a Registered Provider MKHC can apply for grants from Homes England. MKHC is also planning at the right moment to become a Registered Charity. This would minimise corporation and other tax liabilities and ensure in the long term the organisation is focused entirely on Milton Keynes. Critically, unlike other Registered Providers who such homes might previously have been sold to, the proposed charitable objectives for MKHC will ensure that any future surpluses made by MKHC are not used to cross subsidise homes or projects elsewhere in the country. They will be ring fenced for the benefit of Milton Keynes and its residents.
- 3.1.4 Although MKHC has an Independent Board of Directors, as it is a subsidiary of MKDP, MKDP and therefore MKCC have appropriate oversight over it, while still enabling it to have independence on Regulatory matters. Ultimately that means we have the ability to truly shape the affordable housing and places provided by MKHC, not just now but in the future to an extent that is not possible with other Registered Providers who operate in our city.
- 3.1.5 The creation of MKHC will also contribute towards the creation of a low-risk long term income stream for MKDP from the loans MKDP provides to MKHC to enable them to purchase the homes, albeit the changes in the macro-economic environment mean we are keeping the pipeline under review and therefore the financial forecasts in this business plan only reflect the impact of first site at Kents Hill Park. The loans will generate an income stream for MKDP that will ensure MKDP can, in the longer term, continue to make profit distributions to MKCC.

#### 3.2 The Model

- 3.2.1 On the initial sites, MDKP is using its existing partnership model, working with a developer who will build the homes under a building lease / licence. This provides "seed" sites to start up MKHC without ongoing exposure to inflation on the costs of constructing the homes. An experienced developer will offer resources and specialist skills as the programme scales up on the larger sites.
- 3.2.2 MKHC will acquire the completed affordable housing at practical completion from MKDP on a long lease of 150 years for affordable and social rented homes, working on the principal that MKDP remains financially in the same position it would have been in had it sold the site or homes to another Registered Provider.
- 3.2.3 A 150 year lease is preferred as it is long enough to enable MKHC to bid for Homes England Affordable Rent grant under the 2021-2026 programme and is understood to be long enough to enable MKHC to seek to raise external funding at some point in the future, should it ever be required, but is still short enough to retain some element of value in MKDP. Longer lease lengths may be required if MKHC starts to acquire shared ownership homes.

- 3.2.4 For the sites provided by MKDP, we will provide loan finance to MKHC to enable it to pay the proportion of the lease premium that is not financed by Homes England grant. MKDP is working on the principal that it will receive a rate that compensates it adequately for its opportunity cost of its capital utilised.
- 3.2.5 Returns will flow back to MKDP in the form of a premium on the lease and interest on the loan granted by MKDP to MKHC. In cash terms this will take the form of interest, loan principal repayments on the element of premium not front funded by Homes England Grant MKHC is able to obtain, and immediate payment to MKDP of the element of the lease premium that MKHC is able to pay using Homes England grant.
- 3.2.6 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.
- 3.2.7 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.
- 3.2.8 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. We are not currently proposing any shared ownership on these sites to remove any sales risks to MKHC. So, the first site Kents Hill Park, will consist of 34 social rented homes, with the remaining 44 homes being affordable housing at 80% rent capped at Local Housing Allowance rates. This type of mix is also proposed, subject to viability, for the next pipeline site at Walton Manor. Our conversations with Homes England indicate this will be acceptable from a grant perspective, although as always there remains a risk that position may change until the grant is formalised.
- 3.2.9 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.
- 3.2.10 The Council will be given full nomination rights for the full term of the lease. These will be drafted to allow for internal moves / transfers required for MKHC's tenants for example in the case of over / under occupation.
- 3.3 MKHC sites
- 3.3.1 MKDP will primarily utilise its residential portfolio to deliver housing plots for MKHC. One site is currently under contract at Kents Hill Park and one option is under contract at Campbell Park Northside,
- 3.3.2 The final number of homes delivered will depend on the financial viability each site and on the appetite for future borrowing. Our financial modelling has shown that at least 280 homes could be generated from MKDP's Partnership sites and homes purchased under MKDP's options on currently contracted sites using our projected receipts from other site sales.
- 3.3.3 Viability in MKHC is tricky in the current economic environment. In the last year interest rates have moved upwards considerably and it is likely that we have not fully seen the impact of this interest rate movement reflected in capital values.
- 3.3.4 On the first site, Kents Hill Park, MKDP has set the purchase price MKHC will pay based on the amount soft market testing in January 2023 suggested another Registered Provider would pay for the homes.
- 3.3.5 The current "disconnect" between asset prices and interest rates means our forecasts are based on an interest rate on the loan to MKHC that is lower than the rate the market would expect for a loan of this type, and accept this is balanced out by the asset receipt being priced based on data from January 2023. This approach enables MKDP to achieve its social value objectives by setting up MKHC.

- 3.3.6 Future sites will need to work at or closer to market rates so our forecast financials assume that for now only the first site at Kents Hill Park progresses. This is because we expect it will take several years for the impact of recent interest rate rises to be fully reflected in asset prices and for the market to reach a new equilibrium.
- 3.3.7 Should the full pipeline of homes prove to be viable at appropriate interest rates in MKHC then from MKDP's perspective to move beyond the 280 home pipeline would require either:
- borrowing, either by MKDP who would on lend to MKHC or directly from an external funder by MKHC and/or
  - further site sales by MKDP and/or
  - a reduction in MKDP's profit distributions.
- 3.3.8 Other factors that will influence the number of homes provided 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.
- 3.3.9 Details for the first partnership sites are:
- Campbell Park Northside is under contract to Urban Splash to deliver c1500 homes over the 50-acre site. MKDP/MKHC has an option to take c300 completed plots from the developer at cost. Outline planning will be submitted late in 2023.
  - Kents Hill Park – This site is now under contract to Taylor Wimpey for delivery in 2024/25. The scheme will provide 78 homes to Future Home Standard alongside the developer's market housing plots in a mixed community.
  - Walton Manor - Outline planning application expired on the site in 2022 so a renewal has been submitted following completion of the access roundabout. Marketing could commence later in 2023 now that planning has been secured.
- 3.4 The Next Steps
- 3.4.1 MKHC needs to grow to a size where it can efficiently manage homes, absorb both its overheads and the set-up costs incurred by MKDP, and ideally raise its own finance externally to enable funds to be recycled back through MKDP by refinancing MKHC's loans, giving MKDP cash to invest elsewhere.
- 3.4.2 An initial assessment suggests that MKHC needs to grow to at least 400 to 500 homes to become a fully viable entity, at that stage it should be able to slowly repay its set up costs and cover all its own overheads, including, if the MKHC Board considers it appropriate, bringing the management of its homes in house.
- 3.4.3 MKHC also has several other key tasks it needs to complete this year to enable them to prepare for their first homes which are expected to be in management in 2024. These are:
- Formally applying to Homes England for grant on the proposed first site Kents Hill Park.
  - Bank account and accounting systems set up.
  - Procurement and mobilisation of the property manager, the Council has agreed and provide prices to act as a "backstop" provider if the procurement is unsuccessful.
  - VAT analysis to determine if it would be possible and advantageous for MKDP and MKHC to form a VAT group.
  - Shareholder Agreement between MKHC and MKDP.
  - With MKDP further progressing the wider programme of sites and further planning for growth.
  - A review of the specification for future sites

## 4 Urban Regeneration

### 4.1 Central Milton Keynes

- 4.1.1 The primary focus for MKDP from a placemaking perspective is also the city's biggest urban regeneration opportunity – Central Milton Keynes.
- 4.1.2 Work to date on this is encapsulated in Renaissance:CMK (R:CMK), a project derived from the 2016 Futures Commission, which led to the 2050 Futures report and subsequent strategy. It is about the revitalisation of Central Milton Keynes and bringing further life and vibrancy to the city centre.
- 4.1.3 CMK will play a key role in achieving MKDP's ambitions for wider Milton Keynes, in terms of economic and cultural prosperity, creating new communities, addressing health inequalities and the climate challenge, particularly through the opportunity to achieve a mode shift from private vehicles to public transport.
- 4.1.4 It is a place with great potential. It already has a successful regional shopping centre, with 'centre:MK' reporting record-breaking spending in 2022. CMK is home to major employers, with Santander nearing completion of their UK HQ office. There has been significant development, both residential and commercial recently.
- 4.1.5 Despite this, there is still a massive amount of untapped potential and a need to guide future development to ensure it meets the city's great ambitions. Milton Keynes continues to grow and is now well beyond its original target of 250,000 residents. By 2050, the city is predicted to have a population of around 410,000 people, many of them living in CMK, and with many more people beyond that using CMK as their place of work, or as their first choice for shopping, leisure or a whole range of other activities.
- 4.1.6 CMK is unusual in having space and capacity to grow, through never-developed parcels of land, buildings that are ripe for renewal, and a move away from surface parking. The low density and relatively low-rise nature of CMK also provides the opportunity to create a greater density of development.
- 4.1.7 This could address some of the challenges it faces, including a lack of activity and vibrancy on the street – the structure of the city devotes an enormous amount of space for cars, through wide boulevards, and 20,000+ surface-level car parking spaces. While pedestrians are well catered for, some routes through underpasses and quiet streets are perceived to be unsafe by users.
- 4.1.8 The Strategy for 2050 envisions CMK hosting a much larger residential community than today, alongside wider investment to cement its place as an important retail and economic hub.
- 4.1.9 To achieve this, MKDP wishes to create the right framework and delivery approach to:
- Work with the design of the city centre, including our distinctive built heritage and urban form.
  - Address a range of challenges, both global and local, including the climate emergency and ensuring we are creating healthy, inclusive environments.
  - Ensure we are creating the right environment to enable the ongoing success of our local economy.
  - Make sure our growing city centre has all of the facilities and opportunities that successful cities should have.
- 4.1.10 MKDP believe that principally this will be achieved by moving away from individual site disposals, and instead to the grouping, and comprehensive development of MKDP land assets in CMK – to deliver mixed-use, multiphase, viable masterplan developments. It is most likely that MKDP will continue to work with developers through land-led partnerships, although more significant in scale and complexity than before.
- 4.1.11 Initially, the key masterplan areas for MKDP in Central Milton Keynes are:-



- **Midsummer Boulevard East** – the creation of a ‘high street’ for Milton Keynes is a long-held aspiration for many. But significant development is needed in the wider area around the shopping centre, to provide enough diversity of land use and therefore people, to create a substantial, dynamic and vibrant public space. One key asset, essential in framing this public space, and a catalyst for the wider masterplan area, is Milton Keynes Market. As an interim step, work is underway for MKDP to have direct control over the operation of the market, and to curate a stronger retail and food destination for Central Milton Keynes, with a more dynamic and modern customer experience. The long-term strategy for the market will then be thought about as part of the wider vision for Midsummer Boulevard East.
- **Lower Westside** – has the potential to be a major new precinct for technology, innovation, and education. Considering Station Square and B4 holistically, provides a significant opportunity for multi-phased mixed-use redevelopment – featuring new workspace, research and university facilities, as well as a new residential neighbourhood and well-designed public realm. The contribution of a university to the city centre and surrounding land uses cannot be underestimated and whilst MKDP is not directly involved in the establishment of the university our role on delivery and enablement is pivotal. The masterplan area benefits from excellent transport links in Station Square, but the city now requires a more dynamic and exciting entrance. In the interim, MKDP will continue to support an arts and cultural programme, along with public realm enhancements, as meanwhile uses.

4.1.12 To facilitate both masterplan areas, MKDP will continue to work with key landowners and partners in each area to bring forward development at scale. The exact role of the partner(s) is still to be defined, but the initial preference is for a “master developer”, who takes on an overarching role in bringing the land forward for development, facilitating plot delivery against the background of an agreed masterplan and infrastructure delivery. The Partner could deliver the development directly, bring in third parties, or a mix of the two. We envisage the partner facilitating masterplan development, technical due diligence, market analysis, New City Plan promotion, securing planning consent, site preparation and elements of scheme delivery.

## 4.2 Campbell Park Northside

- 4.2.1 MKDP is working with Urban Splash to deliver a major new neighbourhood at Campbell Park. The area is uniquely positioned adjacent to the urban form of Central Milton Keynes and provides the opportunity to create a truly mixed-community of apartment living and higher density housing alongside the listed Campbell Park.
- 4.2.2 With the potential to deliver 1,500 new dwellings, together with complimentary non residential and community uses, the project is one of the largest residential led projects in the MKDP portfolio. Included within the agreements with Urban Splash is the ability for MKHC to take on the affordable dwellings and therefore ensuring long term success of the scheme is key.
- 4.2.3 MKDP and Urban Splash are in the process of engaging all local stakeholders, MKCC planning, heritage and urban design teams, to ensure all are behind delivering the vision for the new community.

### 4.3 Wider Milton Keynes

- 4.3.1 In addition to Central Milton Keynes, MKDP has a role in moving forward the Bletchley and Fenny Stratford Town Deal initiative, and in general, input into the Investment Plan and outcomes for placemaking in this strategic urban regeneration area.
- 4.3.2 The focus will be on assisting with the Revolving Development Fund (an investment fund to help bring forward key developments), together with the development of the former Police and Fire Station sites and the Brunel Centre and former Sainsbury's site. This will include the Innovation Hub project, and following approval of the business case, deployment of funding from the Department for Levelling Up, Housing and Communities.
- 4.3.3 MKDP has been actively assisting the regeneration of Bletchley with acquisition of the Brunel Shopping Centre and the adjacent former Sainsbury's unit. These acquisitions add to the existing ownership of the former Police and Fire Stations making MKDP/MKCC the largest landowner in the central Bletchley area and therefore able to influence and direct the regeneration agenda fully.
- 4.3.4 MKDP also continues to assist MKCC on other regeneration projects such as the Agora redevelopment in Wolverton. MKDP will become the ultimate owner and operator of the residential element of the scheme, delivering energy efficient homes to rent in central Wolverton.

## 5 Property & Asset Management

- 5.3 We hold a substantial number of sites in addition to those we are actively developing, such as BP Chargemaster's new headquarters office building are let to commercial tenants, some are let to community organisations, such as the Westbury Arts Centre, and others like Milton Keynes Market are revenue producing but with a significant contribution to place. We also asset manage the Brunel Centre on behalf of the Revolving Development Fund<sup>1</sup>.
- 5.4 Historically these were managed externally by managing agents. Following the expiry of that contract, MKDP reviewed how the portfolio should be managed in the future and that resulted in putting an Service Level Agreement in place with Milton Keynes City Council for a full range of estate management services.
- 5.5 This has resulted in improved reporting, enforcement of compliance with our leases, a consolidated approach to Health & Safety, improved management of the assets and the review and implementation of a ten year planned works programme. Combined, and by working closely with our colleagues in the Council, this has increased clarity on the way the properties are managed.
- 5.6 The focus for this business plan period is two-fold. Firstly, to pro-actively reduce historic arrears and manage tenancies and take enforcement action where appropriate. Secondly, to individually review each asset both from an asset management perspective (i.e. Built Assets and Car Parks) and through the lens of the cost of maintenance and compliance (i.e. Sites for Disposal and Remnant Land) to ensure we are managing our property holdings as effectively and efficiently as possible.
- 5.7 Our allocated commercial landholdings remain available primarily for occupational pre-let development transactions and disposal (if it is deemed appropriate to do so given market conditions and cashflow requirements).

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<sup>1</sup> At the time of writing (June 2023) we still hold the asset on our balance sheet.

## 6 Business Plan Implementation: Governance, Communications and Monitoring Progress

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

### 6.2 Governance workplan

6.2.1 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.

6.2.2 Governance should be regularly reviewed on an ongoing basis to ensure it is fit for purpose, the addition of our new subsidiary; Milton Keynes Housing Company Ltd and the shift in our approach to placemaking means the work plan for this year will again be more extensive than normal.

6.2.3 Our ongoing governance workplan includes:

- Review and update the Membership Agreement to ensure it appropriately accommodates Milton Keynes Housing Company Ltd and the shift in our approach to placemaking, enables us to deliver efficiently and effectively.
- Policies and service level agreements: continue to ensure these are both complete and up to date; we will review the way we procure goods and services, how we work with Milton Keynes Housing Company Ltd and how we dispose of sites. This will be pulled together in an MKDP Governance Handbook, so it is easy to find.
- Detailed procedures where required: continue to ensure these are both complete and up to date.
- Continuing with our work on risk management, our newly introduced Key Performance Indicator (KPI) reporting and regular reviews of delegations and committee terms of reference.

### 6.3 Engagement, Communications and Stakeholder Management

6.3.1 We will continue to focus on developing our engagement and communications activity to ensure that this matches the work of the company and the priorities that we are focusing on. Ensuring active and meaningful engagement with our key partners, in particular Milton Keynes City Council, will continue to be a priority and we will look to find opportunities for more key stakeholder engagement to be a particular focus this year.

6.3.2 In the last 2 years, there has been a particular focus on ensuring internal processes and governance arrangements are fully fit for purpose and a significant amount of the company's time and effort has been invested into the setting up of the Local Housing Company, MKHC. This has resulted in a significant focus internally and in this next period the Executive and Board will look to shift this activity and engagement to be more externally focused.

6.4 Key performance indicators: how we will monitor our progress

6.4.1 We will continue to develop how we monitor our performance over the course of this year. We will

- report at least quarterly to Board on our property, placemaking and other key projects summarising our progress on key projects, so we don't just focus on the in-year plans but consider the entirety of the MKDP programme.
- 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 segmental reporting
- environmental and social value reporting
- a re-forecast for the full period covered by this business plan every six months

## **7 Risk Management**

- 7.1 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.
- 7.2 Our strategic risk register is included in Appendix 8. Fundamental to this is the risk appetite which defines the level of risk the Board is willing to accept. For us that is defined principally by our majority Member, Milton Keynes City Council which is a public body. This gives us a different perspective to have to balance in respect of risk to say a privately owned property company, and we will continue to develop our approach over the course of the summer.
- 7.3 That said, the company clearly has the opportunity to make a significant impact on the delivery of key initiatives across the city, for example through MKHC and the placemaking activity proposed, whilst at the same time having the opportunity to secure commercial benefits that can be re-invested to achieve longer term returns for the company and in turn the major shareholder MKCC.

## 8 Financial Returns

- 8.1 Our detailed forecasts are set out in the Appendices to this report:
- Appendix 1: seven year cash flow forecast
  - Appendix 2: seven year income and expenditure forecast
  - Appendix 3: seven year balance sheet forecast
  - Appendix 4: key economic assumptions used in the base forecast
- 8.2 We have the following target profit distributions to our Member, Milton Keynes City Council which we know our Member has included in its budgets:
- 2023/24 in Council budgets, paid over and accounted for by MKDP in 2024/25: £1,983,000
  - 2024/25 in Council budgets: paid over and accounted for by MKDP in 2025/26: £2,563,000
- 8.3 MKDP had retained distributable surpluses at 31 March 2023 of £139 million. So, provided care is taken in the Membership agreement to ensure it continues to allow for the allocation of distributable profits from previous years to Members, there are no technical issues making these profit distributions to the Council.
- 8.4 However, as our distributable reserves are not sufficiently cash backed, MKDP will need to use its working capital loan facility to finance these profit distributions in the initial years. This situation has changed from last years business plan as several forecast asset sales have been significantly delayed or are no longer continuing due to current market conditions. Additionally, although our parking income has improved, it has not returned to pre pandemic levels.
- 8.5 The financial forecast assumes that the annual profit distribution from 2025/26 onwards remains fixed at £2.563m.
- 8.6 That means MKDP will still be ultimately using £16m of the money it receives for its asset sales to pay the profit distribution to the Council in the seven years of the business plan forecast. That cash is therefore not available for MKDP to invest in either affordable housing or other property investments that can provide a long-term income stream to the Council. The table below summarises the forecast cash movements over the seven-year period:

**Table 1**

	£
<b>Net opening working capital debt (net)</b>	<b>(3,973)</b>
Net outflow from operations including capitalised spend on built assets	(2,603)
Profit distribution payable to the Council	(16,001)
Net surplus cash from asset sales	39,962
Income from MKHC	2,857
Interest on working capital loan	(293)
<b>Net closing cash balance</b>	<b>19,949</b>

- 8.7 As illustrated above and in Appendix 1 and 2, while the previous programme of disposal receipts has reduced, until the Housing Company programme or other projects have ramped up and are income generating, there will be a period of several years when our rental and parking income does not cover our operating costs.
- 8.8 Some of this is due to the “in kind” contributions we make to the Council for projects such as MKU at Bouverie House and the Winter night shelter at the bus station. The cost of these to MKDP is estimated to be at least £405k per year.
- 8.9 The above arrangement is not sustainable in the long term. So our ambition is to over time move to a position where we have a long-term sustainable income stream that will provide the profit distribution to MKCC. We will aim to achieve this with the housing company, but we will also seek this from other projects. However this needs to happen as early as possible, so we minimise the asset sale receipts used to pay the profit distribution.
- 8.10 To help speed this up, the Executive have started to analyse our property portfolio in detail so we can understand fully the holding cost of our individual assets and are working to optimise our position. The initial results of this are set out in Appendix 6 (parking) and Appendix 7 (other assets). This shows we incur significant holding costs on the non-rental earning part of our portfolio and that not all our car parks are profitable and the impact of service charge caps. One of our tasks for this year is to work out how we can rationalise the holding costs for our assets. This will include considering an initial programme of disposals for our “small parcel” sites. We will also consider in more detail the future plans for our car parks.
- 8.11 To help us monitor our progress on this, we will include segmental reporting by asset type in our monthly management accounts so we can track our progress. This will become more refined as our understanding of the holding cost for the portfolio by asset improves.
- 8.12 Scenario Modelling
- 8.12.1 As always, especially with large property transactions there are timing and valuation risks attached to our surpluses, balance sheet position and cashflows. Table 2 below therefore summarises our expected cash receipts from asset sales into green receipts which are very likely to happen, amber returns that are uncertain and red returns that are risky. Our cashflow and surpluses are very sensitive to the timing and value of these receipts, which in turn means we are exposed to market movements where the level of receipt has not already been fixed. Ultimately this could result in additional short-term working capital borrowing being required to finance the acquisition of homes for the Housing Company such as those at Campbell Park Northside and /or in a reduction in the number of homes able to be put into the housing company.
- 8.12.2 We have put in place improved cash flow management processes to help us minimise our working capital requirements. This includes requesting from the Council a monthly revolving facility for our working capital loan to help us manage our cash requirements tightly (our current facility allows for quarterly draw downs and repayments).
- 8.12.3 The receipts in Table 2 reflect current approved disposals either under contract or Board approved. Further disposals will be reviewed to accelerate MKHC’s acquisition programme if deemed appropriate per site type. For example, the remaining commercial land currently available for occupational pre-lets may be disposed of if it is considered appropriate and/or substantial returns can be made.

**Table 2**

	2023/24 £'000	2024/25 £'000	2025/26 £'000
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Red risk receipts	-	2,900	2,803
Amber risk receipts	2,250	-	11,400
Green risk receipts	398	7,119	10,965
<b>Total land sale receipts</b>	<b>2,648</b>	<b>10,919</b>	<b>25,168</b>

8.12.4 Uncertainty also remains in the wider economy around inflation. This impacts not just on MKDP, but also on the viability of our subsidiary MKHC.

8.12.5 Table 3 below sets out how MKDP's forecast numbers would differ under some simple economic scenarios, it shows how a longer period of higher inflation / higher interest rates and potentially lower values impacts on MKDP's forecast surplus for the year. The early years of the plan are especially sensitive to these changes and high-quality financial planning, management and forecasting will be critical over the coming period of time.

**Table 3**

Scenario Number	Scenario	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Base case	Retained Profit/ (Loss) for the year: June 23 base position	(1,848)	1,381	(2,567)	(1,117)	(1,152)	(1,232)	(1,239)
1	CPI+2% and base rate +1%: note profit distribution is not indexed	(1,893)	1,316	(2,663)	521	505	441	450
2	As 1 but with a further 10% valuation decrease by 31 March 2024: assumes current deals also drop in sales price	(10,989)	1,026	(4,880)	167	(134)	57	(279)

8.12.6 Our subsidiary, MKHC's business plan forecast is also particularly sensitive to inflation and the level of rent increases allowed by the Regulator of social housing. The MKHC business plan therefore contains extensive scenario modelling illustrate how MKHC could survive such adverse movements in the markets.