

BexleyCo

Report to Cabinet Committee

14th June 2022

Introduction

This report summarises progress against the BexleyCo Business Plan, November 2021, focusing primarily on the residential development of eight sites on a build-for-sale basis.

The report provides -

- A progress update on Old Farm Place including expected financial results.
- An update on the progress of the other development sites.
- An update on future pipeline sites.
- A forecast against the Business Plan and expected dividend.
- Governance & Resources.
- Review of strategic risks.

1. Old Farm Place

A development of 58 high quality family homes, close to Sidcup station with a development value of £26m.

- Comprises 28 new 4, 3 and 2 bed houses and 30 apartments, 21 of which are of an affordable tenure, being 9 shared ownership and 12 affordable rented homes.
- Designed in a traditional style they provide an excellent site for Bexley families to live. The site is well landscaped with ample parking.
- The development has also provided an enhanced park to the west of the development.
- Site closed for 6 weeks due to the first wave of Covid-19 and 1st National lockdown between late March 2020 and early May 2020. There were further construction challenges due to Covid-19 impacting upon the availability of the workforce and some EU supply chain issues. Availability of specialist trades continues to be an issue and has delayed the full completion of the site further compared to the completion assumed in the Business Plan.



- 21 affordable homes were handed over to Moat in January 2022.
- The show homes and sales suite opened on 17th April 2021.
- Through the 'local' first approach the 37 private for sale homes have all been sold to local people.
- The build is expected to be fully complete by June 2022.



With the build nearing completion and final sales expected over the next two months, there is increasing certainty over the financial returns. The development profit is expected to be £4.8m which is £1.6m better than the business case for the project funding. Compared to the Business Plan 2021 there is additional profit of £0.2m.

Old Farm Place	Forecast	Business Case	Variance	Business Plan 2021	Variance
	£000s	£000s	£000s	£000s	£000s
gross development value	26,722	25,362	1,360	26,719	3
development costs	-21,872	-22,066	194	-22,093	221
development profit	4,850	3,296	1,554	4,626	224
overage	-417		-417	-309	-108
development profit	4,433	3,296	1,137	4,317	116

The key reasons for the positive variance compared to the business case are;

- Higher prices achieved for sales compared to the business plan, in particular for the affordable sale contract.
- Lower development cost due to savings on professional fees, very limited use of contingency and reduced interest costs due to the forward sale achieved for the affordable units.

The additional profit directly benefits the Council through the overage arrangements, which provides £0.4m based upon the forecast outturn, an increase of £0.1m compared to the Business Plan.

2. Development Sites

West Street – Erith

A development of 30 quality one and two bedroom apartments for sale close to the River Thames, Erith town centre and station.



- Site consented in February 2020.
- Jerram Falkus appointed as the build contractor.
- Pre-commencement planning conditions are being discharged.
- Start on site is forecast for late September 2022.
- Target for completion early 2024.

Lesney Park – Erith

A proposed development of 17 new 4, 3 and 2 bedroom houses, with 8 affordable rented apartments, built for the Council, designed for supported living.

- Set in a great location, within the Lesney park area, close to Erith Station and Northumberland Heath town centre.
- Site consented in January 2020 and awaiting transfer from the Council.



- Target for completion Summer 2025.

Bursteds Woods – Barnehurst

A proposed phased development of quality family homes set in woodland with its own estate road.



- Close to Barnehurst station and the town centre at Bexleyheath this site offers the best of all worlds.
- At the heart of the development is the conversion of a listed building providing period style apartments.

- The development will provide affordable rented and shared ownership homes.
- Planning approval is being targeted for Summer 2023 and the development started Summer 2024 being completed in phases from early 2026.
- Opportunity for a further phase of development as a future pipeline site, which will include new affordable rented homes for residents who need extra support.

Walnut Tree Depot- Erith

A proposed development of 62 new apartments, including 21 affordable.



- Set in a great location, close to Erith Station and Town Centre. It will provide commercial space and new route with public realm linking the station to the Town Centre.
- Initial Funding Business Case approved and subject to planning land transfer contract exchanged in November 2021.
- Planning to be achieved by late Spring 2023, with a target start on site Summer 2024 with the development completed by Spring 2026.

Sidcup Library - Sidcup

A proposed development of 32 new apartments.

- Set in a good location, in Sidcup Town Centre.
- Planning determination expected Summer 2022.
- Development expected to commence Summer 2023 and completed by late 2024.



Erith Post Office and WDS Signs Site – Erith

This site presents an opportunity to contribute to the regeneration of the Erith town centre as well as preserving one of the few remaining historic buildings in the area, through the retention of the façade.

- An initial Funding Business Case was submitted to the Council in April 2022.
- Key dates to be agreed once this, and the land contract is approved.



Felixstowe Road – Abbey Wood

A proposed development of new apartments adjacent to Abbey Wood station with excellent rail links to London via Elizabeth line.



- Development is at an early concept stage, with the aim to deliver a high quality, modern development at the new gateway into the borough and to central London, with new public realm, commercial space and some station public parking.
- The development will provide private apartments for sale as well as affordable homes.
- Opportunity to purchase adjacent land to significantly increase the site area to support the regeneration of Abbey Wood and provide a more coherent development.
- Key dates and milestones to be agreed with the Council.

3. Pipeline Sites

BexleyCo is working closely with the Council on a number of sites. Details of the proposed sites and how they contribute to the aim of delivering 1,200 new homes will be set out in the 2022 Business Plan in November.

BexleyCo remain confident it can deliver the pipeline and the estimated financial benefits from it remains unchanged from the Business Plan.

4. Financial Update

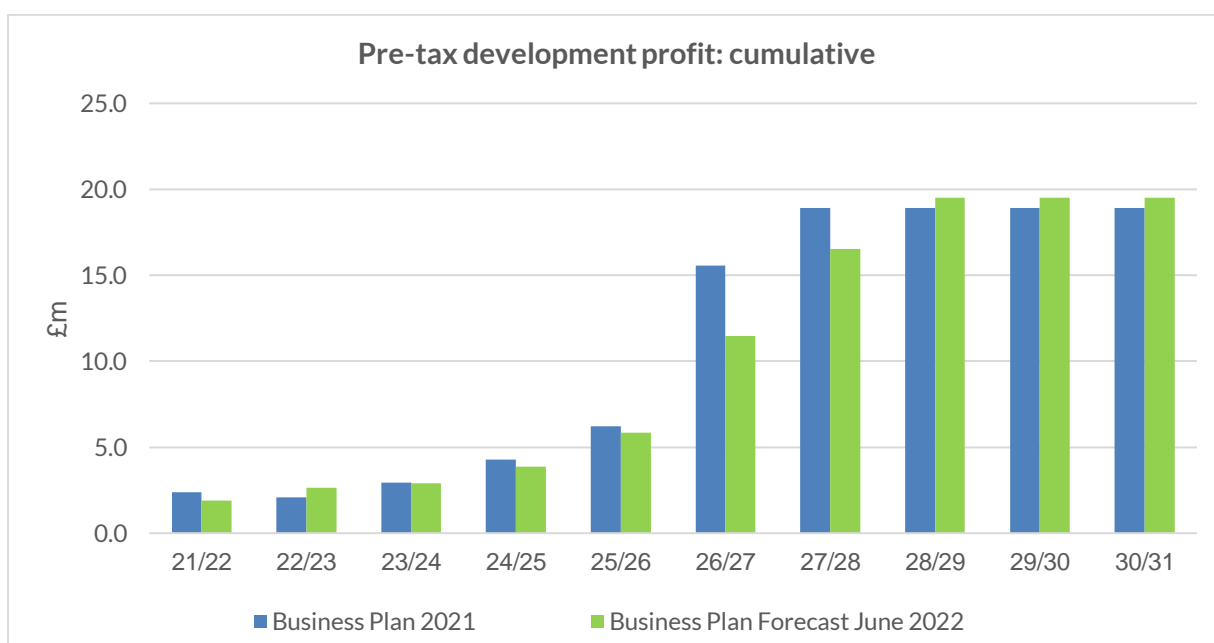
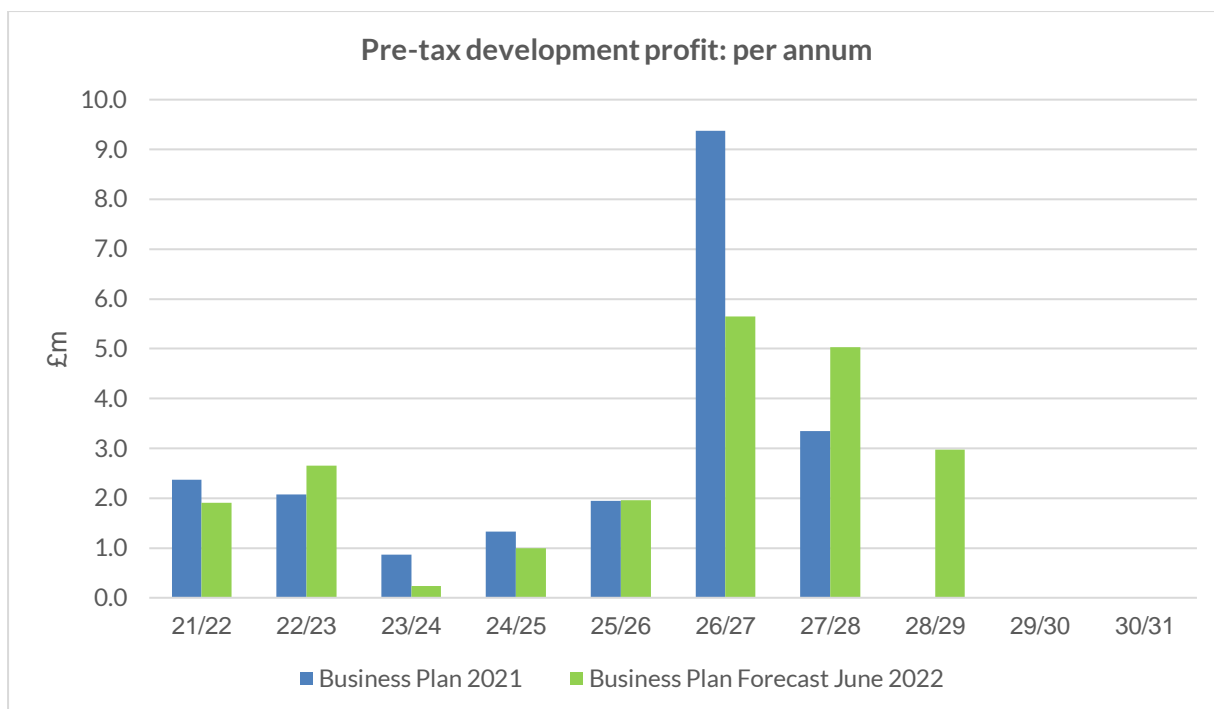
The expected financial returns from the development of the sites identified in the Business Plan are set out in the table below. The forecast development profit, before overheads and tax is £21.3m.

Development profit	Total	Old Farm Place	Lesney Park	West Street	Burstled Woods	Sidcup Library	Walnut Tree	Felix-stowe	Erith Post Office
£000s									
gross development value	174,091	26,722	8,328	9,290	30,811	10,810	17,549	57,335	13,246
development costs	152,823	22,289	7,413	8,450	26,364	9,330	15,446	51,614	11,917
development profit	21,268	4,433	915	840	4,447	1,480	2,103	5,721	1,329
Profit on GDV	12.2%	16.6%	11.0%	9.0%	14.4%	13.7%	12.0%	10.0%	10.0%
per Business Plan 2021	21,170	4,317	915	890	4,447	1,480	2,103	5,721	1,297
increase / (decrease)	98	116	0	-50	0	0	0	0	32

Compared to the Business Plan the forecast development profit for identified projects has increased by £0.1m. This is due to-

- Old Farm Place: an increase in development profit after overage of £0.1m compared to the Business Plan (+£1.1m compared to the original business case).
- Minor adjustments on West Street and Erith Post Office sites.

Overall, therefore there is a small improvement in the total forecast development profit compared to the Business Plan. However, the profile of development profits, year by year, has altered due to delays to the approval of the business cases compared to the assumptions in the Business Plan. This has a knock-on impact on project phasing and therefore the financial year in which profits are delivered.



Administration costs are lower than anticipated, primarily due to a cautious approach in recruiting additional resources which is being aligned to the commencement of development projects. The increase in development profits and lower administration costs offset a reduction in rental income from investment property. The mid-lease rent review and break option for both tenants in Sargasso House has been completed with both leases secured for a further five years. However, one tenant wished to release space due to a reduction in their requirements post Covid. The space is currently being marketed. Good progress has been made seeking a tenant for the adjacent parcel of land and it is anticipated that contracts will be completed shortly.

Overall, there is no change to the total forecast profit compared to the Business Plan.

BexleyCo Profit £000's	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
	1	2	3	4	5	6	7	8	9	10	
Business Plan 2021	1,914	1,413	390	731	1,185	6,680	1,918	10	34	34	14,309
Business Plan Forecast June 2022	1,654	1,830	-146	495	1,185	3,865	3,159	2,224	16	14	14,296
Increase / (decrease)	-260	417	-536	-236	0	-2,815	1,241	2,214	-18	-20	-13

Variance Analysis £000s	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
	1	2	3	4	5	6	7	8	9	10	
2021 Plan: Post-Tax Profit	1,914	1,413	390	731	1,185	6,680	1,918	10	34	34	14,309
development projects	-464	579	-629	-337	23	-3,731	1,679	2,978	0	0	98
sargasso void/rent reduction	9	-103	-46	-24	-24	-24	-24	-24	-24	-24	-308
reduction in administration costs	125	39	0	0	0	0	0	0	0	0	164
impact on tax of net changes	61	-98	133	124	0	939	-414	-738	6	6	19
other changes	9		6	1	1	1	0	-2	0	-2	14
2022 Forecast: Post-Tax Profit	1,654	1,830	-146	495	1,185	3,865	3,159	2,224	16	14	14,296

As there is no change in forecast profit there is no change in the expected dividends however profits and therefore dividends are delivered later than anticipated in the Business Plan due to delays progressing some of the sites.

The table below provides an updated forecast, this is sensitive to the timing of business case approval and therefore project commencement, available cash, realised profit and assumes no HMRC challenge to transfer pricing arrangements which could increase the tax payable.

Interim & Final Dividends £000's	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
	1	2	3	4	5	6	7	8	9	10	
Business Plan 2021	0	1,750	450	320	725	3,150	6,255	150	50	35	12,885
Business Plan Forecast June 2022	0	1,750	0	150	1,600	350	3,900	4,975	125	35	12,885
Increase / (decrease)	0	0	-450	-170	875	-2,800	-2,355	4,825	75	0	0

received in financial year £000's	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
	1	2	3	4	5	6	7	8	9	10	
Business Plan 2021	0	1,750	0	450	1,045	1,400	8,005	0	150	85	12,885
Business Plan Forecast June 2022	0	1,750	0	150	725	875	3,850	5,375	0	160	12,885
Increase / (decrease)	0	0	0	-300	-320	-525	-4,155	5,375	-150	75	0

A final dividend is declared after the year-end results have been prepared and once there is certainty about the retained profits. Therefore, a final dividend appears in the financial statements of the following financial year. The table assumes that, where possible, an interim dividend is declared which is recognised in the financial year if it is paid within the year. Interim dividends must be supported by interim accounts and be based upon the actual results achieved to date, not on a forecast year-end position.

The total forecast returns to the Council have improved by £0.8m compared to the Business Plan due to-

- A higher land value for the Erith High Street site (Post Office & WDS Signs) than that anticipated in the Business Plan, and
- an increase in the expected overage for Old Farm Place.

However, returns are delivered later due to delays to some development sites.

Council Summary	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31	Total
£000s	1	2	3	4	5	6	7	8	9	10	
LBB debt interest cost	-217	-79	-194	-257	-523	-673	-394	-63	-63	-63	-2,526
Interest receivable	554	196	434	519	1,074	1,689	1,135	180	152	152	6,085
Arrangement fee	31	37	178	175	0	0	0	0	0	0	421
Net interest margin	368	154	418	437	551	1,016	741	117	89	89	3,980
LBB equity interest cost	-214	-141	-334	-463	-615	-601	-361	-57	-27	-27	-2,840
LBB equity MRP	-433	105	-623	-702	-676	-584	615	1,946	-54	-54	-460
estimated dividends	0	1,750	0	150	725	875	3,850	5,375	0	160	12,885
Return on investment	-647	1,714	-957	-1,015	-566	-310	4,104	7,264	-81	79	9,585
Land receipts	324	2,150	5,371	2,340	0	0	0	0	0	0	10,185
Reimbursement of costs	181	0	266	0	0	0	0	0	0	0	447
CIL & commuted sums	349	306	153	1,457	949	0	0	0	0	0	3,214
Overage	0	417	0	0	0	0	0	0	0	0	417
Other benefits	0	0	0	1,920	0	0	0	0	0	0	1,920
Total Net Benefit	575	4,741	5,251	5,139	934	706	4,845	7,381	8	168	29,748
Business Plan 2021	1,435	3,761	6,690	3,571	180	3,009	10,010	7	157	92	28,912
Increase / (decrease)	-860	980	-1,439	1,568	754	-2,303	-5,165	7,374	-149	76	836

5. Governance & Resources

A joint Council and BexleyCo internal review of governance was completed in 2021 and governance arrangements continue to be kept under review. The Council's external auditors found governance arrangements to be strong and their recommended improvements had already or have since been acted upon.

The BexleyCo Board was reviewed and strengthened in 2021 and comprises a permanent full time Managing Director and 4 part time Non-Executive Directors. The Board remains fit for purpose and no changes to the Board are proposed.

A key focus for BexleyCo is matching its resources to the delivery of the Business Plan and as set out in the approved Business Plan additional Development Management and financial support capacity will be required in 2022. In addition the Council will similarly be reviewing its resources to ensure its support in the delivery of the Business Plan.

6. Strategic Risks

The BexleyCo Board review risks on a regular basis. Risks are captured and monitored at a strategic and operational project level,












With the impact of Covid-19 reducing, other factors such as increasing material and labour costs are now the key considerations for the Board. The continuing strong performance of the housing market, with demand outstripping supply, is currently offsetting the increased developments costs, however this will be kept under close review with viability the most significant risk. The latest assessment of strategic risks is set out in the annex.

Graham Ward, Managing Director

Susan Smyth, Finance Director

31st May 2022

Annex: Strategic Risk Register June 2022

Ranking	Risk	Impact	Impact Rating	Likelihood	Likelihood Rating	Overall Score	Previous Quarter's Score	Change on Previous Quarter	Current Mitigations in Place
1	Adverse construction market conditions.	Higher construction prices and elongating build programmes.	5	Contract inflation is running high and forecast to continue to increase due to material and labour shortages and volatile market conditions.	5	25	20		Selection of the right contractors for the type of scheme. Construction contingency within business cases.
2	Having and retaining sufficient capacity, resources and skills to operate.	Unable to effectively carry out the development and operational function of the Company.	4	Permanent staff recruited however insufficiently responsive to retention issues and unable to bring in any resources without Shareholder approval.	4	16	16		Experience and expanded Board in place and good access to quality supply chains for services.
3	Adverse housing market trends (e.g. sales values reduce or sales rates slow).	Lower GDV achieved and / or units not sold resulting in lower profits or losses on schemes.	4	The current market for houses remains positive, market conditions could toughen during 2022/23. Inflationary pressure could increase interest rates.	3	12	12		Quality product and close monitoring of the market. Need to explore alternative strategies in the event the flattened market deteriorates in the medium to longer term.
3	Funding changes (e.g. PWLB).	Increased funding costs or limit on provision of funds impacting on the viability of the Business Plan.	4	Funding processes and arrangements for Local Government is subject to regular change.	3	12	12		The current financial climate remains favourable in terms of the cost of funding however this could change in the short to medium term. Horizon scanning for future changes and being agile to adjust to changes.
3	Council decision making not aligned to the Business Plan milestones.	Late delivery of the Business Plan and delayed returns to the Shareholder.	3	Experience to date suggests that Council are very likely to miss key milestone dates.	4	12	16		Additional Council resources / additional external legal support. Strong governance is in place through PLG and regular Shareholder briefings take place.
6	Government policy and legislative changes.	Limit the scope of activities BexleyCo can carry out and / or bring in additional controls, or impact on sales (for example with changes to Help to Buy).	3	Government frequently reviews and changes policy and legislation.	3	9	9		Horizon scanning for future changes and being agile to adjust to changes - noting that changes will impact the whole market.
6	Pipeline sites not identified.	Under delivery of the Business Plan in the medium to long term and no additional returns to the Shareholder.	3	Three sites identified although funding to planning not yet approved. 2 further sites being explored.	3	9	9		Continue to explore the potential for further Council sites and purchasing private land for housing.
6	Adverse commercial market conditions.	Lower rents / voids on existing assets. Lower yields on new assets. Unable to secure pre-let on commercial premises in mixed use developments.	3	The current market for some classes of commercial assets is uncertain. Market conditions in many sectors is likely to further toughen during 2022/23.	3	9	9		Continue effective management of existing assets. Ensure new assets are targeted to demand and pre-lets are secured prior to development commences.
9	Design and construction complexities regarding sites with listed buildings	Higher design and construction costs and scope for clashes and coordination issues.	2	Two pipeline sites have been identified with listed buildings.	4	8	8		Selection of the right architects, consultants and contractors with listed building conversion experience. Apply appropriate allowances and contingencies within business cases.
9	Covid-19.	The continuing impact directly on the delivery of schemes and operation of the company. The wider economic impact on the housing market and construction industry.	4	Further waves and therefore restrictions are possible in the years ahead..	2	8	8		Adjustments have been made to switch to safer working practices. The housing market and UK construction industry remains strong and close monitoring of both is in place.
9	Construction programme delays.	Increased time to complete schemes, delayed sales period and increased financing costs.	2	Current safe working practices and supply chain and labour market disruptions make delays more likely.	4	8	8		Client side time contingencies and construction cost contingency.

Ranking	Risk	Impact	Impact Rating	Likelihood	Likelihood Rating	Overall Score	Previous Quarter's Score	Change on Previous Quarter	Current Mitigations in Place
9	Reliance on external professional and consultancy services.	Quality of service provided and time taken to tender for services.	2	Contract management of external multi-disciplinary teams can be challenging.	4	8	8	↔	Development Managers in place with strong project management controls in place.
9	Lack of Registered Provider interest in our schemes for s106 sale of affordable units.	Lower value of affordable units and increased exposure to unsold units.	4	A number of RPs have expressed an interest in working with BexleyCo, however any appointed, through a procurement process, would require Shareholder approval.	2	8	8	↔	Continue to maintain good relations with a number of RPs and early inclusion of them in the design process will further encourage interest in affordable units.
9	Maintaining strong Shareholder support.	Dependency on Shareholder approval is high in terms of delivery of the Business Plan and operational matters.	4	Current relations with the Shareholder are strong.	2	8	8	↔	Good briefing arrangements in place and regular formal governance through Cabinet Committee.
9	Poor build quality and aftercare.	Damage to the BexleyCo reputation and high level of customer dissatisfaction.	4	Quality ERs and contract / development management.	2	8	8	↔	Focus on quality throughout the design and the build processes.
9	Tax & Transfer Pricing: HMRC review and / or requirement to disregard costs for tax purposes	Reduction in post-tax profits impacting upon dividends returned to the shareholder. HMRC inspection time-consuming, reducing capacity for business as usual	4	Significant risk of cost of land deemed by HMRC to be the Council's original cost for tax purposes. Medium risk on land contracts & overage. Lower risk on funding arrangements.	2	8	8	↔	Funding arrangements reviewed against prevailing market conditions. Risk of base cost of land for tax purposes only partially mitigated - as contracts for sale may not be fully market-facing.
17	Supply chain resilience.	Poor response to the tender of services and issues with contract management directly or indirectly through poor main or sub contractor performance.	3	UK based supply chains for technical services remains strong however, some sub contractors reliant on EU supplies or labour are experiencing some short term issues.	2	6	6	↔	The procurement targeted at local and regional technical services and support. Where sub contractors are used going forward assurances will be sought regarding robustness of their supply chains.
18	Financial solvency position.	BexleyCo unable to trade.	5	BexleyCo has funding agreements in place and sufficient financing for the next few years.	1	5	5	↔	Good financial governance in place.