Exeter CityFutures

ONE PUBLIC ESTATE

Exeter Development Fund

Outline Business Case

Exeter Development Fund

Overview

Project Title	Exeter Development Fund
Purpose	This business case explores the costs, benefits and risks of a replicable, innovative concept design for a collaboratively owned, public sector infrastructure fund at a city region level (the "Fund").
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Exeter
Development Fund

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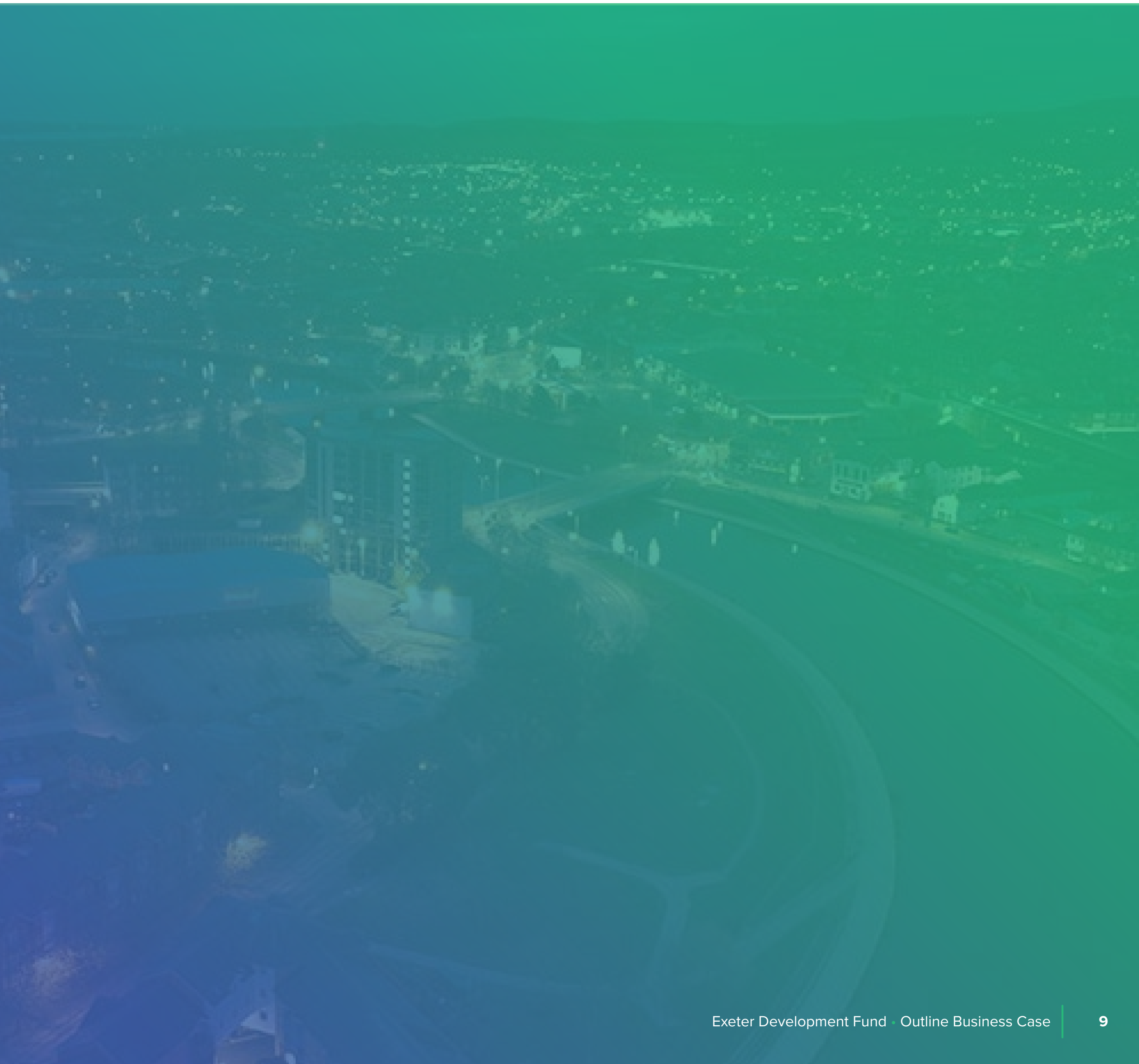
Glossary

BEIS	Department for Business, Energy and Industrial Strategy
CIC	Community Interest Company
DCC	Devon County Council
DCMS	Department for Digital, Culture, Media and Sport
DEFRA	Department for Environment, Food and Rural Affairs
DfE	Department for Education
DfT	Department for Transport
DIT	Department for International Trade
ECC	Exeter City Council
ECF	Exeter City Futures
EDF	Exeter Development Fund
GWR	Great Western Railway
HRA	Housing Revenue Account
LGA	Local Government Association
DLUHC	Department for Levelling Up, Housing and Communities
M&E	Mechanical and Electrical
MoJ	Ministry of Justice
OGP	Open Government Partnership
OPE	One Public Estate
RTPI	Royal Town Planning Institute
SME	Small and Medium Enterprise
TEF	Teaching Excellence and Student Outcomes Framework
The Fund	Exeter Development Fund

Exeter
Development Fund

Executive Summary



The Exeter Development Fund

This business case explores the costs, benefits and risks of a replicable, innovative concept design for a collaboratively owned, public sector infrastructure fund at a city region level (the "Fund"). The aim of the Fund is to combine public and private sector finance to transform the built environment, harness capital flows within the city and enable investment in infrastructure development in a way that delivers Net Zero and place-making aspirations without long term dependence on bids for Government grants.

The Fund will provide a single source of finance, deal flow and project management to procure and deliver the housing and infrastructure required for a city's vision of place-making. It will lead the way in developing out the city and ultimately set the bar for all future developments.

The benefits within this Parliamentary period alone are clear. The Fund's ultimate success delivers on government's transformational requirement for sustainability in urban developments and it delivers additional public sector revenue streams. Therefore, by the end of this Parliamentary period, Government will have set up a municipally controlled, market leading and active development fund set to generate revenue for HM Treasury into perpetuity, that also delivers a model for the UK's net zero cities and sets the benchmark for the UK development market for future Parliaments.

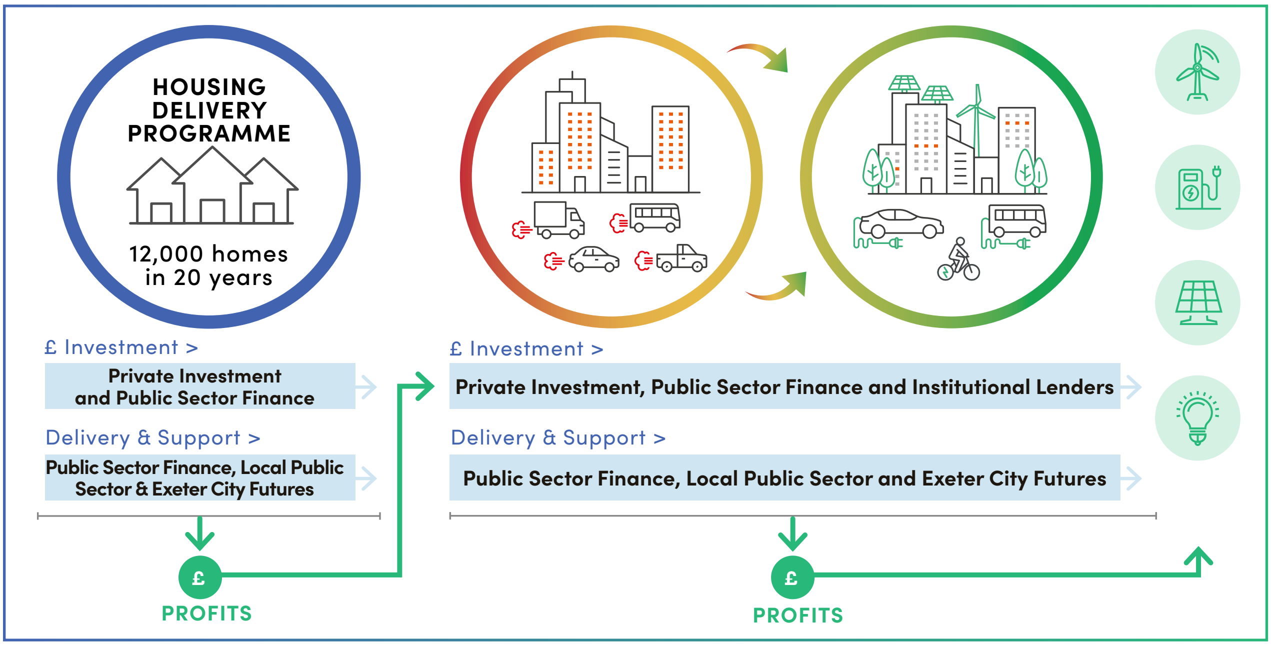


Figure A • Fund Infographic

Bridging the gap between truly environmentally responsible infrastructure solutions, UK emerging policy on sustainable place-making and investible business models is a constant challenge for governments and the markets. The problems are understood, as are many mitigating interventions, but financing and delivering the solutions at scale remain as-yet unresolved.

Therefore, 'effectiveness and success' measurement, for the purposes of the Fund's concept design in this business case, is manifested in addressing the attrition that exists between commerce, place-making, housing targets, sustainability and the UK carbon agenda.

STRATEGIC CASE

This business case seeks a contribution from the public sector of c.31%-of-total-capital to team with the available private sector debt finance, within a Fund structure, in order to deliver on the city's capital program over the next 20 years.

Case for Change

Broader Context

As government develops its Levelling Up Strategy, local authorities have a unique opportunity to contribute and shape the future of the UK in this space through their own local strategic plans. Embedded within that strategy is the principle idea that cities can hold the key and that they need to transform.

By 2050, 66% of the world's population is expected to be living in cities.

This rate of urbanisation presents many challenges which, left unsolved, will give rise to increased inequity, pollution and more costly, sprawling development patterns. This limits the capability not only of our cities, but the people within them. Cities need investment in place-making for the future of their communities.

The UK's Challenge

Traditional methods for the financing and delivery of housing and urban growth, led by the private sector developer market agendas, are not always sympathetic to the challenges of city plans.

Profits made from development typically exit the city cash-flows rather than being available for reinvestment into optimising other infrastructure services. This leakage of value coupled with constraints on public sector capacity and the pace of public financing for infrastructure delivery presents an acute challenge for cities.

A comprehensive 'finance first' solution is needed to better serve the overall plan.

Exeter City Context

Exeter was named by the Centre for Cities as the city with the fastest growing population in the UK.

To meet this growth and potential the Greater Exeter region is set to deliver up to 50,000 houses over the next 20 years, 12,000 of which are required within the city itself to promote regional growth and as part of the city's urban densification plans. This will see approximately £10bn of private money and £2bn of public funds invested in the region.

Exeter's Challenges to Delivering the Vision

The private sector development market is not delivering for Exeter in a way that aligns with the vision for the city in the next two decades. Property developers' short-term accountability to their shareholders has a greater motivational premium than the accountability to the citizens of the Exeter.

This divergence means that sites that could deliver sustainable place-making aligned with emerging UK policy objectives are typically picked off by developers and designed for profits alone.

The city is at risk of missing an opportunity for real transformation and growth if all developments are left to the private sector without adequate public sector control over outcomes through the right partnership structure.

Furthermore, large-scale developers operating in the city can produce profits in the region of 20% on capital spend which then leaves the city to pay shareholders external to Exeter. The challenge for the city is how to ensure more value is retained within the city and delivered on projects that meet the city's needs.

Exeter Strategic Fit

The Fund's conceptual application to a city region for testing purposes requires a head start. That head start exists in Exeter's own strategic plan for housing over the next 20 years: Liveable Exeter.

This represents a preselected package of priority sites, owned by a mixture of Exeter's public sector institutions and the private sector within the city on which the city has conducted significant design work for the provision of 12,000 homes and communities.

Exeter is also a successful test bed. It is uniquely placed to foster fresh approaches along with promoting and sharing learning. The city already enjoys many of the positives associated with aspirational city living, with healthy commerce and educational centres primed for innovation and investment.

This programme's sponsors and city recognise this opportunity and are making an intervention now.

Funding Award and Scope of Work

One Public Estate (OPE) has sponsored this business case, following ECF's application for £200k of funding made to OPE in January 2019 on behalf of the ECF board and the city.

The OPE funding was delivered under the following work streams:

- **Work Stream 1:** Real Estate Consultancy – August 2020
- **Work Stream 2** Financial Consultancy – January 2021
- **Work Stream 3:** Business Case and Project Management Consultancy – December 2021

As work has progressed on this project, another £840k of funding has already been awarded in 2021 by DLUHC to ECF to take this OBC into Phase 2 and FBC stage. Phase 2 is discussed later in this document.

Alignment of the Exeter Development Fund to Existing OPE Policies & Strategies

OPE provides practical and technical support and funding to councils to deliver ambitious property focused programmes in collaboration with central government and other public sector partners.

This is encompassed in three core objectives:

01 Creating economic growth (new homes and jobs)

02 Delivering more integrated, customer focused services

03 Generating efficiencies, through capital receipts and reduced running costs

OPE - Maximising Value in the Delivery Process: Public Sector Assets and Development Projects

- The Fund aims to foster a pooled asset approach, based around strong public sector partnerships, which can maximise and optimise returns.
- The Fund aims to operate under a pre-agreed set of objectives and frameworks so as to disrupt the market and operate with the agility akin to a private sector investment fund, thereby expediting delivery, economic growth and subsequent capital receipts to partners.
- The Fund aims to finance and deliver projects through a single aperture and framework, thereby generating efficiencies alongside a more integrated service.

The Solution: Finance-led Development

Recognising the opportunities inherent in aggregated asset pooling, ambitious framework developments and city-controlled exposure to development risk and reward, and following consultation with ECF board members and the city's leaders, it was agreed that any future finance-led development solution for the city would have the following (and shown in Figure B) key principles that govern its outcomes and objectives:

PUBLICLY OWNED

The sustainable finance development vehicle is owned and controlled outright by the public sector.

- Greater Exeter City Institutions (City Council, Regional Councils, University, NHS Trust)
- Public Sector Finance
- Joint Governance over professional teams

IMPACT DRIVEN

Placemaking is the ultimate goal. All developments are measured for success on the basis of impact, outcomes and social benefit.

- Affordable Housing
- Sustainable Transport
- Connectivity & Mobility
- Reduced Congestion
- Improved Health Outcomes

PROFESSIONALLY RUN

Experienced, world class team of fund and asset directors.

- Individual recruitment campaign from existing successful private sector infrastructure funds
- Master developer and architect capability
- PMO capability
- Legal capability

LOCALLY RETAINED PROFITS

All profits from developments are kept within the fund and recycled back into Greater Exeter developments.

- Ownership by Exeter's public sector institutions ensures recycling of profits into local impact projects in the future
- The fund pays dividends to the public sector shareholders to bolster revenue budgets

Figure B • Key Principles

Project Objectives

In light of the challenges inherent in the UK and Exeter's development, and in light of OPE's strategic objectives themselves, high-level programme objectives at funding application stage were identified and agreed with stakeholders. These are set out on the next page in Figure C.

Project Scope

Liveable Exeter presents the ideal test bed for the Fund concept, as discussed in Section 1.2.7. This comprises nine sites across the city. Their detail is included in Section 1 of this OBC.

	Project Objectives	SMART Goals
1	To develop a replicable financial model that optimises public sector assets for housing and infrastructure.	Deliver to OPE, by September 2021, a replicable model that optimises public sector assets and could be used by other public sector bodies to consolidate assets for development.
2	A portfolio approach to urban development that brings together public sector partners to maximise economic growth and efficiencies while providing ongoing, tangible stewardship of community assets and facilities.	The model will: consolidate assets to reduce project top and tail costs against traditional delivery models, recirculate finance to reduce borrowing requirements against a piecemeal delivery approach, offer an ongoing revenue stream in exchange for equity in the fund which is significantly higher than the benefit received via business as usual.
3	Disrupting the market to accelerate the scale and pace of the development of new sustainable communities and desirable neighbourhoods to live and work.	Provide a holistic vehicle to enable mixed use developments that meet housing and infrastructure needs of the city in a timely fashion, and the aspirations of the project partners in regard to quality, delivery timescales and sustainability goals.
4	To enable a built environment that ensures the city's Net Zero objectives.	Must actively contribute to reducing existing carbon emissions through design and functionality based on current best practice, research and guidance. Will not create a future burden of retrofit or subsequent redevelopment to meet net zero goals.
5	Protects public sector land assets from disposal.	To offer a viable alternative to the sale of public sector assets based on both financial benefits and societal benefits that enable improved outcomes for communities.
6	Build market leading development capability within the local public sector.	To position the local public sector as the leading developer in the city by 2025.

Figure C • Project Objectives

Aligning the Business Case and Fund Objectives with UK Policy

UK policy for the development of housing, infrastructure, and places is undergoing substantial and lasting change. More than 200 local authorities and many more other public sector institutions have declared a climate emergency and the UK government is committed to a carbon neutral future. This is set against the backdrop of the deficiencies already noted in respect of the UK development market and the local public sector's own infrastructure delivery challenges.

The response to this has been overwhelming in respect of policy announcements from key departments and officials at the top of government.

Section 1 of this document discusses how the latest policy announcements from the top influencing departments of government directly align, individually and collectively, to the objectives of the Fund. Government's latest policies are set to shape the future of how infrastructure is delivered and how UK citizens interact with modes of travel, their places of work and domestic buildings:

- The Queens Speech 2021: Planning Bill; Environment Bill; and Procurement Bill
- Levelling Up White Paper
- Climate Change, Net Zero and COP26
- Build Back Better: HM Treasury Plan for Growth
- The Ten Point Plan for a Green Industrial Revolution

- Department for Business, Energy & Industrial Strategy
- Department for Levelling Up, Housing and Communities (DLUHC), Priority Outcomes:
- DLUHC: Building Beautiful Places
- Net Zero Transport: The role of spatial planning & place-based solutions - Royal Town Planning Institute (RTPI) Research Paper – Published January 2021

The Project

Engagement Process and High Level Strategic Options

ECF and its local stakeholders carried out strategic workshops, looking at options for meeting the city's challenges to financing developments in a way that tackles conflicting commercial agendas with the transport, housing and placemaking aspirations the citizens have been asking for.

These options formed the high-level strategic options for consideration in the longlist in this business case:

- **Do nothing**
- **Sell land**
- **Piecemeal Joint-venture(s) with the private sector**
- **DevCo and piecemeal development**
- **Innovative City Development Fund**

Initial Scope and High-Level Benefits of the Fund

Given its early stages, initial exploration into the how to innovate the delivery of the Fund yielded the following outline mechanics:

- Exeter City's public sector stakeholder institutions incorporate a new entity whose purpose is to finance and manage the program of investments that bridge the infrastructure gap and deliver on the city's wider strategic plan.
- The Fund's projects will potentially range from standard housing development projects through to providing innovative mobility solutions and renewable energy programs.
- The Fund is capitalised by existing, forward looking, cross-departmental public sector infrastructure budgets and the city shareholder's property asset base and, hence, obtains debt finance from a variety of sources, including an anchor financier in the shape of a long-term bond issued to, say, a pension fund. The bond uses equity and the property asset base as security for the bond investor.
- The Fund then provides a single source of finance, developer services and project management to procure and deliver the pipeline of development projects within the city.
- The Fund uses the profits from the healthier schemes to finance and deliver projects with less traditional profit profiles and projects of higher social benefit (rather than relying on planning to force the private sector to deliver them).
- The projects that deliver on the city's wider strategic plan and social impact in the short term achieve effective place-making for Exeter and hence create a more stable and investible city in the longer term.
- The Fund is also able to deliver using its 'at scale' protection to prove the concept and marketability of atypical developments, such as car-free housing developments, thereby attracting other developers into future schemes.
- Fund profits are recycled back, set against capital required for future developments to create savings.

Partners and Stakeholders

- **Central Government**
  - Homes England, with whom ECF and this programme has a dedicated team relationship aimed at converting the city's development aspirations
  - DLUCH, from whom ECF has been awarded a further £840k to bring the Fund concept in the this OBC forward to FBC stage and market
- **Local and Regional Public Sector and ECF Board Members**
  - Exeter City Council
  - The University of Exeter
  - Royal Devon and Exeter NHS Trust
  - Exeter College
  - Devon County and District Councils
- **Exeter Business Community and SMEs**
- **Investment Markets, with whom initial investment plan discussions have taken place**
  - L&G
  - Aviva
  - Barings

Constraints, Limitations and Dependencies

The concept design under testing in the business case assumes a large and complex undertaking that reshapes the approach to city development and infrastructure.

It assumes a delivery vehicle with cross-public sector ownership and some associated powers, access to private sector money markets, commercial agility, risk and reward. It triggers greatly increased levels of development activity in Exeter than has gone before and encompasses an innate programme of skills development within the city to deliver it.

With these assumptions, many constraints and limitations exist and around which the preferred way forward is designed.

- Site viability Gaps
- Public Sector Capital Funding
- Development Capability
- Collaboration and Mix of Agendas across Public Sector Institutions
- Legal and Governance
- Local Stakeholder Support

High Level Strategic Risks

As options for the design of the Fund are analysed in this business case, the risk register (see Appendix 5.D and Section 2.6 in the Economic Case) has been used extensively to sift long list options and score short list options.

The risk register covers the probability and impact of detailed risks relating to all options, from the status quo 'do nothing' through to maximum impact options, and discusses proposed mitigating factors and their impact on risk.

The high level strategic risks, against which the long list of initial options is considered are as follows:

Risk 1: Funding Risk

The Fund represents a bold and innovative approach to teaming government capital with private sector finance. In a post-PFI, post-Brexit UK, a tried and tested long term model for infrastructure spend has yet to replace incumbent approaches from the previous two decades. A risk exists that the Fund concept does not provide government with enough comfort to allocate its infrastructure budgets in this way. Equally and as a result, without government intervention for a project of this scale the risk exposure to private sector lenders may be too high for their involvement at the scale required.

Mitigation:
The project team has an active and open engagement process with government, with regular progress meetings with Homes England and other government departments. However, due to the early stage of project development Homes England is unable to commit or allocate any specific funding at this stage. Work is already underway with Homes England to explore which sites within the broader programme have potential to become the initial flagship projects.

Risk 2: Skills and Capacity

The development, infrastructure and housebuilding markets are all under strain. Building standards are changing rapidly alongside development of new technologies to meet those standards in carbon, modern methods of construction, project management and procurement. Coupled with rapid increases in demand for housing in the UK, a dearth of talent and capacity exists that risks rendering the Fund's ambitions undeliverable at the quality, pace and scale required for success.

Mitigation:
The project team has opened discussions with SMEs, carbon, spatial and innovative developers with an interest in the Fund concept. ECF has had open engagement with that market as well as Green-tech suppliers such as Co Cars to supply E-mobility solutions to developments and the associated data. Additionally, with ECF's board comprising the University of Exeter and Exeter College, the project has a direct line into the education and skills agenda in the region.

Risk 3: Local Support and Agendas

Cities operate with multiple public sector institutions that represent the varied and complex agendas of the inhabitants. From NHS Trusts to Universities to the Council, local public sector organisations experience some attrition between individual agendas as their approaches to carbon, commerciality, placemaking and human resources reach differing levels of maturity.

To that end, the Fund's structure, which assumes a relatively seamless approach to divesting assets into a separate vehicle for development, albeit owned and controlled by the public sector, risks exposing further attrition between institutional agendas. Methods of procurement differ, appetites for control and risk differ and approaches to investments outside of core functions differ. The Fund risks failure through an inability to collaborate at the top level.

Mitigation:
The city already has a successful collaborative governance structure in ECF, with many examples of successful collaborations both financially and operationally on the Net Zero agenda. Equally, the city has backed the Fund concept design in submitting a bid for and winning funding for the next phase of the project under the Fund concept. In July 2021, £840k was awarded by DLUHC to ECF to progress the Fund to its next stage on behalf of the city.

ECONOMIC CASE

Methodology

This case walks through the two step process adopted to appraise the Fund proposition in economic terms:

1. Options Appraisal: Long list to short list on the basis of Objectives and Critical Success Factors (CSFs).
2. CIA Model (Comprehensive Investment Appraisal) to appraise the shortlist for the preferred way forward on the basis of Net Present Social Value and risk.

The case notes the interactions with key stakeholders throughout this journey to obtain input to and subsequent buy-in to milestone outputs.

Optimal Scheme Design Solution

The Liveable Exeter portfolio was selected to commence base case modelling for the Fund. The initial designs prepared by LDA Design are the basis of the base case modelling and development appraisals carried out by Jones Lang Lasalle.

The model thus assesses a portfolio covering 181 hectares, including 10.7k residential units and 1.4k school places, as part of a mixed use development portfolio and the communities that arise.

Spending Objectives and Critical Success Factors

Fund partners developed, in a workshop setting, six Objectives (Figure C in this Section) and objectives CSFs (Figure D).

	Critical Success Factor	Options assessed as to how well they meet the following goals
CSF1	Strategic fit and local needs	Meets local/national net zero aspirations Delivers on housing requirements to meet local needs
CSF2	Potential value for money	Optimises public sector assets for the long term
CSF3	Public sector capacity and capability	Ensures development outcomes match or exceed aspirations Builds development capability in the public sector Expedites public sector development delivery times
CSF4	Potential affordability	Can be funded through potential, existing or emerging funding streams Generates the platform to attract private finance
CSF5	Potential achievability	Is likely to be deliverable given partner regulatory approvals processes Matches level of available skills and resource required for successful delivery

Figure D • Critical Success Factors

An Evaluation Group then further confirmed these, developed a long list of options, and refined these into a short list with reference to the Objectives and CSFs.

Long List of Options

A range of 14 sub-category long-list options was agreed, under 4 main categories:

- Do Nothing
- Do Minimum
- Intermediate
- Do Maximum

These are elaborated on by Scope (Which Sites), Solution (Mechanism), Delivery (Who), Implementation (Timescale), and Funding (£ Source and Size).

Each option is RAG rated to show the fit with Objectives/CSFs. A justification table (Table 2.8 of Section 2) supports the selection of the resulting shortlisted three options, shown in Figure E below.

Scope Option	
Option 1	**Baseline: Do nothing** Public sector owned land parcels only that are offered for sale
Option 2	**Intermediate: JV/Grant - Full Liveable Exeter portfolio** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations for the full portfolio
Option 3	**Do Maximum – Equity funded viability gaps** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally – full portfolio with viability gaps funded through Government equity to attract private finance

Figure E • Shortlist of Options

Preparing The Economic Appraisal

The purpose of the economic appraisal is to evaluate the costs, benefits, risks of the shortlisted options and ascertain which one produces greatest Value for Money. In doing so the following have been evaluated:

- Estimation of Whole Life capital and revenue costs;
- Estimation of benefits and risks;
- Use of the CIA Model to prepare discounted cashflows and the resultant Net Present Social Value (NPSV);
- Ascertain risks, score and rank accordingly;
- Present the results including a sensitivity analysis to determine the Preferred Way Forward.

Economic Appraisal Results

The Project Team populated the CIA model and risk analysis to support the appraisal of overall value for money and cost-benefit of the shortlisted options. The full CIA outputs can be found in Appendix 2.L – CIA_Model EDF V1. The project assumptions and listed inputs above have been incorporated into a discounted cash flow for each of the options. In line with HMT Green Book requirements:

- Costs, benefits and risks are calculated over a 60-year appraisal period.
- Year 0 is 2020/21.

- Costs and benefits use real base year prices – all costs are expressed at 2020/21 prices in line with the baseline costs.
- A discount rate of 3.5% is applied to years 1-30, 3.0% from year 31 onwards.

Results of the economic appraisal are shown in Figure F below:

	Option 1	Option 2	Option 3
Net Present Social Value (NPSV) (£'000)	£0.00	(£353,729)	£603,246
Ranking of NPSV	**2**	**3**	**3**
Benefit/Cost Ratio (BCR)	0	0.13	3.54
Ranking of BCR	**3**	**2**	**1**
Unmonetisable Benefits Ranking	**3**	**2**	**1**
Risk Ranking	**1**	**2**	**3**
Overall Ranking Score	**9**	**9**	**6**

Figure F • Economic Summary and Ranking for Shortlisted Options

Figure E shows that the option with the lowest score, and therefore representing the preferred way forward, is Option 3, with a score of 6. Options 1 and 2 both have a score of 9, meaning they are placed equal second.

This compares the three shortlisted options and demonstrates that Option 3, presents the preferred way forward as it offers the best value for money since:

- It results in the best Net Present Social Value (NPSV) of £603m. This represents the net present value of monetised benefits less whole life costs.
- Benefit Cost Ratio of 3.54. This represents the proportion of benefits in relation to costs.
- It achieves all of the identified unmonetisable benefits
- It scores the least preferred of all the options on risks, but this is more than offset by its improved performance in the other categories.

The measure of NPSV best represents the overall value of this scheme, as it reflects both the cash and non-cash benefits but also the societal benefits for the broader economy. The project team would expect to further refine benefits cost and risk as part of the FBC to inform an updated CIA model.

Conclusion

In summary, the Economic Case notes that the Preferred Way Forward to deliver the city's development portfolio is Option 3 and the proposed Fund structure, pump-primed by upfront equity.

This delivers best on the Objectives and CSFs and a high level of benefits compared to other discounted options. The equity-backed Fund is well aligned with government and policy objectives and delivers the highest NPSV and BCR.

COMMERCIAL CASE

Introduction

The Commercial Case explores the commercial viability of the Fund at this “Proof of Concept” stage. The Phase 2 roadmap (the subject of Phase 2 work), sets out in the accompanying Management Case will further assess that viability, set out the detailed commercial and financing structure, establish a suitable procurement strategy, construction and financing partners and manage the associated risks.

The commercial case of the OBC outlines:

1. **Bridging from the economic case and LDA/JLL’s site design options appraisal in the previous Section into a commercial, corporate and delivery analysis, analysed for financial impact, qualitative benefits and risks; and**
2. **The proposed deal in relation to the preferred option.**

Commercial Analysis

Deloitte LLP was commissioned by ECF to assist it with financial modelling for the preferred option and to analyse the benefits, risks and options associated with various fund and financing structures in the context of the full portfolio of sites included in the development appraisal work carried out by JLL.

In the context of appraisal cash flow data provided by JLL and the objectives of the OBC, Deloitte performed an initial desktop exercise to narrow various options for finance and delivery of the Fund’s objectives down to three structures for detailed analysis and outline financial modelling. Workshops were held on the 24 September 2020 and 8 October 2020 to refine these options further and socialise them with stakeholders and the Project team. Following this, the optimal base case equity, financing and funding structure was used for modelling purposes. This is shown in Figures G and H.

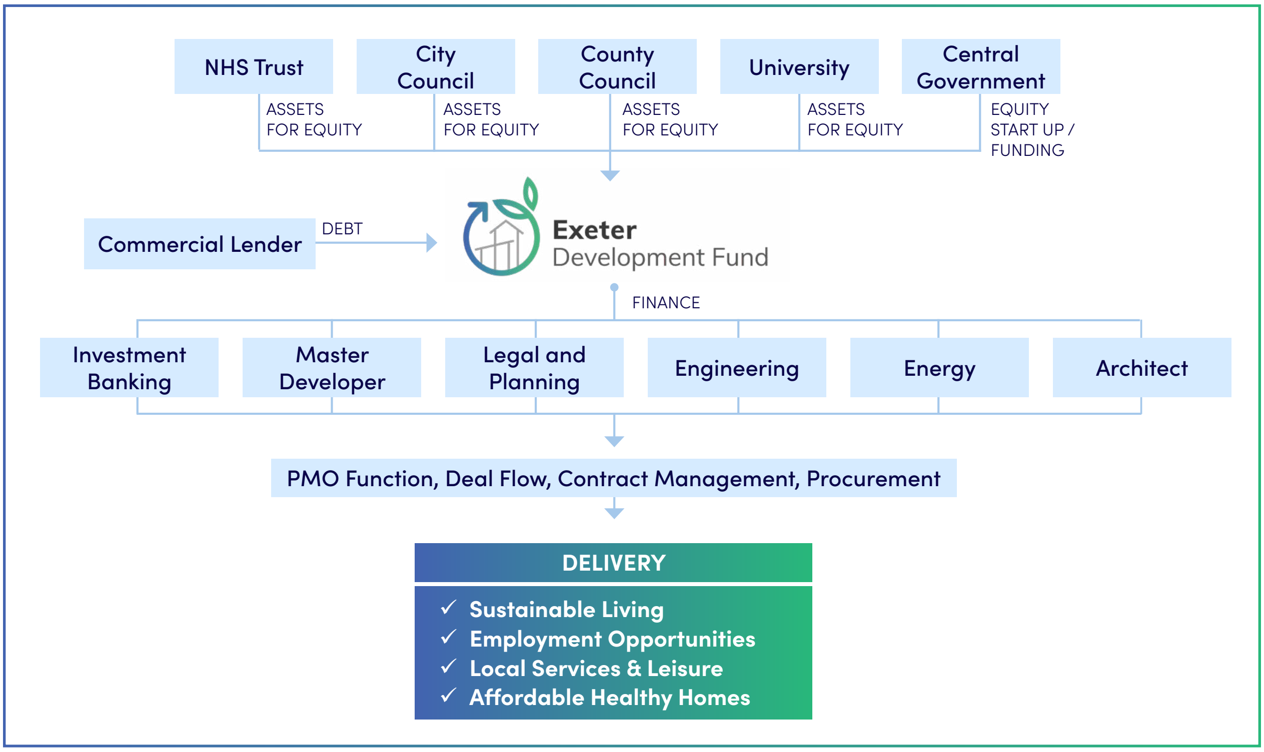
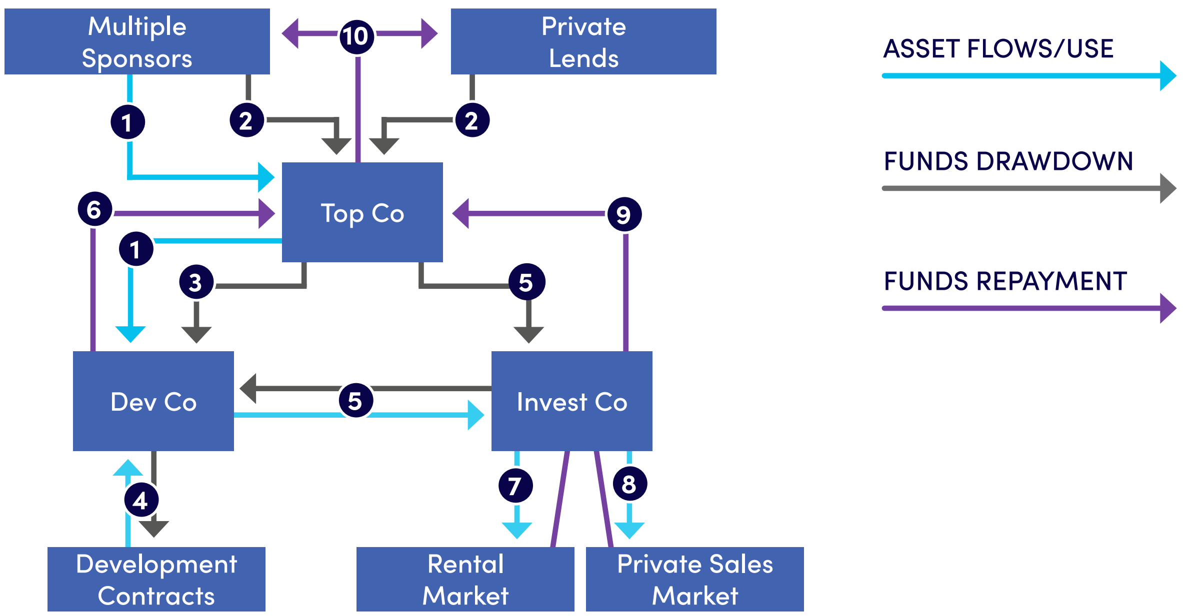


Figure G • Fund Structure

The Fund structure is based on a three-entity structure (Top Co, Dev Co, Invest Co) with tranche funding from sponsors and lenders into Top Co as required by the development pipeline.

The model assumes that equity funding is provided by the public sector and the private lending market finances the remainder. (Phase 2 work aims to test Government and the market further to ascertain the appetite for such an arrangement and make accommodations as necessary).

The flows of assets and cash in the Fund structure are shown in Figure H.



1. Top Co receives equity funding from the Sponsors in return for distributions which part funds development costs and the transfer of assets from Dev Co to Invest Co[1].
2. Top Co receives private funding to fund the remaining loan requirements of Dev Co which are not covered from equity funding. Top Co funds the remaining requirement, if any, of Invest Co via an ongoing Working Capital Facility ('WCF').
3. Dev Co draws down loans from Top Co.
4. Dev Co uses the drawdown funds for the purchase of land and development contracts to build the assets. (Note, landowners could include both Sponsors and external parties)
5. Invest Co draws down loans from Top Co to purchase assets from Dev Co.
6. Receipts from asset sales to Invest Co are used to repay Dev Co loans from Top Co.
7. Invest Co leases the assets to the rental market.
8. Invest Co may sell the assets to the market in the final year (note, the base case assumes all assets are retained by the Fund and hence a residual value exists in the NPSV calculations in the economic case).
9. Receipts from rental assets (and private sales where relevant) are used to repay Invest Co loans from Top Co.
10. Top Co repays the loans to Sponsors/Lenders and provides distributions to the Sponsors.

[1] Note, this is an assumption adopted for the base case. How equity will work in reality is yet to be decided and/or negotiated with potential government sponsors.

Figure H • Fund Asset and Cash Flows

Equity Funding

The commercial and financial model's base case has assumed a single cash injection via the working capital facility equal to 31% of the total estimated cost of Land Acquisition, Land Preparation and Construction.

The Project team has adopted these assumptions under the base case to test the portfolio's feasibility in line with parameters discussed with Sponsors to date. Given this equates to circa £1.5 billion in equity.

An initial 'to market' flagship site programme (the subject of the Phase 2 work to FBC) will seek smaller funding packages to present a clear and transparent case to the public sector funders and private lenders.

In Phase 2 of the work, and following feedback from stakeholders, assessment of a flagship site programme will create smaller funding packages which maximises investment appetite.

Private Sector

The Fund will service private finance through rental receipts. The base case estimates that circa £3.2 billion will be required from private investors to deliver the full Portfolio.

Given the lack of comparable projects whereby private investors have provided this level of funding the scenario analyses in the Financial Case of this OBC and the subject of Phase 2 applies smaller more marketable funding packages.

There also exists increased competition for private funding post Covid-19 as the government looks to kick start the economy. This highlights the importance that the Fund adopts a flexible approach in creating marketable funding packages which differentiate from competitors.

Procurement Strategy and Route

Phase 2 Work Procurement

External advisor input for the Phase 2 work is to be procured by ECF using the £840k DLUHC capacity funding. Given ECF's status as a public entity this represents a public sector procurement process and to that end ECF will mirror the procurement processes adopted by ECC as a proxy. This is how ECF has operated its procurement for the external advisors to this OBC.

Phase 2 encompasses two main elements. Firstly, the work to design, test and evaluate the Fund legal structure, target operating model and partner relationships.

This will consider input from third party advisors across legal, regulatory, financial, taxation, planning, energy, transport/mobility and other aspects to optimise outputs and minimise and manage risks.

Secondly, feasibility analysis to work up a flagship site portfolio and establish appropriate procurement processes to set in place a robust, flexible end-to-end supply chain.

Fund Procurement: Advisors, Developers and Professional Services

Chosen processes will largely be determined by the legal and regulatory frameworks applicable to the legal vehicles chosen. The Fund requires commercial flexibility, whilst retaining some degree of public sector authority.

As discussed in the later in Section 5, the Fund will carry some of the fundamental characteristics of a Public Development Corporation and on face value may be required to follow the necessary OJEU processes (or non-EU equivalent following once OJEU is replaced).

However, it is designed to be both commercial and innovative in its approach and is to carry out infrastructure provision on commercial terms to the extent possible.

To that end, it may be possible to create its own bespoke procurement processes, on which the Fund board will sign off and on which the Project team will take legal advice as part of the Phase 2 work.

Legal and Commercial Considerations

Early engagement with Ashfords LLP has identified the following headline legal/commercial issues. These questions and issues will be addressed in greater detail during Phase 2 works.

- Legal Structure
- Transfer of property into the Fund
- Transfer of property within the Fund
- Fund specific issues (e.g. investment and financial instrument regulations)
- Fund procurement legalities
- Subsidy Control
- TUPE

FINANCIAL CASE

Introduction

The purpose of this Section is to set out the forecast financial implications of the preferred option as set out in the economic case and the proposed arrangement as set out in the commercial case.

The figures assessed here show the Fund's financial performance as a result of the 'base case' delivered with £1.5bn of government equity and £3.2bn of private debt finance.

Specific scenario analyses for smaller, investible, initial flagship projects, following feedback from stakeholders is shown in Section 4.

The Financial Case examines the affordability and funding arrangements for the Exeter Development Fund project; in particular exploring the cashflows, risks and key assumptions associated with the now-determined Preferred Way Forward (PWF).

As stated in the Economic Case, the PWF assumes the Fund concept, operating at scale across the nine sites of the Liveable Exeter sites. It focuses on the affordability of the capital and lifecycle requirements of the Fund and examines the headline financial statements over the term.

Impact on the Fund Income Statement

The Fund's (Top Co) anticipated income and expenditure impact for the project over its intended 60-year life span is set out in Figures I and in J which shows the first 15 years of the project and years 16 to 60 combined.

Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Fund I+E	(65,840,989)	(124,394,048)	(203,837,440)	(430,083,426)	(731,758,438)	(549,736,342)	(270,138,252)	(54,225,126)

Year	Y9	Y10	Y11	Y12	Y13	Y14	Y15	Y16 - 60
Fund I+E	(146,662,136)	(25,258,033)	(20,988,646)	26,670,731	41,778,346	54,154,575	45,001,573	24,535,296,961

Figure I • Income and Expenditure of the Exeter Development Fund

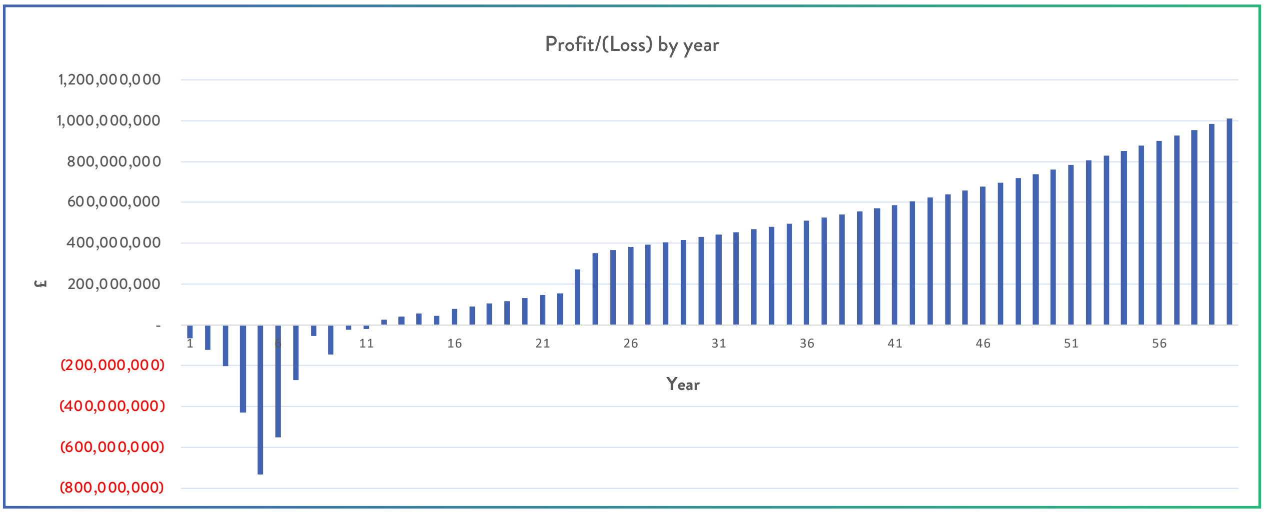


Figure J • Profit and Loss by Year to Year 60

In the first 11 years of the project the Fund is loss-making. This is mainly representative of the Fund accruing interest on its private loan facilities during construction periods in advance of its having sufficient practical completions to begin collecting rental or sales revenues. Following year 11 (after construction on South Gate, East Gate, North Gate, St David's Gateway and West Gate are completed which is 58% of total assets) sufficient sales and rental revenues to outstrip debt servicing costs result in a profit making position each year thereafter.

All loans are repaid at the end of year 39 with the project incurring only operational costs from year 40 onwards. All assets are completed at the end of year 23 and the Fund's revenue is at maximum capacity, demonstrated by the spike in profitability in the graph in Figure J in that same year, rising with inflation year on year thereafter. The project generates a post tax equity IRR of 6.82% with total revenues of £26.7bn and £18.0bn distributions to Sponsors.

Impact on the Balance Sheet

Figures K and L show the total value of the balance sheet in years 1 to 10 and year 60. Build of the portfolio completes in year 23.

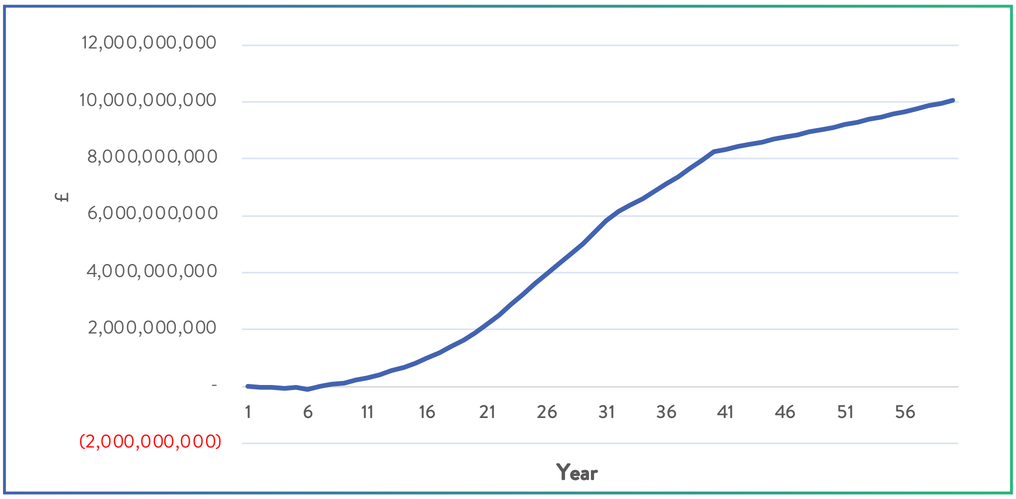


Figure K • Net Assets

Top Co Balance Sheet	Year 1	2	3	4	5
Non Current Assets	64,937,229	188,897,154	392,287,447	821,910,759	1,553,195,739
Current Assets	1,506,847,847	1,456,005,827	1,397,558,069	1,232,966,884	1,027,568,291
Liabilities	(1,575,346,068)	(1,659,423,460)	(1,801,667,226)	(2,101,143,138)	(2,606,851,286)
Net Assets/(Liabilities)	**(3,560,991)**	**(14,520,479)**	**(11,821,710)**	**(46,265,496)**	**(26,087,256)**
Capital Account	**(3,560,991)**	**(14,520,479)**	**(11,821,710)**	**(46,265,496)**	**(26,087,256)**

Top Co Balance Sheet	Year 7	8	9	10	60
Non Current Assets	2,372,081,829	2,425,791,101	2,571,922,422	2,596,634,247	-
Current Assets	871,419,927	955,671,950	1,001,001,092	1,140,469,699	10,057,511,093
Liabilities	(3,213,382,854)	(3,292,180,133)	(3,439,578,313)	(3,512,856,950)	-
Net Assets/(Liabilities)	**30,118,902**	**89,282,918**	**133,345,201**	**224,246,997**	**10,057,511,093**
Capital Account	**30,118,902**	**89,282,918**	**133,345,201**	**224,246,997**	**10,057,511,093**

Figure L • Top Co Balance Sheet

Portfolio Saving Effect

As sites will be staggered as they are being built, profit generated by sites, upon completion, will be recycled into the Fund and be used to reduce the level of borrowing required to finance the future build stages. This results in a portfolio saving of £276m additional debt that would have been needed without the profit recycling mechanism in place. The phasing of sites impacts on this portfolio saving effect and it is reviewed in the scenario analysis carried out in Section 4.18.

Cash Releasing Benefits

The Fund generates £840m worth of benefits, discounted to present value. Of these £105m is represented by cash releasing benefits in the form of profit distributions to equity sponsors, again discounted to present value. A summary of this is shown in Figure M below:

Full Portfolio Summary	
Private Loans	£3,238m
Government Equity	£1,577m
Total	**£4,816m**
IRR to Equity Holders	6.42%

PV of Benefits	
Cash Relating Benefits	**£105m**
Benefits	£736m
Total	**£841m**

Figure M • Cash Releasing Benefits

Stakeholder Feedback

Local stakeholders attended a meeting at Sandy Park on 11 October 2021 to walk through the results of this OBC and declare their level of support for the Fund. Unanimous agreement was obtained to continue with Phase 2 work and to progress with the FBC on the basis of the Fund structure and specific, initial flagship sites provided by the stakeholder group, an initial steer on which is included in Section 4.18. Minutes and a report of this meeting is held in Appendix 4.C.

MANAGEMENT CASE

Introduction

This Section addresses the achievability of the scheme. It demonstrates that the city and its partners in the Fund have or will acquire management capacity and capability to deliver the project and to realise the benefits. This Section covers two elements of the project's deliverability and management:

1. **Fund management structure: outline discussion of the Fund governance, risks, roles and responsibilities**
2. **Management considerations for the project into FBC and delivery of the project plan for it, "Phase 2", funded by DLUHC**

Exeter Development Fund ("the Fund") presents a novel way of funding the development of new communities, with outcomes mirroring published Government objectives on placemaking, net zero, clean growth and affordable homes.

It aims to harness private sector agility, access to funds and expertise akin to a typical private sector infrastructure fund, coupled with the successes and powers inherent in elements of Public Development Corporation (PDC) operative frameworks.

The approach to the Fund management and delivery structure is in direct response to Government's consultation on reforms to PDCs[1].

This case explores the management structure of the Fund and related considerations to develop our current understanding of this to Full Business Case Stage and beyond.

Public Development Corporations: Government Ambitions on Reform

In October 2019, the government publicised their technical consultation to enable PDC reform; this was enabled by 2018 legislative changes, the quest being to take the best of private sector ways of working and coupling this with typical and useful PDC statutory powers.

The Fund's management and delivery structure aims to respond directly to this consultation, where it is able to draw on some of the typical PDC statutory powers to team with private sector ways of working: PDCs exercise significant public duties, for example in relation to planning and compulsory purchase orders (CPO). This is a great tool in the context of the Fund's ambitions.

Therefore, in order for the Fund to deliver large and complex schemes it needs to have a range of powers, including providing infrastructure, highways and acquiring land, including through compulsory purchases, subject to the mayor's consent and authorisation by the Secretary of State. And this is not enough: through its consultation, Government has already questioned whether its current planning tool package is sufficient for the broad needs of development corporations or whether further bespoke tools would be useful.

The Fund aims to provide those bespoke tools by retaining some powers common to PDCs while operating in a commercially optimal fashion.

For example, transferring planning powers away from local authorities in a typical PDC structure is politically sensitive, whereas CPO, land assembly, development agility, access to private and public finance and representation to, say, to Central Government departments are must-have tools.

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841908/_Development_corporatiown_reform_technical_consultation.pdf

Therefore, in order to achieve the regeneration of Exeter akin to the objectives in this OBC, the Fund will be executing some key levers:

- Direct investment
- Borrowing
- Public Funding
- Housing, commercial and mixed use property development
- Planning partnerships
- Compulsory purchase powers
- Acting as a catalyst

However, the Fund will not have any of a local authority's planning functions transferred to it. Rather, it will negotiate planning through the relationships it has with partner local authorities, in this case ECC and DCC.

In this way, the benefits of the Fund are that it can focus on taking forward the regeneration and development of the city, and devote substantial resources towards that objective, without its focus being diverted by the broad range of activities that a local authority needs to manage on a day to day basis.

Additionally, the Fund can cover more than one local authority area – with potential benefits for co-ordination of decisions on sites that cross boundaries.

The Fund will be working with local partners (including ECC, DCC, ExColl, UoE and RD&E) and landowners to act as a catalyst for the creation of the city's placemaking vision.

The Board

The Fund's Board will be responsible for ensuring that it discharges its functions effectively and efficiently; that it fulfils the overall aims, objectives and priorities set out in its corporate plan; and that it complies with all statutory or administrative requirements relating to the use of public funds.

The legislation in Schedule 26 to the Local Government, Planning and Land Act 1980, states that an organisation of this size and nature must have a board appointed by the Secretary of State that consists of a Chairman, a Deputy Chairman and a number of other members (between 5 and 11) as decided by the Secretary of State.

Equally, and in response to Government's consultation and calls for a new generation of PDCs, the Fund's board will require tried and tested private sector expertise with links to institutional funders, public sector finance and the development market.

Management Considerations: Phase 2

Phase 2 of the broader project to which this OBC relates comprises a full business case on the basis of initial flagship sites for inclusion within the Fund structure and incorporation of the Fund itself for the purposes of carrying out what will its first infrastructure project.

Funding of £840k for Phase 2 has been awarded by DLUHC, with some preliminary work already underway on that work stream.

The Project Team for Phase 2 and reporting lines are shown in Figure N, supplemented as necessary and within the budget by specialist advisory input.

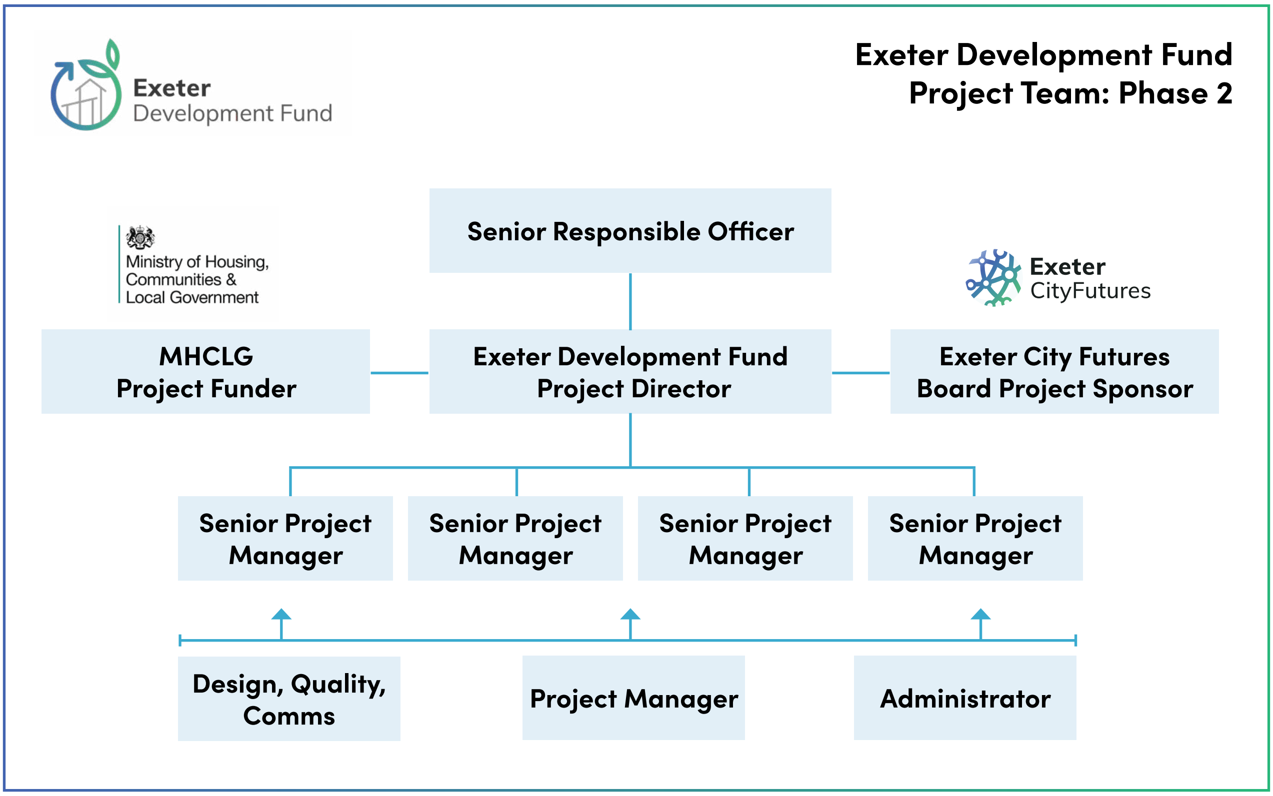


Figure N • Phase 2 Project Team

Project Plan

The Phase 2 project plan, complete with Milestones, shown in Appendix 5.A.

Phase 2 encompasses two main elements to the FBC to run concurrently:

1. **The work to design and evaluate Fund legal structure, target operating model and partner relationships. This will consider input from third party advisors across real estate, masterplanning/ design, legal, regulatory, financial, taxation, planning, energy, transport/ mobility and other aspects to optimise outputs and manage risks.**

2. **Selecting initial flagship sites and mobilise procurement activities to establish feasibility and investment process.**

Use of Specialist Advisors

Phase 2 will require specialist advisory input and we shall procure this using ECF's back-to-back arrangement with Exeter City Council to utilise their procurement processes.

The Project team assess potential suppliers' capability, capacity and experience alongside value for money before procuring their services. The ECC process is an end-to-end process for pre-qualifying suitable candidates, allowing for others to enter the process (SMEs in particular), designing and issuing tenders, evaluating bids, managing the standstill process, communicating both outcomes and the award and proceeding through to contract.

In addition to procuring advisory services to inform Phase 2 works, a Procurement Strategy will be developed to articulate which services we need to procure and when.

Benefits Realisation Arrangements

A detailed benefits register (in Appendix 5.B) has been compiled to Green Book standards and links directly to the economic case appraisal methodology in Section 3.

The register has been continuously updated and exists as a standing agenda item at Project Team meetings (a list of Project Team meetings is contained within EDF Engagement Summary V1 at Appendix 5.C).

Risk Management Arrangements

A high-level risk register has been developed in line with Green Book Guidance during this phase of work: proof of concept. A workshop was held with key stakeholders (both senior management and political representatives of the partner organisations) and outputs from this have been captured.

These outputs have been refined and feedback sought opposite the Liveable Exeter portfolio more recently and both sets of feedback organised into the High Level Risk Register shown in Appendix 5.D.

Further evaluation will form an early part of the work of Phase 2. Once this more detailed evaluation is signed off, a Phase 2 Risk Management Plan will be constructed to propose mitigation methods for each residual risk. Contingency planning and discussions with insurers will form an essential part of this. A key output for Phase 2 work is the formation of an accepted Risk Management Plan, with assigned responsibilities.

Exeter
Development Fund

1. Strategic Case

Exeter
Development Fund

Contents

1.1 Introduction

This business case explores the costs, benefits and risks of a replicable, innovative concept design for a collaboratively owned, public sector infrastructure fund at a city region level (the "Fund"). The aim of the Fund is to combine public and private sector finance to transform the built environment, harness capital flows within the city and enable investment in infrastructure development in a way that delivers place-making aspirations without long term dependence on bids for Government grants.

The Fund will provide a single source of finance, deal flow and project management to procure and deliver the housing and infrastructure required for a city's vision of place-making. It will lead the way in developing out the city, ultimately to then set the bar for all future developments. It will employ an end-to-end, fresh approach to procurement, with data driven, challenge-based processes that procure regulatory-compliant solutions and drive industry innovation and sustainability side by side.

Based on current blockwork plans, live data and cash flows for the delivery of c.10,000 homes, commercial property, public realm, industrial and municipal accommodation across multiple sites in Exeter, this business case has performed options appraisals on the most effective way to finance the required infrastructure, land acquisition and preparation. The Fund's success delivers transformational change in urban developments and public sector revenue streams.

The benefits within this Parliamentary period alone are clear. By the end of this Parliamentary period, Government will have set up a municipally controlled, market leading and active development fund set to generate revenue for HM Treasury into perpetuity, delivers net zero cities and sets the benchmark for the UK development market for future Parliaments.

Bridging the gap between sustainable, truly environmentally responsible infrastructure solutions, UK emerging policy on sustainable place-making and investible business models is a constant challenge for governments and the markets. The problems are understood, as are many mitigating interventions, but financing and delivering the solutions at scale remain as-yet unresolved. Therefore, 'effectiveness and success' measurement, for the purposes of the Fund's concept design in this business case, is manifested in addressing the attrition that exists between commerce, place-making, housing targets, sustainability and the UK carbon agenda.

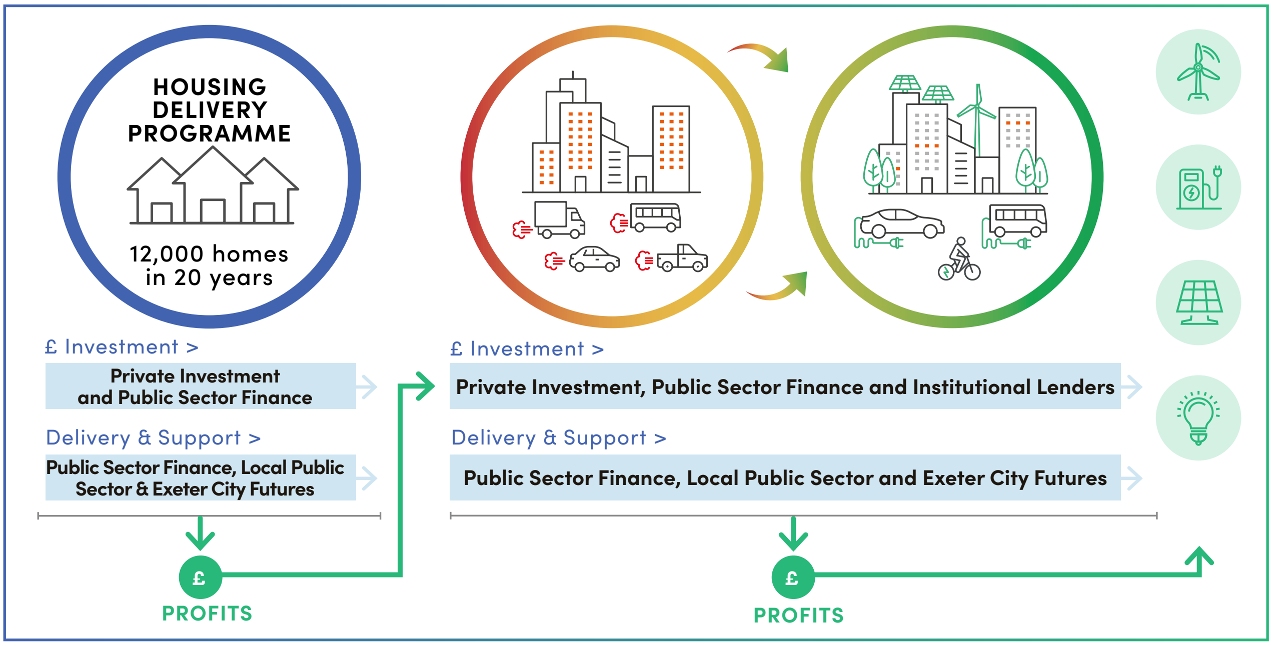


Figure 1.1 • Fund Infographic

This business case seeks a contribution from the public sector of c.31%-of-total-capital to team with the available private sector debt finance, within a Fund structure, in order to deliver on the city's capital program over the next 20 years.

How does it work?

The Fund will initially be capitalised by a mix of central government infrastructure budgets and the city's existing public sector assets.

Traditionally, public sector land assets suitable for development are cherry picked by private sector developers. Any developments are then designed for profit maximisation, and so often do not meet the needs of the city or deliver on place-making, infrastructure, or sustainability. With new homes in such high demand, the current delivery model results in low quality high volume housing.

As demonstrated in Figure 1.2 below, ECF's model seeks to capitalise on the city's wide range of property assets, across various public sector institutions, to control ownership of the financing for sustainable development, and therefore control of the outcomes of these developments. In this way the city can ensure delivery of climate ready, happy and healthy communities, that also generate returns to support public sector services.

The Fund will also ensure that development objectives are informed and guided through community engagement, and in this way all residents are able to influence the new communities delivered.

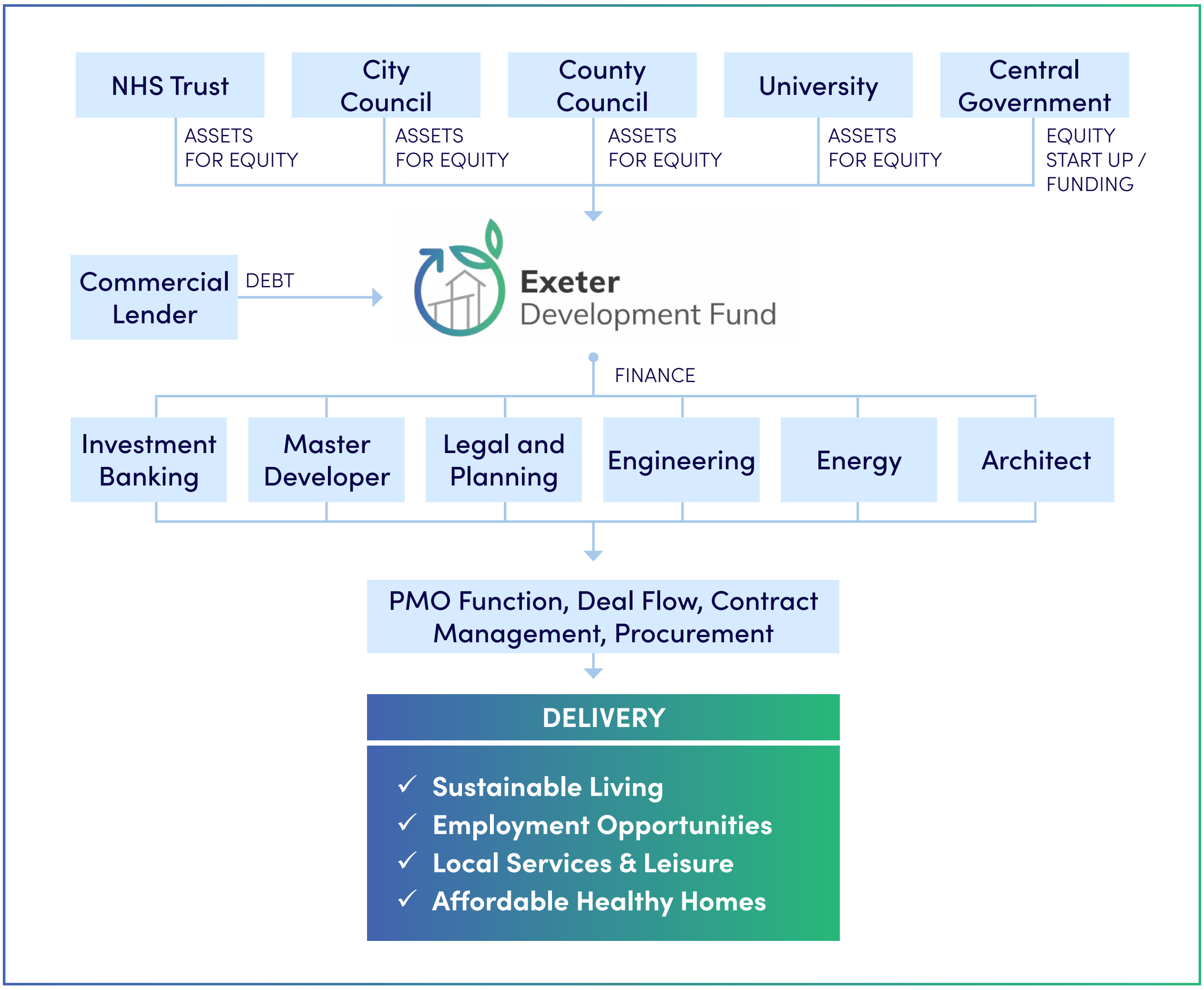


Figure 1.2 • Fund Structure

1.2 The Case for Change

1.2.1 Broader Context

As government develops its Levelling Up Strategy, local authorities have a unique opportunity to contribute and shape the future of the UK in this space through their own local strategic plans. This strategy will be key to ensuring that every part of the UK can prosper and that the government has the right policies to drive productivity and earning power. Embedded within that strategy is the principle idea that cities can hold the key and that they need to transform.

By 2050, 66% of the world's population is expected to be living in cities.

This rate of urbanisation presents many challenges which, left unsolved, will give rise to inequity, pollution and costly, sprawling development patterns. This limits the capability not only of our cities, but the people within them.

1.2.2 Place-making

To stimulate and sustain economic development, a city needs to be a vibrant place with a distinct identity and a heart. It needs to focus on attracting and retaining the most talented individuals by offering a fantastic quality of life in the very best kind of environment.

This place-making goal is essential to create the momentum and investment needed to grow sustainably, inclusively and equitably for citizens. The UK needs to deliver transformational change within its cities and build growth strategies focused on better financing, innovation, responsible planning and better use of data analytics. Many cities' emerging visions for the future recognise this.

1.2.3 The UK's Challenge

Traditional methods for the financing and delivery of housing and urban growth, led by the private sector developer market agendas, are not always sympathetic to the challenges of city plans. Profits made from development typically exit the city cash-flows rather than being available for reinvestment into optimising other infrastructure services. This leakage of value coupled with constraints on public sector capacity and the pace of public financing for infrastructure delivery presents an acute challenge for cities.

Without a significant change in the way they manage growth and development, Exeter and many other UK cities will be compromised in their attempts to deliver into the wider industrial strategy. The level of housing numbers required to meet population and growth targets will arguably lead to an urban sprawl which conflicts with the UK carbon agenda, road network constraints, neighbouring regions space aspirations, energy grid capacity and health and wellbeing.

There is often a lack of shared understanding of the impact of peripheral housing and business growth on the fabric and functioning of the city and its future attractiveness to citizens, academics and businesses. This is one of the key challenges that stand in the way of delivering on the place-making aspirations inherent in the UK's Industrial strategy.

Equally, a challenge remains from a financing perspective. In typical development projects, there exists a fundamental mismatch between the purpose and outcome of short term capital and the long-term agenda of a city. In the rented sector, for example, short term capital is obtained for the build phase of a development program which does not often deliver on the city's long-term aspirations. Then longer-term mortgage finance is brought in after the damage is done.
A comprehensive 'finance first' solution is needed to better serve the overall plan.

1.2.4 Exeter City Context

Exeter was named by the Centre for Cities as the city with the fastest growing population in the UK. The economic region is prospering, with an annual GVA growth of 3.4% for the last 15 years, and the local development framework outlines ambitious plans for growth. Hosting the largest cluster of digital economy activity south west of Bristol, the city's population is among the best trained in the UK.

The city has a high level of educational attainment and several excellent education institutions that include 2 TEF Gold rated educational establishments (University of Exeter and Exeter College) and one of only two specialist maths schools in the UK (Ofsted rated outstanding at first appraisal).

To meet this growth and potential the Greater Exeter region is set to deliver up to 50,000 houses over the next 20 years, 12,000 of which are required within the city itself to promote regional growth and as part of the city's urban densification plans. This will see approximately £10bn of private money and £2bn of public funds invested in the region.

Based on current trends, much of this new housing will be delivered on green field sites around the city, exploiting existing trunk road infrastructure and, unless innovative solutions are found, will bring increased pressure on affordable housing, the transport network, employment and the environment. This can lead to planning blockages and development shrinkage, thus leaving land value trapped.

1.2.5 Exeter's Challenges to Delivering the Vision

Exeter faces huge challenges in respect of its increasing population, expanding university and increasing the magnetism for large scale business investment.

The city strives to be seen as one of the world's most sustainable cities and a fore-runner in innovative transport and place-making. In doing so it has set out a bold vision for the future that aligns with the UK industrial strategy. For 2021, the city has set out three strategic priority areas to be addressed over the next two decades:

- ✓ Healthy active citizens
- ✓ Reduced congestion and enhanced mobility
- ✓ Building better housing and neighbourhoods

To achieve this, huge investment is required into the billions of pounds, on new public mobility solutions, dense unit housing, new energy networks, city centre remodelling and new transport infrastructure that connects jobs to housing in the Greater Exeter region.

The city has one of the slowest peak-time traffic speeds but also a growing and successful uptake in rail, bus and cycling options, with one of the highest walk/cycle-to-work populations.

To deliver growth within the city, a holistic view is needed that approaches development of housing, transport and energy under a shared place-making goal.

1.2.6 Ownership, Control and Strategy: The Private Sector Agenda

The private sector development market is not delivering for Exeter in a way that aligns with the vision for the city in the next two decades.

Understandably, large scale developers tend to select projects based on profitability rather than, say, the Carbon agenda, Health and Wellbeing metrics or social outcomes that benefit the long-term prosperity of the city. Property developers' short term accountability to their shareholders has a greater motivational premium than the accountability to the citizens of the Exeter.

This divergence means that sites that could deliver sustainable place-making aligned with emerging UK policy objectives are typically picked off by developers and designed for profits alone.

The city is at risk of missing an opportunity for real transformation and growth if all developments are left to the private sector without adequate public sector control over outcomes through the right partnership structure. The challenge remains as to how retain more control over the financing and strategy for the city's infrastructure, in order to work with the private sector on outcome-focused projects.

Furthermore, large-scale developers operating in the city can produce profits in the region of 20% on capital spend. Typically, the profit from these developments leaves the city to pay shareholders external to Exeter. This means that large chunks of value uplift are leaving the region and are lost. The challenge for the city is how to ensure more value is retained within the city and delivered on projects with the right quality.

> Exeter City Council's strategic plan is to work with local partners to address the city's strategic housing provision over the next 20 years. A challenge for the city is how to deliver housing within the existing municipal boundaries (involving costly, complex build sites) and build them in a sustainable way.
>
> The Council recognises that the traditional mode of development has over promised and under delivered. Breaking this cycle and delivering to quality standards, whilst raising the funding necessary was a challenge. The current model does not work and, as such a new, sound strategy was needed.
>
> How can Exeter fund a new program to new standards and quality? The public sector in Exeter has previously driven improvements in development values but seen none of the financial benefits.
>
> How could Exeter capture the value uplift and retain this within the public purse? Oxford and Cambridge are examples of big investment from central government, but Exeter has historically missed out as waiting for the whole region to take shape to attract investment will not happen within the short to medium term.
>
> The Fund model concept chimes as a way of delivering the long term vision to meet the city's issues and match with members' aspirations, since the market is not delivering. ECC already has its own development company, which delivers high quality homes in "places" and the Fund concept fits well with this. The Council recognises the need to plug the big viability gap with a credible option for delivery of our homes as communities. The Fund is a viable option, amongst other more traditional interventions, to address that challenge.

Karime Hassan • Exeter City Council Chief Executive and Growth Director

1.2.7 Exeter Strategic Fit

This business case explores the costs, benefits and risks of a replicable, innovative design concept for a collaboratively owned, public sector infrastructure fund at a city region level. To that end, the Fund structure seeks to be shaped to fit any city region. However, its conceptual application to a city region for testing purposes requires a head start. That head start exists in Exeter's own strategic plan for housing over the next 20 years: Liveable Exeter.

This represents a preselected package of priority sites, owned by a mixture of Exeter's public sector institutions and the private sector within the city on which the city has conducted significant design work for the provision of 12,000 homes and communities:

Exeter has a vision for growth as a connected city region consisting of thriving linked communities set within an exceptional environmental setting. This clear vision represents a commitment to strengthen neighbourhoods; create new communities; invest in sustainable transport; and deliver the infrastructure needed to attract investment and improve quality of life.

The realisation of this vision for the city and surrounding region is dependent on the continued success of the city of Exeter. Successful cities ensure the wellbeing and prosperity of their communities and act as a focus to jobs, leisure, culture and shopping. To stay successful, cities must have a clear plan for how they will respond to, and take advantage of, major changes in technology, social expectations and the environment.

Successful cities are people places. 'Business as usual' planning and development processes on their own will not be enough to ensure Exeter can achieve its potential and give all its citizens the chance to live the best possible lives. As the Liveable Exeter programme brings together the strands of the clear vision that the City has for the transformational change that is needed to benefit the people and businesses of the city. These strands include:

- ✓ ***commitment to becoming a carbon neutral city by 2030;***
- ✓ ***becoming an active and accessible city;***
- ✓ ***Exeter's UNESCO City of Literature status and weaving culture into the heart of the city's development and building 12,000 new homes for the city by 2040.***

The Liveable Exeter programme represents nothing less than an ambitious and long-term renewal of the city's fabric to meet people's needs for homes, jobs and services in the 21st century.

Extract from Liveable Exeter Vision

Exeter is also a successful test bed. It is uniquely placed to foster fresh approaches along with promoting and sharing learning. The city already enjoys many of the positives associated with aspirational city living, with healthy commerce and educational centres primed for innovation and investment. Exeter City and the Greater Exeter area attract a wide range of successful developer projects.

Its location, demographic and financial opportunities already demonstrate that developers, businesses and investors recognise the region as having potential that converts. However, as we approach a decision point forced by the growing divide of beneficiaries of that investment, congestion, population, energy and housing pressures, it is clear an alternative model for investment and delivery needs to be explored.

The basic economics of the existing investment and development environment in Exeter mean that the city may be missing out on more quality, improved growth and higher end benefits that a more cohesive development approach would bring. The city recognises this opportunity and is making an intervention now.

1.3 Introduction to Exeter City Futures

Exeter City Futures (ECF) is a joint-venture Community Interest Company between:

- Exeter City Council
- Royal Devon and Exeter NHS Foundation Trust
- Exeter College
- University of Exeter
- Devon County Council
- Global City Futures

ECF has now been tasked with managing the urbanisation challenges of the city and ensure a collaborative governance structure is in place to deliver housing densification, data-driven and digital entrepreneurial platforms and innovative transition in sustainable, renewable transport and energy infrastructure. It is with this mandate that ECF has led this business case.

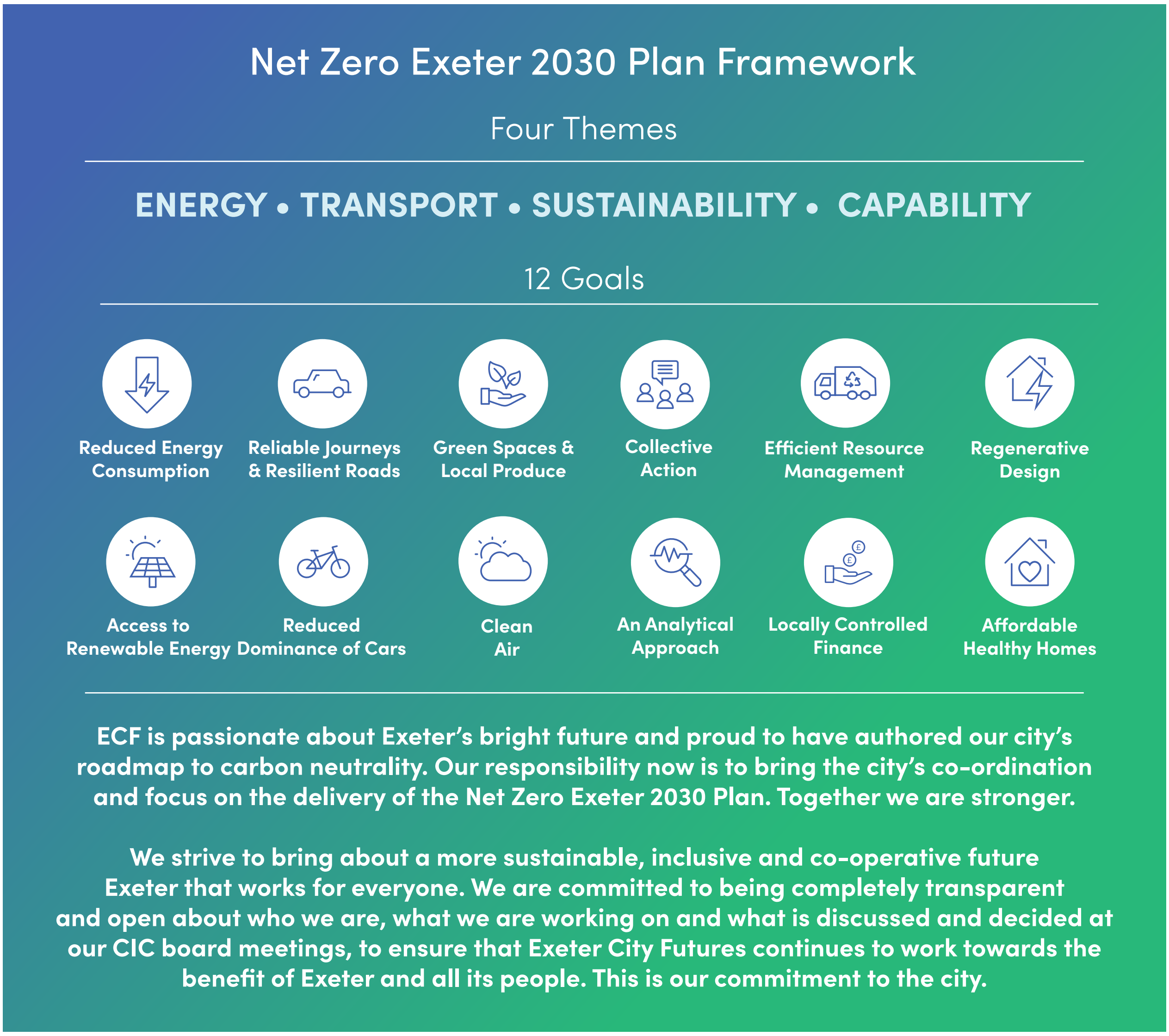


Figure 1.3 • Exeter City Futures Framework

1.4 One Public Estate

1.4.1 Funding Award and Scope of Work

One Public Estate (OPE) has sponsored this business case, following ECF's application for £200k of funding made to OPE in January 2019 on behalf of the ECF board and the city.

The funding was awarded through the OPE partnership agreement with DCC and Torbay. Back-to-back agreements were put in place to draw funding down from DCC, as budget holders, to ECF as work progressed, aligned with quarterly reporting to OPE.

Since funding award, ECF and OPE have formed a working partnership, with regular updates and workshops being carried out to appraise the sponsor team of detailed progress and stakeholder engagement. A list of these sessions and workshops is contained in Appendix 1.A.

The OPE funding was delivered under the following work streams:

Work Stream 1: Real Estate Consultancy

To undertake a high-level development appraisal of each of the 9 Liveable Exeter sites. The purpose of this exercise was to demonstrate the high-level viability of each site and identify the extent of any viability gap. The appraisals also provided the required inputs for the strategic financial model being prepared to demonstrate the overall feasibility of the Fund.

Provision of high-level property data to support the development of a financial model to project the financial position of the Exeter Development Fund and assess its financial feasibility. The data was provided on a city-wide basis with a particular focus on the 9 transformational projects identified in the Liveable Exeter document produced by Exeter City Council.

Work Stream 2: Financial Consultancy

Work Package 1: Funding & Financing Feasibility Study

- Facilitation of workshops to define and qualitatively assess a range of commercial and financial structuring options for the Exeter Development Fund. The options included a range of equity and debt financing structures and consider the relative merits of public sector vs. private sector sources of financing. The workshops were used to short list (2 to 3) structuring options to be taken forward for further quantitative analysis as part of the financial modelling work stream. The option short listing was conducted based on an agreed set of evaluation criteria.

Work Package 2: Financial Model

- Development of a deliverable financial model to project the financial position of the Exeter
- Development Fund and assess its financial feasibility.

Work Package 3: Debt Financing 'Teaser'

- Production of a short teaser pack (5 to 6 slides) to be used to support conversations with potential providers of debt finance to the Exeter Development Fund. This is expected to draw on information and analysis from the Feasibility Study and Financial Model.

Work Stream 3: Business Case and Project Management Consultancy

- Working with Real Estate and Financial consultants to conduct workshops, aggregate data and deliverables. Manage project timelines and sponsor communications.
- Engagement with the lender market to establish a set of financing assumptions with which to govern the debt and equity mix in the Fund, borrowing rates, security implications and conditions.
- Aggregate a full set of assumptions for robustness testing with external advisors.
- Financial structure options appraisal versus a 'business as usual' case.
- Drafting of the Business case/investment prospectus for presentation to government and the investment market, building on the results of the financial modelling and feasibility exercises.

1.4.2 Timetable

The proposed timetable for the completion of Stage 1 Proof of Concept was initially December 2020. However, due to the impact of the Covid pandemic, and the associated delays as a result of homeworking to abide by lockdown restrictions across all the consultant teams, this completion date has been extended to December 2021.

The key milestones in competing this are:

- Work Stream 1 Real Estate Consultancy – August 2020
- Work Stream 2 Financial Consultancy – January 2021
- Work Stream 3: Business Case and Project Management Consultancy – December 2021

1.4.3 OPE Context

The OPE programme is an established national programme delivered in partnership by the Local Government Association (LGA) and the Office of Government Property (OGP) within the Cabinet Office.

1.4.4 How OPE Works

OPE provides practical and technical support and funding to councils to deliver ambitious property-focused programmes in collaboration with central government and other public sector partners.

OPE partnerships across the country have shown the value of working together across the public sector and taking a strategic approach to asset management. At its heart, the programme is about getting more from our collective assets - whether that is catalysing major service transformation such as health and social care integration and benefits reform; unlocking land for new homes and commercial space; or creating new opportunities to save on running costs or generate income. This is encompassed in three core objectives:

- Creating economic growth (new homes and jobs)
- Delivering more integrated, customer-focused services
- Generating efficiencies, through capital receipts and reduced running costs

By 2019-20 the programme is now set to generate 44,000 jobs, releasing land for 25,000 homes, raising £615 million in capital receipts from sales, and cutting running costs by £158 million. In 2017 OPE expanded its partnership to include the Department for Levelling Up, Housing and Communities (DLUHC) new Land Release Fund (LRF), a fund which supports councils to delivery of new homes on their land. Together OPE and LRF will create a wider support package to unlock more surplus public land and property to support housing delivery.

1.4.5 The Essentials

- Asset mapping
- Generating ideas; a shared vision shaping for public sector assets
- Bringing public sector partners together
- Establishing an appropriate partnership with senior buy-in
- Seed funding and ongoing professional support
- Establishing a vision and programme of work for your partnership.

1.4.6 Partnership Support

- Funding
- Regional support from LGA and OGP
- Access across central government
- Sharing OPE best practice and case studies
- Opportunities workshops to develop your programme of work
- Support to change policy to assist local delivery
- Technical support on benchmarking and data.

1.4.7 Alignment of the Exeter Development Fund to Existing OPE Policies & Strategies

Maximising Value in the delivery process: public sector assets and development projects:

The public sector in Exeter has many assets and strategic sites operating in relative silos and, hence, less efficiently than if pooled together. If these assets and sites were brought together under a single development program and fund structure, the aggregate asset pool would create greater financial power and borrowing capacity to deliver larger scale developments at pace and in-house.

The Fund aims to foster a pooled asset approach, based around strong public sector partnerships, which can maximise and optimise returns.

Publicly financed developments are subject to restrictive planning and procurement procedures that deliver projects too slowly to both compete with the private sector agility and deliver the bold targets the Council has set out in its vision to 2040. A more ambitious aggregate approach is needed.

The Fund aims to operate under a pre-agreed set of objectives and frameworks so as to disrupt the market and operate with the agility akin to a private sector investment fund, thereby expediting delivery, economic growth and subsequent capital receipts to partners.

Silo developments tend to result in high top and tail costs. Too much of the development of value in a typical project is lost to financial and legal advisers, refinancing costs mid project and other 'on-costs' associated with the pre-project due diligence within the public sector operating frameworks. This happens repeatedly and on a project by project basis. A pooled approach to the city's developments would reduce top and tail costs and deliver more returns for the city.

The Fund aims to finance and deliver projects through a single aperture and framework, thereby generating efficiencies alongside a more integrated service.

1.5 Project & Investment Objectives, Scope & Timetable

1.5.1 Finance-led Development Solution: Key Principles

Recognising the opportunities inherent in aggregated asset pooling, ambitious framework developments and city-controlled exposure to development risk and reward, and following consultation with ECF board members and the city's leaders, it was agreed that any future finance-led development solution for the city would have the following (and shown in Figure 1.4) key principles that govern its outcomes and objectives:

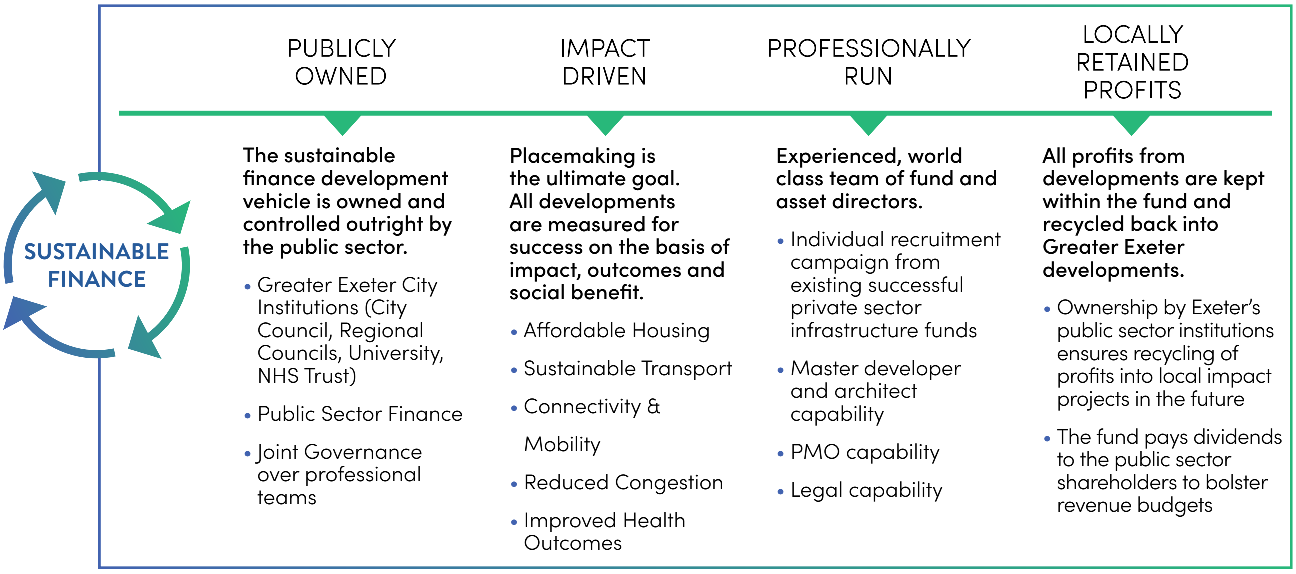


Figure 1.4 • Key Principles

- **Publicly owned;** the solution must ensure that the financing of projects is publicly owned. Only by ensuring overall control in the public sector can the city guarantee the outcomes of developments on a piecemeal basis
- **Professionally run;** the solution must have the right team of experienced directors that have tried and tested success in turning a profit on urban developments. Recognising that this is not the core skill set of many public sector organisations, a recruitment campaign may be necessary and the right team needs to be built.
- **Impact Driven;** having recognised the deficiencies in the current system and in the urban development market, the solution must ensure it carries out developments to an agreed, impact-driven agenda, and one that drives place-making. While some projects have traditional profit making characteristics, others will be purely for social impact, such as cycle pathway infrastructure, walkways, social housing etc.
- **Locally retained profits;** all excess profits from projects are retained in the city and re-invested into the city's ongoing place-making programme.

Recognising this steer from local leaders, the objectives of Fund in this business case have been shaped around these four key principles.

1.5.2 Project Objectives

In light of the challenges inherent in the UK and Exeter's development programme documented in Section 1.2.3 and Section 1.2.5 and in light of OPE's strategic objectives themselves, high-level programme objectives at funding application stage were identified and agreed with stakeholders.

These are set out below:

- ✓ **To develop a replicable financial model that optimises public sector assets for housing and infrastructure.**
- ✓ **A portfolio approach to urban development that brings together public sector partners to maximise economic growth and efficiencies while providing ongoing, tangible stewardship of community assets and facilities.**
- ✓ **Disrupting the market to accelerate the scale and pace of the development of new sustainable communities and desirable neighbourhoods to live and work.**
- ✓ **To enable a built environment that ensures the city's Net Zero objectives.**
- ✓ **Protect public sector land assets from disposal.**
- ✓ **Build market leading development capability within the local public sector.**

1.5.3 Project Scope

Liveable Exeter presents the ideal test bed for the Fund concept, as discussed in Section 1.2.7. These sites, excluding Marsh Barton and Sandy Gate, already have existing block plans as prepared for Exeter City Council ("ECC") by their design consultants, LDA Design Limited. Figure 1.5 shows the location of the nine sites within the city.

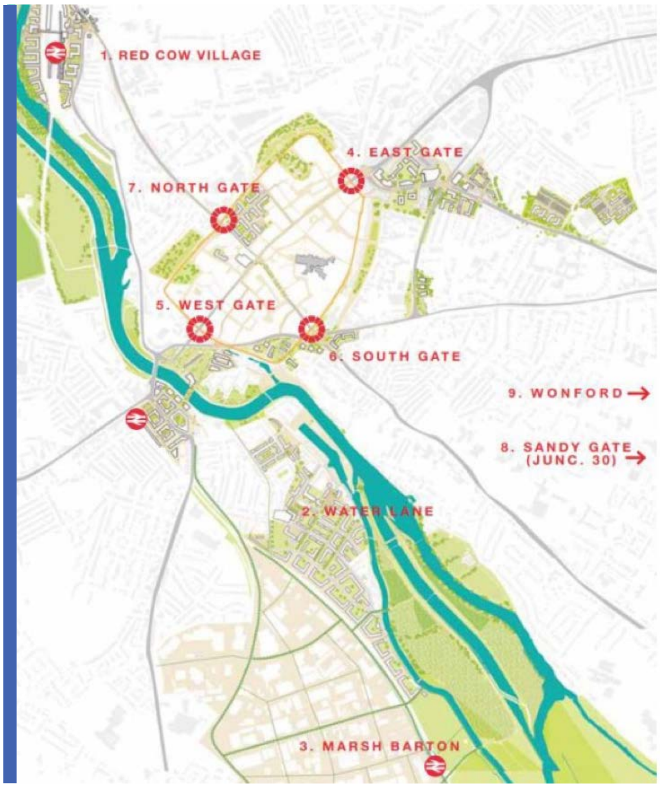


Figure 1.5
Location of nine Liveable Exeter sites

1.5.4 Sites

The Liveable Exeter Programme (see Appendix 1.B), is made up of the following sites included within the scope of this business case.

East Gate

East Gate (Figure 1.6) comprises land and property either side of the Paris Street and Heavitree Road corridors to the east of the City Centre including the former bus & coach station redevelopment site (and perimeter blocks in Sidwell Street and Paris Street) known as 'CityPoint'; the Civic Centre; Eaton House (Guinness Trust) and the 'Pyramids' swimming pool; Clarendon House and the 'Triangle' surface car park (270 spaces); and the former Heavitree police and ambulance stations.

A new 'Passivhaus' multi-level swimming pool leisure complex and a replacement bus station are currently under construction on part of the CityPoint site, and the next phase will incorporate replacement civic offices, which will release the existing Civic Centre and 'Pyramids' swimming pool sites for redevelopment.

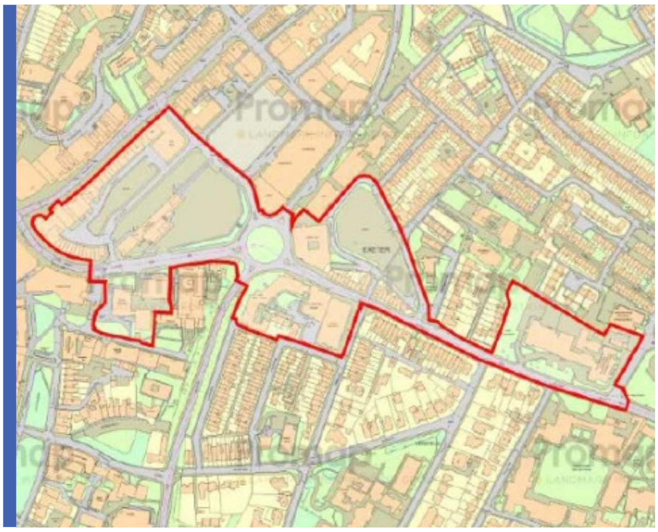


Figure 1.6 • Red line boundary East Gate

Marsh Barton

Marsh Barton (Figure 1.7) is situated two and a half miles to the south of the City Centre and is the largest industrial estate in Exeter which, together with Matford Park, totals approximately 427,350 sq m (4,600,000 sq ft) of floor space.
The estate is popular with trade/quasi retail occupiers and car dealerships.

The intention is for the integration of living and working (where compatible) with place-making to make better use of the riverside location and linkage to the new railway station.

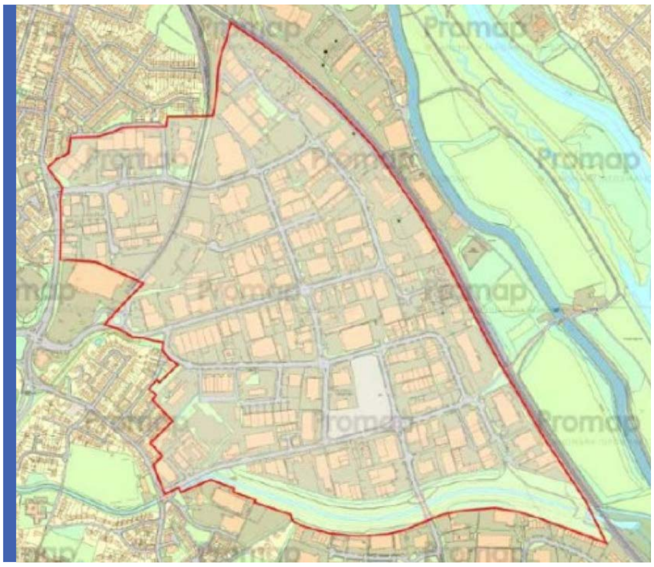


Figure 1.7 • Red line boundary Marsh Barton

North Gate

North Gate (Figure 1.8) comprises the existing Harlequins and Guildhall shopping centres either side of Paul Street (and with frontage to Queen Street to the west); the retail parades on both sides of North Street; the Mary Arches Street multi-storey car park and retail blocks on the south side of Bartholomew Street East (with primary frontage to Mitre Lane); and, the Mary Arches Street surface car park and adjoining Mecca bingo hall. It excludes the former BHS department store, Paternoster House and other High Street frontages.

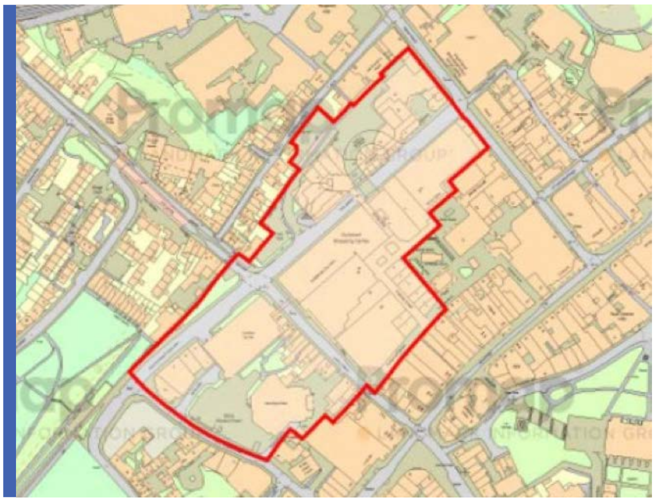


Figure 1.8 • Red line boundary North Gate

South Gate

South Gate (Figure 1.9) comprises two sites: the Magdalen Road surface car park (213 spaces) with frontage to Western Way (and the adjoining Magdalen Road / Western Way junction) to the east, and the Magdalen Street, Holloway Street, South Street and Western Way intersection to the west and adjoining land including the Magdalen Street surface car park (100 spaces), the Cathedral & Quay multi-storey car park (355 spaces) and various residential and commercial blocks and areas of open space on its north, south and west edges.

Figure 1.9 • Red line boundary South Gate

Wonford Village

Wonford (Figure 1.10) is a residential suburb in the south-east of Exeter between Topsham Road and Heavitree and between the Royal Devon & Exeter hospital complex and the Ludwell Valley Park, and mostly characterised by low value post war Council and social housing developments.

The proposed neighbourhood includes land on the south side of Burnthouse Lane including areas of existing Council housing (poor quality single and three storey terraced units); the Wonford Sports Centre and associated car parking areas; and, the more recent Wonford Green Surgery.

Figure 1.10 • Red line boundary Wonford Village

West Gate

West Gate (Figure 1.11) comprises land on the north and south sides of the Exe Bridges junction and river crossing west of the City Centre and includes British Telecom's Exeter office HQ (Exbridge House) with frontage to Western Way; the Exe Bridges Retail Park and Riverside Leisure Centre on land between the railway line and A377 Alphington Street; and, a terrace of 5 houses forming a cul-de-sac known as Shooting Marsh Stile on the south side of the river.

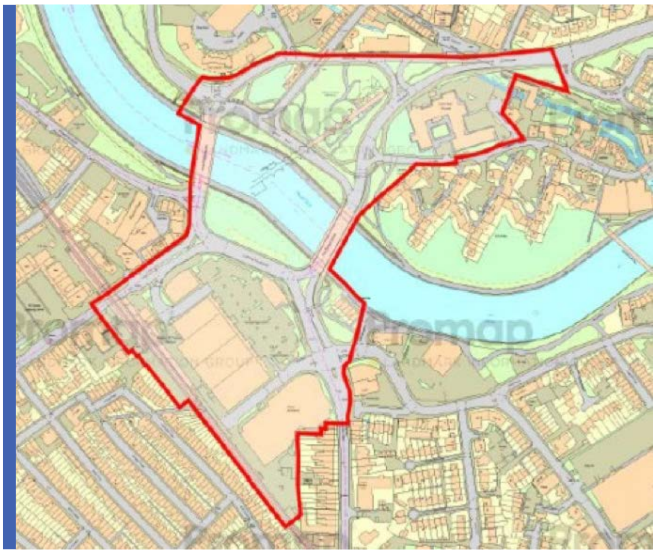


Figure 1.11 • Red line boundary West Gate

Water Lane

Water Lane (Figure 1.12) is situated one mile to the south of the city centre.

The site is accessed from the north over Exe Bridges and lies adjacent to the River Exe and Canal.

Most of the site comprises a mix of residential, commercial and industrial uses, includes a former gas works and undeveloped land to the south.

Land ownership is fragmented with significant owners including Transco, National Grid, Western Power, Exeter City Council and Aviva (Haven Banks Retail Park) – the latter comprising a terrace of three retail warehouse units (currently partly vacant) with a surface car park providing 219 spaces.

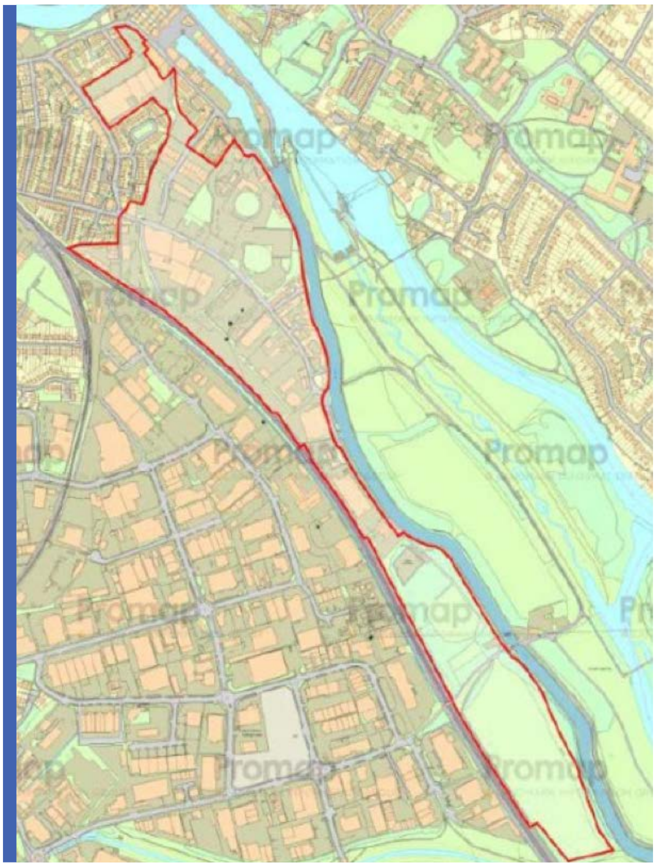


Figure 1.12 • Red line boundary Water Lane

Red Cow Village (St David's Gateway)

Red Cow Village (Figure 1.13) is situated one mile to the north-west of the city centre.

The site lies adjacent to Exeter St David's, which is the principal railway station serving the city with routes to London Paddington on the main GWR line through Bristol that continues to Plymouth and Penzance.

The site comprises several surface car parks providing approximately 435 spaces; University of Exeter student accommodation; a parade of retail units; the Great Western Hotel and various rail-side industrial uses. Principal land owners are Network Rail and the University of Exeter.

Figure 1.13 • Red line boundary Red Cow Village (St David's Gate)

Sandy Gate

The proposed Sandy Gate neighbourhood (Figure 1.14) comprises 30 hectares of land situated between the M5 motorway and the Exeter to Exmouth branch line at Sowton, north-east of Junction 30 and either side of the Sidmouth Road main arterial route into the City from the east.

Also included is a separate 6.4-hectare site on the south side of the A379 between the Exeter to Exmouth branch line and Sandy Park (Exeter Chiefs Stadium and David Lloyd leisure complex).

The two areas are separated by Redrow's 'Bishops Court' housing development of 190 three- and four-bedroom homes. A pedestrian bridge over the A379 connects this development to Sandy Park.

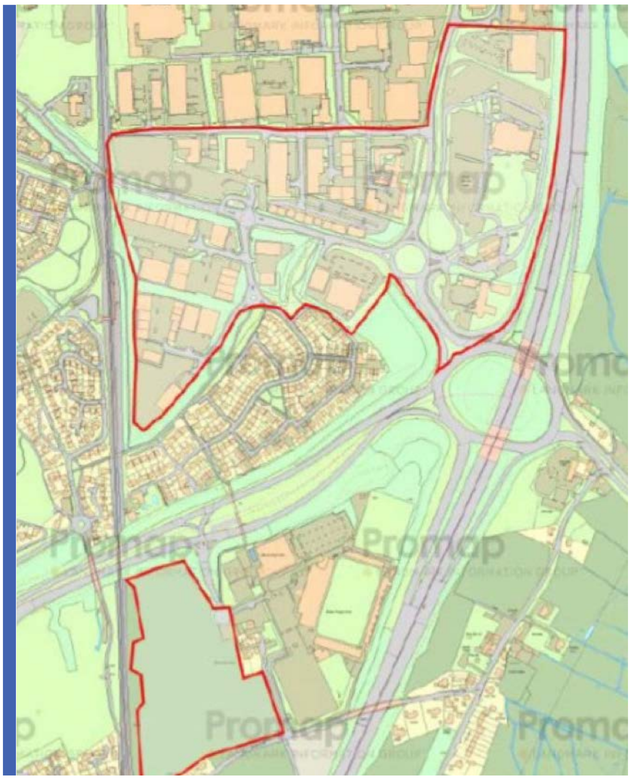


Figure 1.14 • Red line boundary Sandy Gate

1.5.5 Project Objectives: SMART Goals

Following funding award, project initiation and stakeholder review, the Project Objectives and associated SMART goals on which this business case hangs have been refined from those prepared at grant application stage.

Project objectives were refined in consultation with OPE at progress meetings throughout this stage of work. Further input was sought from ECC and the objectives, along with SMART goals, were reviewed in draft by the Project Director of Liveable Exeter and ECC representative for the project at a workshop on the 27 May 2021. Specific inclusions and commentary were added at this stage to incorporate all feedback received and refine the objectives for final approval from OPE.

Final SMART objectives were shared with key stakeholders, and a team of suitable qualified colleagues from other OPE departments on the 25 June 2021.

The objectives have been used to develop benefits as far as is possible at this stage, and critical success factors, which have been used in the sifting process for the longlist options (see Section 2.4 in the Economic Case).

	Project Objectives	SMART Goals
1	To develop a replicable financial model that optimises public sector assets for housing and infrastructure.	Deliver to OPE, by September 2021, a replicable model that optimises public sector assets and could be used by other public sector bodies to consolidate assets for development.
2	A portfolio approach to urban development that brings together public sector partners to maximise economic growth and efficiencies while providing ongoing, tangible stewardship of community assets and facilities.	The model will: consolidate assets to reduce project top and tail costs against traditional delivery models, recirculate finance to reduce borrowing requirements against a piecemeal delivery approach, offer an ongoing revenue stream in exchange for equity in the fund which is significantly higher than the benefit received via business as usual.
3	Disrupting the market to accelerate the scale and pace of the development of new sustainable communities and desirable neighbourhoods to live and work.	Provide a holistic vehicle to enable mixed use developments that meet housing and infrastructure needs of the city in a timely fashion, and the aspirations of the project partners in regard to quality, delivery timescales and sustainability goals.
4	To enable a built environment that ensures the city's Net Zero objectives.	Must actively contribute to reducing existing carbon emissions through design and functionality based on current best practice, research and guidance. Will not create a future burden of retrofit or subsequent redevelopment to meet net zero goals.
5	Protects public sector land assets from disposal.	To offer a viable alternative to the sale of public sector assets based on both financial benefits and societal benefits that enable improved outcomes for communities.
6	Build market leading development capability within the local public sector.	To position the local public sector as the leading developer in the city by 2025.

Table 1.1 • Project Objectives and SMART Goals

1.6 Aligning the Business Case & Fund Objectives with UK Policy

UK policy for the development of housing, infrastructure, and places is undergoing substantial and lasting change. More than 200 local authorities and many more other public sector institutions have declared a climate emergency and the UK government is committed to a carbon neutral future. This is set against the backdrop of the deficiencies already noted in Section 1.1 in respect of the UK development market and the local public sector's own infrastructure delivery challenges.

The response to this has been overwhelming in respect of policy announcements from key departments and officials at the top of government. These policy announcements are set to shape the future of how infrastructure is delivered and how UK citizens interact with modes of travel, their places of work and domestic buildings.

In light of this, a key feature of this business case is to ensure that the objectives of the Fund align with emerging UK policy for mobility, levelling up, affordable homes, carbon neutrality, and place-making.

1.6.1 The Queens Speech 2021

As the nation emerged from the Covid crisis the Queen's speech, delivered on the 11 of May 2021, focuses on recovery and the ambition of Government to supercharge the economy through a series of initiatives and legislative changes. The key focus for these being:

- Building Back Better: Jobs and Economic Recovery
- Building Back Safer: Protecting the UK and Individuals
- Building Back Fairer: Improving and Increasing Opportunity
- Building Back Greener: Building a Cleaner and Greener UK
- Building Back Stronger: Strengthening the Union and the Constitution

The following is a summary of the relevant Sections of Her Majesty's speech, and how the Exeter Development Funds supports these objectives.

Planning Bill

"Laws to modernise the planning system will be brought forward, so that more homes can be built."

Main elements of the Bill:

- Changing local plans so that they provide more certainty over the type, scale and design of development permitted on different categories of land.
- Significantly decrease the time it takes for developments to go through the planning system.
- Replacing the existing systems for funding affordable housing and infrastructure from development with a new, more predictable and more transparent levy.
- Reforming the framework for locally led development corporations to ensure local areas have access to appropriate delivery vehicles to support growth and regeneration

How the Exeter Development Fund meets these objectives:

- Enables the local control over developments to meet the requirements of individual communities.
- Ensures the upfront provision of the infrastructure critical to supporting the high-quality homes and places that communities need. It is vital that new occupants of homes and wider communities get the infrastructure they need, historically an area where sufficient funding is lacking and as such communities are drastically under served.
- Enables the city to build and ensure there is a mix of high-quality mixed tenure homes that are available and affordable to people that need them.
- Being locally controlled, the Fund enhances public participation and engagement to ensure that all residents can have a say over developments and are a fundamental part of the local decision-making process.

Environment Bill

"My Government will invest in new green industries to create jobs, while protecting the environment... Legislation will set binding environmental targets."

Main elements of the Bill:

- Placing a duty on Ministers to ensure environmental considerations are central to policy development; setting legally-binding targets; producing a long-term environmental improvement plan; and setting up the independent Office for Environmental Protection.
- Extended producer responsibility, product labelling powers, introducing a consistent approach to recycling across local authorities in England, introducing a deposit return scheme for drinks containers, providing for more effective litter enforcement and provide the powers to introduce charges for single use plastic items.
- Improving air quality.
- Managing water sustainably.
- Protecting nature by mandating 'biodiversity net gain' in the planning system and through Local Nature Recovery Strategies.
- Putting forward amendments to reduce the harm from storm overflows to our rivers, waterways and coastlines and new duties on the Government to publish a plan to reduce sewage discharges from storm overflows.

How the Exeter Development Fund meets these objectives:

- Designed to ensure the built environment provides homes, businesses and transport that are future proof and meet or exceed the requirement for Net Zero Carbon.
- Provides the scale with which to tackle ongoing issues with air quality in our cities by removing the drivers that adversely affect local pollution levels and, in turn, adverse health outcomes for residents.
- Ensures that any developments meet the required standard and will not become a retrofit cost obligation in future years.

Procurement Bill

"Laws will simplify procurement in the public sector."

Main elements of the Bill:

- Enshrining in law the principles of public procurement such as: value for money, public benefit, transparency, integrity, fair treatment of suppliers and non-discrimination.

- Overhauling the complex and inflexible procurement procedures and replacing them with three simple, modern procedures. This will allow the public sector more scope to negotiate with potential suppliers to deliver innovative new solutions.
- Requiring buyers to have regard to the Government's strategic priorities for public procurement as set out in a new National Procurement Policy Statement.
- Introducing procurement processes that allow contracting authorities to buy at pace, for serious situations that are declared a crisis, with strengthened safeguards for transparency.
- Establishing a single data platform for supplier registration that ensures suppliers only have to submit their data once to qualify for any public sector procurement.

How the Exeter Development Fund meets these objectives:

- By ensuring all procurement is managed through the vehicle of the Fund it ensures that social value within the procurement process is effectively managed and can be consolidated across suppliers to obtain far greater value.
- A centralised, agile procurement process enables the Fund to reduce the costs and delays traditionally associated with procurement.
- Through the agreed defined principles of the Fund it will be paramount to support local businesses, SME's and innovators. The scale of the fund enables a move away from the more traditional procurement approach which focuses on contract value and experience, and can be flexible on trialling start ups and smaller suppliers who often lose out in a traditional procurement process.

1.6.2 Levelling Up White Paper

The Government announced its intention in the Queen's Speech to introduce a Levelling Up White Paper later in 2021.

The White Paper will build on actions the Government is already taking to level up across the UK and will set out "bold new policy interventions to improve livelihoods and opportunities in all parts of the UK".

The Levelling Up White Paper presents an opportunity to reset the relationship between central and local government and put councils at the heart of delivering the Government's ambitious programme to improve opportunities in all parts of the country.

The main elements of the proposals around levelling up are:

- The Government will bring forward a Levelling Up White Paper later this year, building on actions the Government is already taking to level up across the UK.
- This will set out bold new policy interventions to improve livelihoods and opportunities in all parts of the UK. It looks to improve living standards, grow the private sector, improve health, education and policing, strengthen communities and local leadership and restoring pride in place.
- It defines levelling up in terms of creating good jobs, skills and productivity in places that have seen economic decline and enabling more people to grasp the opportunities of Brexit and get on in life without feeling they have to leave their local area.

How the Exeter Development Fund meets these objectives:

- Meets the objectives of improving living standards, growing the private sector, improving health, strengthening communities and local leaderships and restoring pride in place.
- The scale and ambition of the Fund bring resources closer to communities and as such it will provide a legacy of benefits to the residents of Exeter and the surrounding areas, attracting talent and maximising economic growth for the area.

1.6.3 Climate Change, Net Zero and COP26

The UK was the first major economy to enshrine a net zero target in law, legislating to end its contribution to climate change by 2050. Ambitious policy action has already seen the UK achieve record clean growth in the last three decades and a series of further policy announcements are due to increase progress towards the UK's Net Zero 2050 goal.

The main elements are:

- Legislation to set Carbon Budget six at the level recommended by the Climate Change Committee.
- A Ten Point Plan for a green industrial revolution which will mobilise £12 billion of investment and create thousands of highly-skilled green jobs.
- The Energy White Paper which sets out the transformation of the UK's energy system.
- The Industrial Decarbonisation Strategy which sets out an ambitious blueprint to deliver the world's first low-carbon industrial sector.
- Forthcoming sector strategies, including Heat and Buildings, the Transport Decarbonisation Plan, and the comprehensive Net Zero Strategy.
- The UK hosting the COP26 negotiations in November.

How the Exeter Development Fund meets these objectives:

- The Fund ensures a step-change in the built environment. It ensures that all development is designed and built to meet the ambitions of Net Zero and will not become a retrofit burden in the future.
- Net zero can only be achieved through a fundamental change in our built environment to ensure we build net zero homes and businesses, minimise the need to travel, provide high quality active travel networks and create vibrant inclusive communities.

1.6.4 Alignment with Central Government objectives

Build Back Better: HM Treasury Plan for Growth

> "The last few decades have seen increased prosperity in London and the South East, but without commensurate improvements in the rest of the UK. The primary objective of this government is to change that, ensuring no region is left behind as we achieve greater economic prosperity.
>
> Our cities will be the engines for this growth, and our long-term vision is for every region and nation to have at least one internationally competitive city, driving the prosperity of the surrounding region and propelling forward the national economy. Our towns are crucial too - we will ensure that they are places that people are proud to live and raise their families, with good schools, vibrant high streets, and access to jobs that give everyone a fair chance to achieve their full potential.
>
> Our plan to build back better takes a transformational approach, tackling long-term problems to deliver growth that creates high-quality jobs across the UK and makes the most of the strengths of the Union. We must retain our guiding focus on achieving the people's priorities: levelling up the whole of the UK, supporting our transition to net zero, and supporting our vision for Global Britain."

Build Back Better: HM Treasury Plan for Growth

There are three core pillars of growth that form the HM Treasury plan for growth. These relate to the Exeter Development Fund as follows:

Infrastructure

> **"Support investment through the new UK Infrastructure Bank which will 'crowd-in' private investment to accelerate our progress to net zero, helping to level up the UK. This will invest in local authority and private sector infrastructure projects, as well as providing an advisory function to help with the development and delivery of projects."**

The Fund is an exemplar example of how significant investment in infrastructure on this scale can deliver truly transformational place-making, accelerate progress to net zero and deliver on local economic growth and prosperity.

Skills

> **"Support productivity growth through high-quality skills and training: transforming Further Education through additional investment and reforming technical education to align the post-16 technical education system with employer demand.**
>
> **Introduce the Lifetime Skills Guarantee to enable lifelong learning through free fully funded Level 3 courses, rolling out employer-led skills bootcamps, and introducing the Lifelong Loan Entitlement.**
>
> **Continue to focus on the quality of apprenticeships and take steps to improve the apprenticeship system for employers, through enabling the transfer of unspent levy funds and allowing employers to front load apprenticeship training."**

The scale of the Fund and its existing partnerships with further education providers (University of Exeter and Exeter College) mean it is ideally positioned to provide the opportunities for the development of the highly skilled candidates required to meet the delivery demands over the lifetime of the project.

The Fund creates new markets and economies in development, modern methods of construction, green tech and the future of planning, all within the Exeter region. This market creation will offer large numbers of high-quality apprenticeships and skilled employment roles necessary for delivery of the project. This will ensure that Exeter and the surrounding region sees the benefits of upskilling, high opportunities for employment and the subsequent economic benefits brought through the provision of these higher paid and higher skilled roles.

Innovation

> **"Support and incentivise the development of the creative ideas and technologies that will shape the UK's future high-growth, sustainable and secure economy.**
>
> **Support access to finance to help unleash innovation, including through reforms to address disincentives for pension funds to invest in high-growth companies, continued government support for start ups and scale ups through programmes such as British Patient Capital, and a new £375 million Future Fund: Breakthrough product to address the scale up gap for our most innovative businesses.**
>
> **Develop the regulatory system in a way that supports innovation.**
>
> **Attract the brightest and best people, boosting growth and driving the international competitiveness of the UK's high-growth, innovative businesses.**

> Support our small and medium-sized enterprises (SMEs) to grow through two new schemes to boost productivity: Help to Grow: Management, a new management training offer, and Help to Grow: Digital, a new scheme to help 100,000 SMEs save time and money by adopting productivity-enhancing software, transforming the way they do business."

The Fund is an innovative flagship financing model, designed to be replicable and cascade support for innovation throughout its supply chain and delivery partnerships. The scale of the Fund is such that it can enable businesses to flourish that historically find it difficult to enter the market through a more traditional procurement approach.

The Fund will work with SMEs and startups to ensure that support is made available in a "living lab" environment to fully explore the boundaries of the possible, with an understanding that accepts a level of failure as the risk associated with the rewards of true innovation.

1.6.5 The Ten Point Plan for a Green Industrial Revolution: Department for Business, Energy & Industrial Strategy

> "As the world looks to recover from the impact of coronavirus on our lives, livelihoods and economies, we have the chance to build back better: to invest in making the UK a global leader in green technologies.
>
> If we apply the same zeal and ingenuity to stopping climate change as we have to tackling coronavirus, we can do so while transforming our economy, delivering jobs and growth across the country.
>
> Our Ten Point Plan sets the firm foundations to do just that. The plan brings together ambitious policies and significant new public investment, while seeking to mobilise private investment."

BEIS Ten Point Plan for a Green Industrial Revolution

	BEIS Ten Point Plan for a Green Industrial Revolution	Ambition Supported by The Fund
Point 1	Advancing offshore wind	x
Point 2	Driving the growth of low carbon hydrogen	x
Point 3	Delivering new and advanced nuclear power	x
Point 4	Accelerating the shift to zero emission vehicles	✓
Point 5	Green public transport, cycling and walking	✓
Point 6	Jet zero and green ships	x
Point 7	Greener building	✓
Point 8	Investing in carbon capture, usage and storage	x
Point 9	Protecting our natural environment	✓
Point 10	Green finance and innovation	✓

Table 1.2 • BEIS Ten Point Plan

Point 4: Accelerating the shift to zero emission vehicles

The Fund's development principles will mean that there will be a default assumption of no private vehicle parking and car free neighbourhoods. This space will be dedicated to public realm and active travel infrastructure.

E-mobility solutions will be in the form of electric car clubs, already widely recognised and used in Exeter. This shifts the momentum of change by removing the obligation of decision making away from private car owners. By offering a cost effective, zero emissions mobility solution included within their community it presents the solution as an integral part of the housing provision.

Point 5: Green public transport, cycling and walking

As development under the Fund structure will all be on under-utilised brownfield land, within the city boundaries its vital to incorporate the infrastructure and facilities that are now widely recognised as paramount to increasing the uptake of active travel.

By ensuring this is delivered at scale and strategically, as opposed to being delivered piecemeal, we can prioritise these modes of transport, ensure even the most vulnerable in society feel safe and confident to participate.

When active travel is the first choice for short journeys everyone benefits. There has been a wealth of research that show the benefits of active travel to mental and physical health, increases in community participation and feelings of belonging, improved wellbeing, improvements in air quality and even increases to individual productivity.

Point 7: Greener building

As Exeter City Council have declared a climate emergency and have set the target at net zero by 2030, it is vital to ensure that all new developments in the city are designed to support this aspiration and actively contribute to eliminating carbon emissions.

We know the necessity of meeting net zero, and this can only be achieved through a radical change in our built environment. The Fund places this requirement front and centre of its development principles and ensure that the focus on longer term energy efficiency and societal benefits won't be over promised and under delivered, as we currently see with existing large scale development models.

The Fund's development principles ensure that it only builds high quality homes and businesses that focus primarily on energy efficiency and occupancy comfort all year round. This ensures that energy usage for heating is minimal, if required at all. ECC has already been delivery Passivhaus social housing through its wholly owned development company Exeter City Living (see https://exetercityliving.co.uk/).

By reducing the energy consumption of residential properties, we also reduce the burden of fuel poverty on the most vulnerable in society. This is often a major factor in family and personal debt and homelessness, which leads to societal inequality, poor health outcomes and deprivation.

Urban densification, as proposed by the Fund, locates new communities in areas where better use can be made of existing infrastructure and services. This reduces the pressure on local authorities to provide additional facilities and helps ensure that maximum value is derived from those already in operation.

Point 9: Protecting our natural environment

As the pressure for new housing increases in the UK we see significant numbers of greenfield developments and urban sprawl around our cities. Although this creates much needed housing stock, it erodes natural habitat and existing farmland and can result in a hollowing out of city centres as high streets struggle post Covid.

Although brownfield developments are traditionally less viable, due to land preparation and decontamination costs, they can provide the key to creating truly sustainable communities. By redeveloping these under used sites we can repurpose land in a way that creates a host of benefits for the communities they serve.

This can have a direct effect by removing contaminants and pollutants that may remain as a result of past uses but also restoring or removing deteriorating buildings all of which can pose a health and safety risk to those who live and work nearby.

The redevelopment of brownfield sites also provides the opportunity to revive older urban communities and the surrounding areas through the redesign and enhancement of the urban landscape. This can also support the wider regeneration of city by creating economic growth and improving the desirability of specific areas, without encroaching on existing areas of natural capital.

Fundamental to this though is to ensure that the redevelopment doesn't create a legacy burden for the future to meet local and national net zero carbon targets and the challenges we already face from climate change in areas like flooding and significant seasonal temperature variations.

Point 10: Green finance and innovation

Solving the UK housing and climate crisis requires a finance first approach. Unless the funding is available to support identified interventions, they are highly unlikely to be delivered within required timeframes, if at all.

Clearly reliance on governments grants and existing funding sources provides vital support here, but this is not a sustainable long-term solution that can be provided to all the areas that need it, and on an ongoing basis.

Innovation in the source of the funding is vital to create a structure that can perpetuate, deliver for the longer term and be replicable to support areas to deliver for themselves the changes they have identified.

1.6.6 Department for Levelling Up, Housing and Communities (DLUHC) Priority Outcomes

The Department for Levelling Up, Housing and Communities (DLUHC) published its Outcome Delivery Plan: 2021 to 2022 on the 15 July 2021. This superseded the previous 2019 MHCLG objectives. Review and analysis of these of these can be found in Appendix 1.C.

This Section provides a comprehensive review of the alignment of the Fund's outcomes and objectives with DLUHC's priority outcomes.

	DLUHC Priority Outcomes	Ambition Supported by The Fund
1	Raise productivity and empower places so that everyone across the country can benefit from levelling up (cross-cutting outcome with BEIS, DfE, DfT, DWP, DCMS, Defra and DIT as contributing departments)	✓
2	More, better quality, safer, greener and more affordable homes	✓
3	End rough sleeping through more effective prevention and crisis intervention services, and reduce homelessness by enabling local authorities to fully meet their statutory duties (cross-cutting outcome with DfE, DHSC, DWP, HO and MoJ as contributing departments)	✓
4	A sustainable and resilient local government sector that delivers priority services and empowers communities	✓

Table 1.3 • DHULC Priority Outcomes

How the Exeter Development Fund meets these objectives:

1. Raise productivity and empower places so that everyone across the country can benefit from levelling up (cross-cutting outcome with BEIS, DfE, DfT, DWP, DCMS, Defra and DIT as contributing departments)

The Fund aims to drive economic recovery and growth through delivering a pipeline of mixed-use communities, all firmly under the stewardship of the public sector. These new communities will be delivered at pace, and cross cutting multiple government departments, with the ambition to provide an exemplar, holistic delivery model, with the necessary social infrastructure baked in as a fundamental element of design.

The delivery of these high-quality developments will require support from multiple government departments but will ensure a 'Better Exeter Dividend' is generated that raises overall productivity and empowers local businesses, communities as well as benefiting the wider economic area.

Delivering good quality and safe social homes with the right services from landlords is paramount to levelling up communities and tackling social exclusion. The Fund aims to provide an exemplar standard of housing, ensuring residents feel valued and take pride in their homes and communities.

Cities need to take action to address unfair segregation and promote integrated and socially cohesive communities. As an example of how this could work in practice, affordable housing delivered under the Fund structure is not segregated from, or of a lower standard, than that delivered for market rent.

Through combined and targeted government support we raise the profile of Exeter and the surrounding area, as a vibrant, inclusive and sustainable place to live and work.

Currently Exeter retains fewer university graduates than typically seen in other areas with world class university providers.

By demonstrating the commitment to delivering the aspirational work, live & leisure requirements we know graduate seek once leaving university we can ensure Exeter retains and benefits from those it currently supports in their learning, further enhancing economic productivity.

2. More, better quality, safer, greener and more affordable homes

Creating additional high quality housing stock is vital to all areas of the UK. Although the private sector is able to deliver significant volumes of houses, these often do not meet the needs and aspirations of local areas.

The demand for good quality, low-cost affordable housing is often not a priority objective for developers, and development sites are predominantly selected for profit rather than to enhance existing or create new communities, or to maximise societal benefits.

This gives cities the challenge of supporting local authorities and the wider public sector to deliver housing in a way that meets local objectives and provides housing for the benefit of residents and society, instead of for short term developer profits.

The Fund aims to deliver significant volumes of houses, at private sector pace, but ensuring these meet aspirational standards and not just minimum legal requirements. Through a focus on longer term societal benefit realised through exemplar design, net zero sustainability objectives and high-quality construction, the Fund ensures delivery of desirable housing that also delivers on local and national objectives.

In addition to this, by decoupling profits, bonuses and individual reward from the process of development, as we see in the Fund structure, the motivation to reduce costs at the expense of safety, quality and services is removed. The design principles of the Fund will ensure that safety and sustainability are paramount.

It is vital to establish design principles and guidance for new homes and places that puts communities and community involvement at their heart, with a focus on creating inclusive and accessible places and quality design.

3. End rough sleeping through more effective prevention and crisis intervention services, and reduce homelessness by enabling local authorities to fully meet their statutory duties.

Figures released by the Government suggest Exeter is among the top 25 places in England with the highest numbers of homeless people on its streets. DLUHC have published statistics which detail the number of rough sleepers in local authority areas on a single night in autumn in 2019.

Homelessness is a complex issue that requires a multifaceted approach to tackle it. A report published by Crisis in 2018, which can be found in Appendix 1.D details that the most effective way to tackle homelessness is to stop it happening in the first place through faster intervention and an increase in the supply of social housing. Preventing homelessness is not only more cost effective – but more importantly, it is the right thing to do.

To support this, we need to ensure increased delivery of mainstream accommodation in ordinary communities in the form of social housing. The report found that this equates to 100,500 new social homes nationally each year for the next 15 years to meet the needs of homeless people and people on low incomes – including those at risk of homelessness.

We also need to reduce the pressure on peoples lives caused by high housing costs be providing economically viable rental options, which protect individuals and families from issues like fuel poverty.

The principles of the Fund support these crucial findings by delivery high volumes of social housing, which are built to standards widely recognised to not burden residents with increased living costs.

By increasing the stock of social housing, we can ensure those at risk of homelessness can quickly be moved to suitable and permanent accommodation, but also ensuring that the Fund, acting as landlord, is able to provide the compassionate and high quality service needed to ensure residents are supported to stay in the accommodation provided.

4. A sustainable and resilient local government sector that delivers priority services and empowers communities

Community engagement is a vital part of the work to develop the Fund. It is through the voices of residents we can effectively provide the high-quality housing and associated infrastructure and services that are required in any local area.

As the Fund will take best practice from across all housing provider services, and will be professionally run and outcomes focused, it is possible to ensure that residents have a say in how developments are designed, and services are delivered to shape the structures required to fully support residents in their new homes.

It is widely recognised that development and regeneration can aid economic growth through provision of improved employment opportunities and also bring in income via local business rates. This is the aim of the Government's Towns Fund programme, although its impact is limited to those areas successful in receipt of this funding. The Fund aims to optimise public sector assets to provide a secure ongoing revenue stream to support vital public services, alongside the provision of sustainable new mixed-use communities.

Changes seen as a direct result of the pandemic to work patterns and retail habits can also be capitalised on by freeing up prime town centre land currently given over to car parking. Bold action is needed to reduce the dominance of cars in our cities, and by repurposing this land councils can benefit from not only the revenue because of the development, but the other wider societal benefits like improved air quality and an increase in more sustainable forms of travel.

We've now seen what can be possible regarding a change in the way we live and work, and the contribution that can be made towards reducing carbon emissions through reducing travel. Now is the ideal time to encourage and build on these changes, while creating a resilient funding stream to support services for the public sector in the future.

1.6.7 DLUHC: Building Beautiful Places

The former Secretary of State of the then Ministry of Housing, Communities & Local Government (2019 - 2021), Rt Hon Robert Jenrick MP, has recently announced a range of measures that, taken together, will revolutionise the planning industry to enshrine quality, beauty and sustainability in the heart of local decision-making across the country from city centres to rural villages. They will help promote community spirit, improve physical and mental wellbeing and help the environment.

The measures will improve communities' infrastructure, champion neighbourhood design and support walking and cycling to boost health and wellbeing.

The government has announced:

- The National Model Design Code - a toolkit to enable every council and community to create their own local design requirement. Guidance is provided across all aspects of new development including tree-lined streets, sustainable drainage and design to support walking and cycling.
- Updated planning framework published which will place greater emphasis on beauty, place-making, the environment, sustainable development and underlines the importance of local design codes.
- The Office for Place which will drive up design standards, testing and piloting the National Model Design Code with more than 20 local councils and communities.
- The Advisory Board, made up of industry experts and chaired by Nicholas Boys Smith, which will advise on the work of the Office for Place and options for a potential independent body.

Greater emphasis than ever before will now be placed on quality and design in the planning system. Local communities will be fully involved in how they want new developments to look and feel, with a much greater emphasis on environmental sustainability.

The changes to the National Planning Policy Framework set an expectation that good quality design should be approved, while poor quality should be rejected and includes an environmental commitment to ensure that all streets are lined with trees.

These measures mean the word "beauty" will be specifically included in planning rules for the first time since the system was created in 1947 – echoing an era when a greater emphasis was placed on delivering attractive buildings for people that installed a sense of local pride.

> Today I have set out the Government's vision for a planning system that make beautiful, sustainable and life-enhancing design a necessity, rather than a luxury.
>
> Our revised National Planning Policy Framework will ensure that communities are more meaningfully engaged in how new development happens, that local authorities are given greater confidence in turning down schemes which do not meet locally set standards.
>
> This is about putting communities – not developers – in the driving seat to ensure good quality design is the norm, and the return to a sense of stewardship – to building greener, enduringly popular homes and places that stand the test of time in every sense.

Rt Hon Robert Jenrick MP • Housing Secretary, 2019 - 2021

How the Exeter Development Fund meets these objectives:

Exeter City Futures welcomes this announcement as it aims to enshrine in the planning process many of the objectives of the Fund. A focus on delivering high quality, people centric and truly sustainable homes and businesses, through championing community engagement and exemplar design.

It is widely understood that the current model of volume house building is not delivering on many of the critical requirements of residents. There is a bridge that must be built that enables volume delivery to meet the housing crisis, whilst also delivering on other fundamental criteria to deliver healthy, happy communities where people want to live and work, and that also meet the sustainability requirement required to tackle the climate crisis.

By maintaining control of developments within the public sector, we can ensure the stewardship of our future communities, and create urban developments that meet local requirements in every sense.

The Fund model also aims to capture the wider societal benefits of sustainable and beautiful design within site viability assessments. The Fund's objectives also target a reduction in the running costs of public services, all delivered over the long term through happier, healthier, more economically prosperous, and inclusive communities.

1.6.7 Other Relevant Research

Net Zero Transport: The role of spatial planning & place-based solutions
Royal Town Planning Institute (RTPI) Research Paper – Published January 2021

The Royal Town Planning Institute (RTPI) in conjunction with LDA Design, City Science and Vectors carried our research to explore how different places can achieve an 80% reduction in surface transport emissions by 2030, as part of a pathway to net zero 2050. The full report can be found in Appendix 1.E. This research undertaken in this report starts from the premise that there is a clear relationship between spatial planning and carbon, and that only a place-based approach can deliver net zero transport emissions and be a catalyst for better place-making to deliver healthier, happier, more resilient communities. These objectives are critical to good planning, linking the imperative to reduce transport emissions with wider objectives related to decarbonisation, housing growth and nature recovery. This approach calls for measures that first focus on the role of place in reducing trips, before considering how to increase the proportion of the remaining trips that are taken by active, public and shared forms of transport. This basic hierarchy is summarised in the 'Sustainable Accessibility and Mobility (SAM) Framework', a tool created by Vectos to help planners and designers prioritise interventions in the following order:

- Substitute Trips: Replace the need to travel beyond your community
- Shift Modes: For longer trips, use active, public and shared forms of transport
- Switch Fuels: For any trips that must be made by car, ensure the vehicle is zero emission

This research identified a potential pathway to an 80% reduction in surface transport emissions by 2030. The pathway is hierarchical, following the approach summarised in Chapter 2. The first step assumes that all new development is planned, designed and delivered in a way that achieves net zero transport emissions, and ideally to be 'negative carbon' by helping to reduce transport emissions at a wider scale. The following steps then reflect the three categories of the SAM Framework, with the carbon impact of interventions modelled sequentially.

Step 2 prioritises interventions that reduce the overall need to travel, while Step 3 shifts modes away from private vehicles and towards walking, cycling and public transport, while also enhancing the provision of traditional public transport. Step 4 covers the switch away from Internal Combustion Engines (ICEs) towards zero carbon fuels such as electricity and hydrogen.

It is important to note that this final step plays an important role in decarbonisation but will not reduce trips and energy consumption or deliver place-benefits for people and communities. Therefore, planning needs to focus on keeping private trips to a minimum and providing alternative modes for trips that need to be made.

This will ensure that private road-based transport is only used for residual trips that genuinely cannot be removed or undertaken by other modes, following the necessary investment in place and infrastructure. As there is a decade to achieve the 80% target, all steps along the pathway need to be taken at the same time in order to make the necessary reductions.

How the Exeter Development Fund supports this research:

The Fund would enable simultaneous delivery of all these required steps as they are inherent in the Liveable Exeter designs and aspirations. The model also ensures that delivery of the necessary active travel infrastructure is fully integrated across multiple land parcels and sites, vital to creating a safe, connected and user-friendly city-wide network, something very difficult to achieve efficiently through more traditional piecemeal delivery.

As many of the sites involve the redevelopment of existing car parking within the city, effectively removing or reducing their operational availability in sequence as sites are brought forward, this further supports the reduction of the dominance of cars and a switch to more sustainable modes of transport, while ensuring an ongoing income stream to the public sector for the underlying land asset.

1.7 The Project

1.7.1 Stakeholders and Engagement Process

The key stakeholders in this business case are:

Central Government

- OPE
- Homes England
- DLUHC
- DfT
- DBEIS
- Network Rail

Local and Regional Public Sector and ECF Board Members

- Exeter City Council
- Devon County Council
- Royal Devon and Exeter NHS Foundation Trust
- Exeter College
- University if Exeter
- East Devon District Council
- Police and Fire Services

Exeter Business Community and SMEs

- Exeter City Living Limited
- SME developer, planning and construction industry
- Stagecoach
- Great Western Railways
- Green-tech and E-mobility markets

Investment Markets

- Legal and General
- Barings Bank
- M&G

Citizens Assemblies

During the course of this work, ECF has engaged with its stakeholders on both a scheduled and reactive basis to ensure alignment of objectives and practical applications of the Fund concept.

Feedback is referenced and incorporated into results and scenario analyses in later Sections of the business case. A schedule of formal workshops, data capture sessions, research conversations and ongoing update and feedback meetings is listed in Appendix 1.F.

Exeter City Futures (ECF) curated, published and delivered the Net Zero Exeter Plan to Exeter City Council in April 2020. This was made possible for ECF due to four years invested in developing relationships with city leaders, businesses, community organisations, politicians and residents and forming the Plan through a city-wide collaborative effort.

Following ECF's launch in 2016 responses from the public were requested in a Have Your Say programme which captured insights into the problems facing the city. The key insights of this engagement work can be found in Appendix 1.G.

ECF then developed its Community Engagement Model and Community Challenge plan. This was subsequently implemented and the finding of this lengthy engagement work helped to define the 12 goals residents identified as the key priorities to tackle in Exeter, this plan can be found in Appendix 1.H. The 12 goals was the foundation for the development of the Net Zero Exeter Plan 2030.

Locally, the city already has an engaged community of residents and businesses who are aggregating skills and expertise to contribute towards an intervention. Through recent successful work done by the City Council and collaborations with Exeter City Futures and University of Exeter, the city is building data aware communities, driving planning and procurement policy reform and engaging citizens in the generation of sustainable innovative solutions to the challenges we face.

Recognition of the opportunity is also shared in the business community: prior to the commencement of this work, the City Council and Exeter City Futures (ECF) presented at, and jointly facilitated a major event within the planning, professional services, developer and infrastructure industries in Exeter, many of whom are part of the ECF Partner Network.

The event canvassed solutions for transformational change in Exeter over the next two decades and revealed, with unanimous consensus, the need for a finance first solution with genuine place-making as its objective and underpinned by innovation, data analytics and planning reform.

1.7.2 High Level Strategic Options

Prior to the options appraisal work in business case over the course of 2017 and 2018, ECF and its local stakeholders carried out some strategic workshops, looking at options for meeting the city's challenges to financing developments in a way that tackles the transport, housing and place-making aspirations the citizens have been asking for.

These options formed the high-level strategic options for consideration in the longlist in this business case:

Do nothing

If the city does nothing to address the private sector agenda and conflicting congestion and affordable housing needs, the challenges described in Section 2.3 will remain.

Additionally, sites will continue to be picked off by the private sector and development will continue anyway. This will see further congestion, further pressure on affordable housing and further silo development profit leaving the city. The city cannot control its own destiny if it does not intervene in some way.

Sell land

Selling land will recognise a capital receipt, with which the city can potentially reinvest to generate revenue elsewhere. However, this strategy results in a loss of land value uplift and development profits, loss of strategy/control over a site and, hence, loss of control of the outcomes associated with development. In effect, selling land is the same as doing nothing in terms of realising the vision for the city.

Joint-venture with the private sector

Joint ventures with the private sector are a good way of bringing in the finance and expertise. However, the public perception of these types of vehicles is under strain given the perceived loss of control. This perception is no fallacy.

While a joint-venture can be owned 50/50 between public and private sector in equity terms, the reality is that the 50% private sector partner typically brings all of the additional development debt finance and much of the development strategy and logistics. This results in, ultimately, implicit private sector control of the development and invariably social outcomes suffer. Only with its own complete control can the public sector guarantee delivery of its outcomes.

DevCo

The development company recently incorporated in Exeter, owned and controlled by the council, is an excellent way of delivering outcomes required by the city, particularly given its work to date in modernising the HRA stock.

However, a single development company delivering piecemeal projects in the hundreds of units does not tackle the forward ambition of the 12,000 houses that are required in the city, nor does it deliver on the big infrastructure transformation required for the city to ease congestion and achieve Net Zero.

Access to funding via prudential borrowing is limited to both financial criteria and the speed at which applications can be written and submitted. Recognising this, a DevCo will only meet the challenges so far.

City Development Fund

The city can pool its existing and, potentially, sub-optimally commercialised assets into a fund, against which it can borrow significant sums for comprehensive infrastructure development at scale and acting with the agility of the private sector.

Critically, this strategy ensures that the city retains ownership and control of both its assets and the development strategy, thereby controlling the outcomes. This takes the positive principles of a DevCo model and allows it to scale up its ambition.

Following this broad option analysis the working group explored the detailed mechanics of an 'Exeter Development Fund' further and sought approval from both the Council Executive and Corporate Services Scrutiny Committee to lead the project.

This approval was successful, resulting in the mandate to carry out outline modelling during 2018, apply for funding from OPE and then to engage with advisors to carry out detailed modelling and business case work.

1.7.3 Initial Scope and High-Level Benefits of the Fund

The results of the further exploration exercise into the mechanics and detail of the Fund follow in this Section:

- Exeter City's public sector stakeholder institutions incorporate a new entity whose purpose is to finance and manage the program of investments that bridge the infrastructure gap and deliver on the city's wider strategic plan
- The Fund's projects will potentially range from standard housing development projects through to providing innovative mobility solutions and renewable energy programs
- The Fund is capitalised by existing, forward looking, cross-departmental public sector infrastructure budgets and the city shareholder's property asset base and hence obtains debt finance from a variety of sources, including an anchor financier in the shape of a long-term bond issued to, say, a pension fund. The bond uses the property asset base as security for the bond investor.
- The Fund then provides a single source of finance, developer services and project management to procure and deliver the pipeline of development projects within the city
- The Fund uses the profits from the healthier schemes to finance and deliver projects with less traditional profit profiles and projects of higher social benefit (rather than relying on planning to force the private sector to deliver them)
- The projects that deliver on the city's wider strategic plan and social impact in the short term achieve effective place-making for Exeter and hence create a more stable and investible city in the longer term
- The Fund is also able to deliver using its 'at scale' protection to prove the concept and marketability of atypical developments, such as car-free housing developments, thereby attracting other developers into future schemes.

1.7.4 Exeter Deal, Exeter Assets

Exeter City has a wide range of property assets across various public sector institutions (The city council alone owns c.£300-400 million of land and property). While not all the city's assets are immediately suitable for commitment into a development fund, for example heritage, in-use assets such as the city museum, a focused property rationalisation exercise reveals the potential locked into these sites and demonstrate optimal routes to capital raising using the strength of the value and revenue streams attached to the pooled base.

A fund, with a single point of financing and delivery represents a bold, innovative solution to the challenges outlined earlier in this Section. It carries with it a fresh approach to risk, planning, management and funding, and with the city's complete pipeline of developments succeeding through a single aperture we would expect to see significantly reduced project top and tail costs, little or no refinancing costs needed and reduced professional fees relative to the quantum overall construction activity. This ultimately leads to greater returns for the Fund.

Elsewhere and more broadly, a city development fund represents a holistic approach, one that views Exeter's infrastructure investment needs as a single, self-supporting program. In this way, individual projects can cross pollinate, allowing greater social impact while ensuring the overall fund position is profitable. From a planning perspective, it also means the City Council can have more of a say in future projects, and be tougher on controlling planning outcomes that ultimately create different outcomes and drive towards the wider strategic plan.

1.7.5 Constraints, Limitations and Dependencies

The concept design under testing in the business case assumes a large and complex undertaking that reshapes the approach to city development and infrastructure.

It assumes a delivery vehicle with cross-public sector ownership and access to private sector agility, risk and reward. It assumes greatly increased levels of development activity in Exeter than has gone before and assumes an innate programme of skills development within the city to deliver it.

With these assumptions, many constraints and limitations exist and around which the preferred way forward is designed.

Viability Gaps

A step change in outcomes for future development in cities typically requires a step change in costs. Equally, many strategic sites within Exeter or any other city are not viable as development opportunities due to high enabling costs (these sites risk becoming trapped assets without viability gap funding). To maintain commercial sustainability, the Fund model can tolerate viability gaps up to a point.

Public Sector Capital Funding

The announcements from government in Section 1.6 point to a significant and long-lasting change to Government's approach to carbon neutrality, housing, transport energy and infrastructure. This requires significant investment to achieve. However, where that investment is made is predicated on the right case being built and the existence of enough funding for the purpose required.

Development Capability

Exeter currently does not have the building capacity nor development capability to deliver the ambitious growth plans. The city needs to attract the right scale and quality of developer partners to help deliver the vision and to develop its own in-house (Fund) skills. The Fund needs to link directly to the city's key learning centres (Exeter College and University) and the Science Park, such as through the Skills Escalator Programme.

Collaboration and Mix of Agendas across Public Sector Institutions

With potential shareholders/partners of the Fund being across differing parts of local, regional and central government, the Fund will be limited to the margins of conflicting agendas within those organisations. The Fund relies on successful working between the city's public sector stakeholders to ensure there is equitable representation on strategy, design, governance and risk/reward exposure.

Legal and Governance

Exploratory work is carried out in Section 3.4.1 in the Commercial Case to assess the legal frameworks needed to manage a portfolio of asset transfer of this nature, with asset movements in and out of the individual public sector institutions. Issues such as powers to invest/divest, state aid, CPO, accounting treatments, borrowing limits/ratios, tax and overall governance structure all require consultation, with draft heads of terms produced for approval.

Local Stakeholder Support

- **Exeter City Council;** ECC is the driving force behind the city's transformational programme and is the key partner to Exeter City Futures in its role as the innovation and sustainable finance enabler. The Council is already exploring strategic sites across the city to develop sustainable urban villages through a new vehicle. The Fund's approach seeks to collaborate and build on that work to deliver a truly scaled solution.

- **The University of Exeter;** with a new Innovation, Impact and Business team, the university is ambitious in its plans for regional economic transformation, and recognises the strength in delivering the City's vision in partnership with the City Council and ECF. The University is also establishing a new Institute for Data Science, and is a partner in SetSquared, recognised last year as the number one University-Business incubator in the world, and in which the Fund would look to invest and draw solutions to the Net Zero urbanisation challenges in Exeter.
- **Royal Devon and Exeter NHS Trust;** The health agenda is at the heart of the benefits within the programme. The Trust is currently considering its own site development plan including decisions around land disposal, housing, retail and car parking, it recognises the need for innovative input on design solutions and potential financing models that can deliver a Net Zero outcome.
- **Exeter College;** Recently rated as the number one FE College in the Country by FE Week, the College and the University have submitted an Expression of Interest to bid for an Institute of Technology, specialising in Data Science and data Analytics. Along with upcoming data apprenticeships planned at ECF, the College is integral to the key innovation and data themes and part of building the support for the collaborative, innovative approach required.
- **Devon County and District Councils;** DCC has provided political support for the Fund concept, recognising the changes needed to the built environment in the city as the first step to, for example, decarbonising rural transport links. Additionally, with plans for more devolved asset management in the next two decades, the Councils in the Greater Exeter area are key partners in the joined up approach recognised as required.
- **Exeter City Futures Partner Network;** the ECF partner network, comprised of city-wide professional services and infrastructure firms, is already mobilised, having signed declarations of support for the programme, pledged expertise, attended strategic planning events and shared critical data sets for analysis in feasibility project work.

1.7.6 High level Strategic Risks

As options for the design of the Fund are analysed in this business case, the risk register (see Appendix 1.I and Section 2.6 in the Economic Case) has been used extensively to sift long list options and score short list options. The risk register covers the probability and impact of detailed risks relating to all options, from the status quo 'do nothing' through to maximum impact options, and discusses proposed mitigating factors and their impact on risk.

The high level strategic risks, against which the long list of initial options is considered are as follows:

Risk 1: Funding Risk

The Fund represents a bold and innovative approach to teaming government capital with private sector finance. In a post-PFI, post-Brexit UK, a tried and tested long term model for infrastructure spend has yet to replace incumbent approaches from the previous two decades. A risk exists that the Fund concept does not provide government with enough comfort to allocate its infrastructure budgets in this way. Equally and as a result, without government intervention for a project of this scale the risk exposure to private sector lenders may be too high for their involvement at the scale required.

Mitigation: The project team has an active and open engagement process with government, with regular progress meetings with Homes England and other government departments. However Homes England is unable to commit or allocate any specific funding at this stage. Discussions are underway already as to which sites within the broader programme can be allocated to a first tranche of funding and potential project for initial flagship sites.

Risk 2: Skills and capacity

The development, infrastructure and housebuilding markets are all under strain. Building standards are changing rapidly alongside development of new technologies to meet those standards in carbon, modern methods of construction, project management and procurement. Coupled with rapid increases in demand for housing in the UK, a dearth of talent and capacity exists that risks rendering the Fund's ambitions undeliverable at the quality, pace and scale required for success.

Mitigation: The project team has opened discussions with SME, carbon, spatial and innovative developers with an interest in the Fund concept. ECF has had open engagement with that market as well as Green-tech suppliers such as Co Cars to supply E-mobility solutions to developments and the associated data. Additionally, with ECF's board comprising the University of Exeter and Exeter College, the project has a direct line into the education and skills agenda in the region.

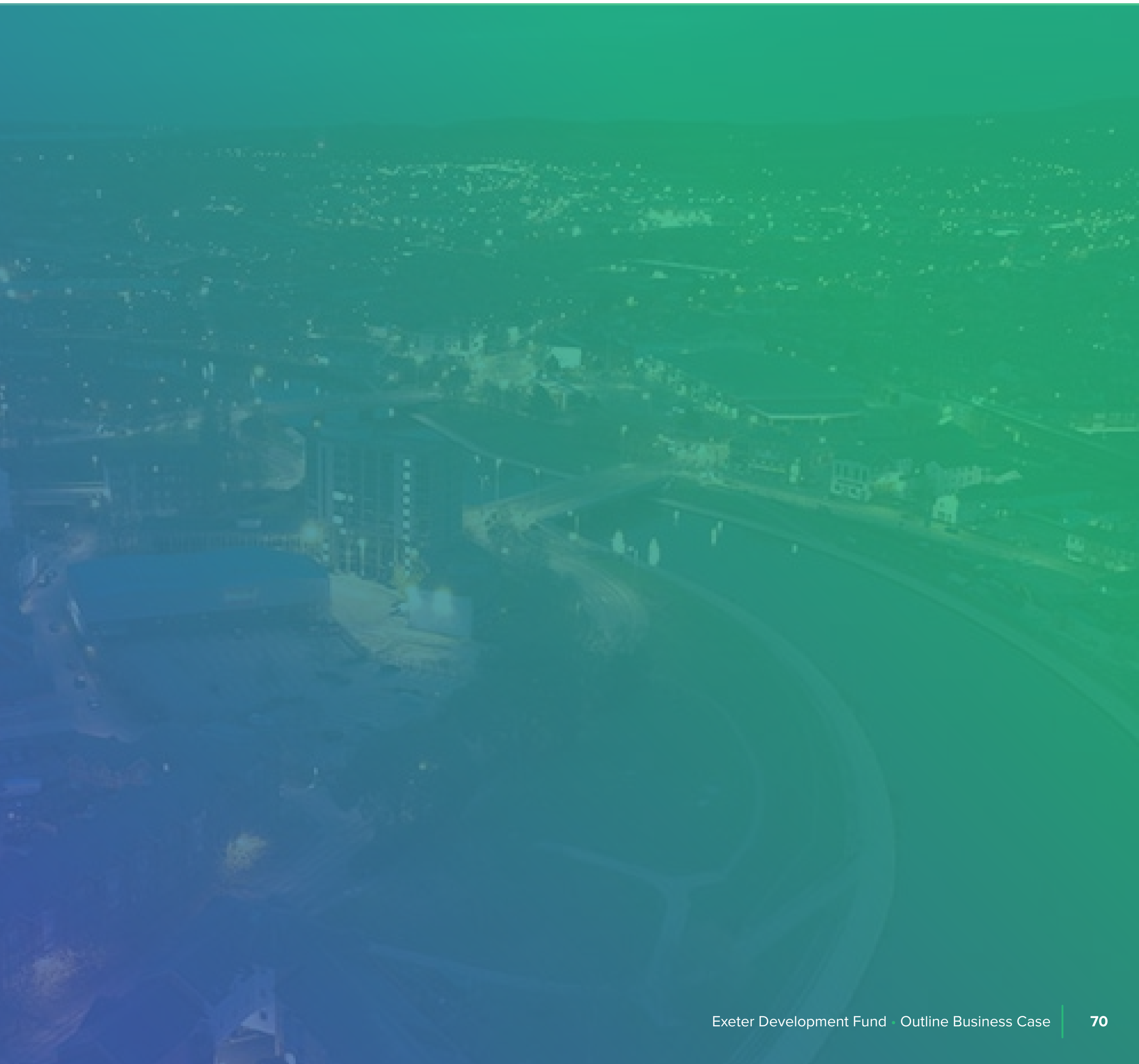
Risk 3: Local support and agendas

Cities operate with multiple public sector institutions that represent the varied and complex agendas of the inhabitants. From NHS Trusts to Universities to the Council, local public sector organisations experience some attrition between individual agendas as their approaches to carbon, commerciality, placemaking and human resources reach differing levels of maturity. To that end, the Fund's structure, which assumes a relatively seamless approach to divesting assets into a separate vehicle for development, albeit owned and controlled by the public sector, risks exposing further attrition between institutional agendas. Methods of procurement differ, appetites for control and risk differ and approaches to investments outside of core functions differ. The Fund risks failure through an inability to collaborate at the top level.

Mitigation: The city already has a successful collaborative governance structure in ECF, with many examples of successful collaborations both financially and operationally on the Net Zero agenda. Equally, the city has backed the Fund concept design in submitting a bid for and winning funding for the next phase of the project under the Fund concept. In July 2021, £840k was awarded by DLUHC to ECF to progress the Fund to its next stage on behalf of the city.

Exeter
Development Fund

2. Economic Case



Exeter
Development Fund

Contents

2.1 Methodology

The methodology for the Economic Case follows a two-stage process to confirm the preferred way forward for the proof of concept for the Fund:

Stage 1: Options appraisal – the longlist of options to shortlist of options

There were three key steps to the options appraisal process, as set out in HM Treasury's Green Book (updated 2020) and Better Business Cases (2018) guidance:

- Identification of the longlist of options;
- Identification of the critical success factors. These were informed by the strategic objectives that were set out in the Strategic Case;
- Evaluation of the longlist of options against the critical success factors to determine the shortlist of options.

The options process was undertaken through a series of meetings and workshops which included representatives from Exeter City Council, the Project Director of Liveable Exeter, the ECF board representatives, the project sponsors OPE and associated colleagues, and representatives from Homes England. All outputs from the options appraisal were circulated and approved in June 2021.

Stage 2: Comprehensive Investment Appraisal (CIA) Model

The CIA model has been used in conjunction with Green Book guidance to support the appraisal of the shortlist of options economically. The economic appraisal compares (a) the overall Net Present Social Value (NPSV) and (b) the costs and benefits of the shortlist of options to confirm the preferred way forward. Valued risks were not entered into the CIA model due to the inherent difficulty in accurately quantifying them at this stage. Instead these have been red, amber, green (RAG) rated and given a weighted score separately for each of the shortlisted options.

Following confirmation of the shortlist of options, benefits and risks were developed in conjunction with a series of partners including representatives from Exeter City Council and Exeter City Living (the Council's own wholly owned development company), Co-Cars and other relevant stakeholders on the project. Further detail on the approach and findings from the CIA model is set out in Section 2.7.1.

2.1.1 Specialist Advisor Support

ECC and ECF procured specialist advisors to deliver some technical inputs to the business case.

ECF procured JLL as Real Estate & Cost Consultants. They have reviewed the initial block plans provided by LDA (commissioned by ECC) in the Liveable Exeter document and used these as the basis for completing a full site appraisal and associated cash flows required for Work Stream 2.

Additional work was required on 2 sites (Marsh Barton & Sandy Gate) due to a lack of high-level designs. JLL has also worked with Awcock Ward to provide a high-level review of all the opportunities and constraints of each site. This work has provided the Abnormals and Infrastructure cost estimates needed to fully complete the appraisals.

ECF procured Deloitte to provide technical financial modelling expertise to analyse various financial and funding commercial structures. Results of this are contained throughout the rest of this document.

2.2 Optimal Scheme Design Selection

Designs for eight of the nine Liveable Exeter sites in the programme were commissioned by Exeter City Council and prepared by LDA Designs in June 2018. The high-level block plans, which were prepared for six of these sites can be found in Appendix 2.A – LDA Site Development Schedules.

JLL then performed appraisals for each of the sites, relying solely on the scale identified in the Vision with no detailed drawings, technical information or site-specific reports available or commissioned at this stage. JLL's appraisals are based on the development schedules and assumptions LDA Design made as part of the Liveable Exeter programme.

High level site specific abnormal and infrastructure costs have been estimated and assumed, based on JLL's knowledge of the sites and discussions with the technical consultant Awcock Ward Partnership (AWP), these will need to be subject to further assessment for the fulfilment of work stream 2 of the Exeter Development Fund. The full report from JLL, including the development appraisals and AWP's summary of technical constraints and opportunities, can be found at Appendix 2.B - ECF JLL Report Final.

For Wonford, Marsh Barton and Sandy Gate, where there were no LDA block plans, JLL used their technical knowledge and relevant local experience, utilising current density data where available, to estimate the quantum of each asset class to be included in the site appraisals.

Table 2.1 shows a summary of development information by site.

The options appraisals process that follows is to select an optimal financing structure based on these scheme designs commissioned by Exeter City Council and prepared by LDA Designs. ECF have not undertaken any work to ascertain the optimal scheme design from those initially prepared in 2018.

	Wonford Village	West Gate	Water Lane	South Gate	Sandy Gate	Red Cow Village	North Gate	Marsh Barton	East Gate	Total
Units										
Apartments	125	617	1,436	300	1,050	428	308	4,435	749	**9,448**
Townhouses	11	0	131	0	0	0	0	1,109	0	**1,251**
	136	**617**	**1,567**	**300**	**1,050**	**428**	**308**	**5,544**	**749**	**10,699**
Area Ha	**2.4**	**9.07**	**28.4**	**3.1**	**36.4**	**3.4**	**3.9**	**85.7**	**8.9**	**181.27**
Site Areas by Sector										
Retail/leisure (sq/ft)	0	25,207	44,293	6,086	182,986	17,631	129,098	297,481	30,954	**733,736**
Offices (sq/ft)	5,856	35,638	68,861	0	635,070	42,696	0	297,481	199,747	**1,285,349**
Large Industrial (sq/ft)	0	0	0	0	0	0	0	224,707	0	**224,707**
Light Industrial (sq/ft)	0	0	0	0	0	0	0	1,388,244	0	**1,388,244**
Community/Public Facilities (sq/ft)	3,950	22,902	5,926	0	64,583	0	0	0	8,868	**106,229**
Schools										
Primary places	0	0	210	0	210	0	0	1,000	0	**1,420**
Secondary places	0	0	0	0	0	0	0	0	0	**0**

Table 2.1 • Development Information by Site

2.3 Spending Objectives and Critical Success Factors

2.3.1 Project Objectives

This Section defines the overall project objectives. The longlist of options is then assessed against the project objectives to ensure only options that score the highest against the objectives are carried forward to the short-list.

Stakeholders agreed a set of project objectives to articulate what the project is seeking to achieve. These are set out in the Table below, along with the associated goals which describe the factors considered when evaluating options.

	Project Objectives	SMART Goals
1.	To develop a replicable financial model that optimises public sector assets for housing and infrastructure.	Deliver to OPE, by October 2021, a replicable model that optimises public sector assets and could be used by other public sector bodies to consolidate assets for development.
2.	A portfolio approach to urban development that brings together public sector partners to maximise economic growth and efficiencies while providing ongoing, tangible stewardship of community assets and facilities.	The model will: consolidate assets to reduce project top and tail costs against traditional delivery models, recirculate finance to reduce borrowing requirements against a piecemeal delivery approach, offer an ongoing revenue stream in exchange for equity in the fund which is significantly higher than the benefit received via business as usual.
3.	Disrupting the market to accelerate the scale and pace of the development of new sustainable communities and desirable neighbourhoods to live and work.	Provide a holistic vehicle to enable mixed use developments that meet housing and infrastructure needs of the city in a timely fashion, and the aspirations of the project partners in regard to quality, delivery timescales and sustainability goals.
4.	To enable a built environment that ensures the city's Net Zero objectives.	Must actively contribute to reducing existing carbon emissions through design and functionality based on current best practice, research and guidance. Will not create a future burden of retrofit or subsequent redevelopment to meet net zero goals.
5.	Protects public sector land assets from disposal.	To offer a viable alternative to the sale of public sector assets based on both financial benefits and societal benefits that enable improved outcomes for communities.
6.	Build market leading development capability within the local public sector.	To position the local public sector as the leading developer in the city by 2025.

Table 2.2 • Project Objectives and SMART Goals

2.3.2 Critical Success Factors

Critical success factors (CSFs) are the essential attributes for successfully delivering the project and are used along with spending objectives to evaluate the options. The CSFs agreed by stakeholders and used to support the options appraisal for this project are provided in Table 2.3.

	Critical Success Factor	Options assessed as to how well they meet the following goals
CSF1	Strategic fit and local needs	Meets local/national net zero aspirations Delivers on housing requirements to meet local needs
CSF2	Potential value for money	Optimises public sector assets for the long term
CSF3	Public sector capacity and capability	Ensures development outcomes match or exceed aspirations Builds development capability in the public sector Expedites public sector development delivery times
CSF4	Potential affordability	Can be funded through potential, existing or emerging funding streams Generates the platform to attract private finance
CSF5	Potential achievability	Is likely to be deliverable given partner regulatory approvals processes Matches level of available skills and resource required for successful delivery

Table 2.3 • Critical Success Factors

2.3.4 Evaluation Group

Following initial work to develop and assess the feasibility of a broad range of options, the long list was validated and evaluated with project partners at a series of separate meetings and workshops held throughout June and July 2021. These were subsequently issued electronically for review and confirmation that these would be taken forward.

- Develop the longlist of options within the options framework;
- Agree spending objectives and critical success factors;
- Evaluate the longlisted options in relation to how well they meet the project spending objectives and critical success factors; and
- Recommend the shortlist of options.

The members of the evaluation group included many of the project's key stakeholders (for a list of these please see the Engagement Summary and Project Stakeholder List: Appendix 2.C)

2.3.5 Options Appraisal Process

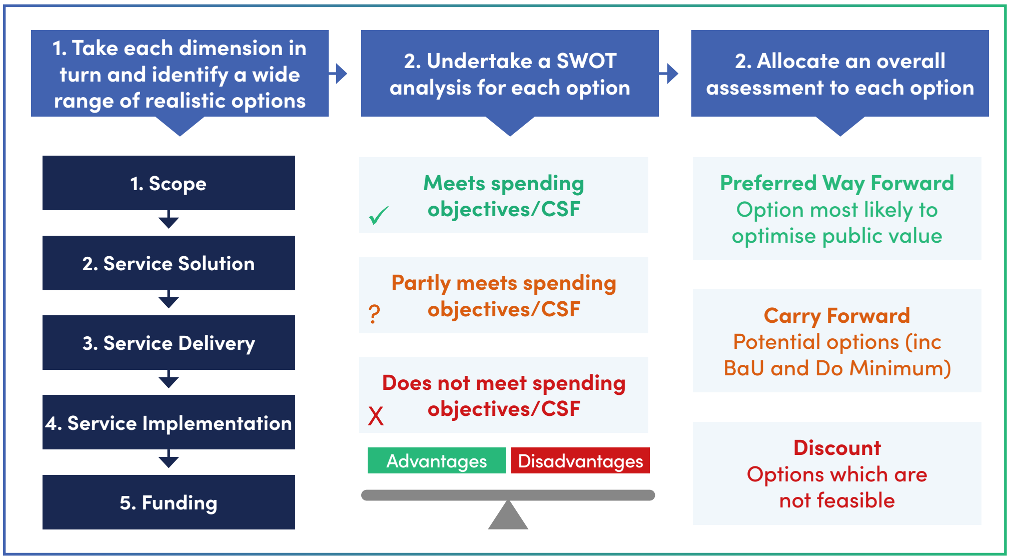


Figure 2.1 • Options Appraisal Process

2.4 Longlist Options

2.4.1 Options Framework

The options framework, outlined in HM Treasury's Green Book and associated Project Better Business Cases guidance, provides a systematic approach to identifying and filtering a broad range of options. An overview of the key dimensions for identifying the initial long list of options is provided in the Table 2.4.

Dimension	Description
Scope	What to include in the solution (sites/land parcels)
Service solution	How to deliver the solution
Service delivery	Who will deliver the solution
Implementation	Timescales and phasing for delivering the solution
Funding	Financing the solution

Table 2.4 • Key Dimensions used for Identifying Long List of Options

2.4.2 Long List of Options

A broad range of potential options within each of the dimensions was considered by the evaluation group. These are outlined in the Table 2.5 below.

Dimension	Options	
SCOPE – WHICH SITES/LAND PARCELS ARE INCLUDED		
Do Nothing	S0	**Do nothing** Scope: viable land parcels only that are offered for sale
Do Minimum	S0a	**Engagement with partners including baseline assessments to match existing interventions** Scope: viable land parcels only that are offered for sale.
Immediate Options	S1-3	**Sites viability gaps are met through a combination of Joint Ventures and grant funding** Scope: land parcels on Liveable Exeter sites, full sites, through to the full portfolio.
	S4-6	**Site viability gaps are met through grant funding** Scope: land parcels on Liveable Exeter sites, full sites, through to the full portfolio.
Do Maximum	S7-9	**Delivery through The Exeter Development Fund model – grant funded.** Scope: land parcels on Liveable Exeter sites, full sites, through to the full portfolio.
	S10-12	**Delivery through The Exeter Development Fund model – equity funded.** Scope: land parcels on Liveable Exeter sites, full sites, through to the full portfolio.

Dimension	Options	
SERVICE SOLUTION – HOW TO DELIVER THE SOLUTION		
Do Nothing	P0	**No intervention**
Do Minimum	P0a	**Engagement with partners including baseline assessments to match existing interventions** Engage with delivery partners to seek to guide delivery to an acceptable standard to partially meet Liveable Exeter aspirations.
Immediate Options	P1	**Site viability gaps are met through a combination of Joint Ventures and grant funding** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations and linked to the market failure. Scope - full portfolio
	P2	**Sites viability gaps are met through a combination of Joint Ventures and grant funding** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations and linked to the market failure. Scope - individual sites in sequence
	P3	**Sites viability gaps are met through a combination of Joint Ventures and grant funding** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations and linked to the market failure. Scope – viable/available land parcels only
	P4	**Site viability gaps are met through grant funding** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations and linked to the market failure. Scope – full portfolio
	P5	**Site viability gaps are met through grant funding** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations and linked to the market failure. Scope – individual sites in sequence
	P6	**Site viability gaps are met through grant funding** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations and linked to the market failure. Scope – viable/available land parcels only

Do Maximum	P7	**Delivery through The Exeter Development Fund model – grant funded.** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally. Scope – full portfolio
	P8	**Delivery through The Exeter Development Fund model – grant funded.** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally. Scope – individual sites in sequence
	P9	**Delivery through The Exeter Development Fund model – grant funded.** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally. Scope – viable/available land parcels only
	P10	**Delivery through The Exeter Development Fund model – equity funded.** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally. Scope – full portfolio
	P11	**Delivery through The Exeter Development Fund model – equity funded.** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally. Scope – individual sites in sequence
	P12	**Delivery through The Exeter Development Fund model – equity funded.** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally. Scope – viable/available land parcels only

Dimension	Options	
SERVICE DELIVERY – WHO WILL DELIVER THE SOLUTION		
Do Minimum	D1	**Allow the market to deliver**
Immediate	D2	**Procure development expertise as required**
Do Maximum	D3	**Build delivery capability in-house**

Dimension	Options	
IMPLEMENTATION - TIMESCALES AND PHASING		
Do Minimum	I1	**Allow the market to deliver**
Immediate	I2	**Deliver as funding streams become available**
Do Maximum	I3	**Phased programme of delivery**

Dimension	Options	
FUNDING		
Do Minimum	F1	**No funding requirement**
Immediate	F2	**Targeted infrastructure funding bid for as it comes online**
Do Maximum	F3	**Upfront funding programme/facility access secured for full programme of delivery**

Table 2.5 • The Long List of Options

2.4.3 Evaluation of the Long List Options

Each of the longlisted options was assessed in terms of how well it is likely to meet spending objectives and critical success factors, using the criteria in Table 2.6.

✓	Meets spending objectives and critical success factors
?	Partially meets spending objectives and critical success factors
×	Does not meet spending objectives and critical success factors

Table 2.6 • Evaluation Criteria

2.4.5 Long List evaluation – Scope Options

The options related to the project 'scope' are concerned with establishing which sites, or parcels of land within sites, should be included within the solution.

As this outline business case is to carry out a proof-of-concept test for delivery, it is not possible at this stage to identify with any certainty which sites are likely to be available for inclusion in whole or in part.

To enable a robust and complete comparison to be undertaken it has been decided to work with all nine Liveable Exeter sites in their entirety, without presupposing their successful deliverability, but to show the scale of the ambition and how differing delivery models enable this and to what extent.

Scenario analysis will be undertaken later on the preferred way forward to enable a more feasible delivery scope to be quantified and appraised.

2.4.6 Long List Evaluation – Solution Options

The options related to the project 'solution' are concerned with establishing how the future solution should be delivered. Within this dimension, each option was considered and evaluated in relation to how well each of the options meets the spending objectives and CSFs.

The results of the evaluation of these options are provided in Table 2.7 on the next page.

Option	0	0a	1	2	3	4	5	6	7	8	9	10	11	12
Objectives														
PO1 Replicable model that optimises assets	×	×	×	×	×	×	×	×	✓	✓	✓	✓	✓	✓
PO2 Portfolio approach	×	×	×	×	×	×	×	×	✓	✓	✓	✓	✓	✓
PO3 Accelerates developments	×	?	?	?	✓	?	?	✓	?	?	?	✓	?	?
PO4 Ensures Net Zero objectives	×	?	?	?	?	?	?	?	✓	✓	✓	✓	✓	✓
PO5 Protects public sector land from disposal	×	×	✓	?	?	✓	✓	✓	✓	?	?	✓	?	?
PO6 Builds public sector development capability	×	×	?	?	?	?	?	?	✓	✓	✓	✓	✓	✓
CSFs														
CFS1 Strategic fit and local needs	×	?	?	×	×	?	?	?	✓	✓	?	✓	✓	?
CSF2 Potential value for money	×	?	?	?	?	?	?	?	✓	✓	✓	✓	✓	✓
CSF3 Public sector capacity and capability	×	×	×	×	×	?	?	?	✓	✓	✓	✓	✓	✓
CSF4 Potential affordability	×	×	✓	?	?	×	?	?	×	?	?	✓	✓	✓
CFS5 Potential achievability	×	?	✓	?	✓	×	?	?	×	?	?	?	✓	✓
Results														
Overall assessment	**Carry forward (baseline)**	Discount	**Carry forward**	Discount	Discount	Discount	Discount	Discount	Discount	Discount	Discount	**Carry forward**	Discount - Scenario analysis	Discount - Scenario analysis

Table 2.7 • Long List Appraisal – Solution

As a result of this evaluation, it is agreed that three options should be carried forward to the short list to model financially in greater detail. An overview of the assessments is provided in Table 2.8 along with associated justifications.

Option	Description	Assessment	Justification
P0	**Do nothing**	**Carry forward**	Carry forward as a counterfactual approach against which to baseline all other options as per Green Book guidance.
P0a	**Do Minimum** **Engagement with partners including baseline assessments to match existing interventions**	**Discount**	This option is highly unlikely to meet Liveable Exeter design aspiration standards and would not deliver in sufficient scale to meet ambitions and housing requirements. public sector assets for the long term

Option	Description	Assessment	Justification
P1	**Intermediate** **Funding - sites viability gaps are met through a combination of Joint Ventures and grant funding.** **Scope – full portfolio**	**Carry forward**	This option has been carried forward as negotiations regarding a JV structure are underway on a land parcel within the East Gate site for the remainder of the City Point development. This option does have potential to accelerate delivery, but it can only be deliverable if an agreement can be reached. Although it is not possible to negotiate these across the full portfolio it has been taken forward to provide a suitable comparator for the full scope of the project.
P2	**Intermediate** **Funding - site viability gaps are met through a combination of Joint Ventures and grant funding.** **Scope – individual sites**	**Discount**	This option looks to deliver entire sites in sequence through JV, or similar, arrangements and it would not be possible to negotiate the required agreement, across whole sites, with multiple land ownerships, to meet the design standards and delivery timeframes given the complexity of the ownerships. It also does not provide a suitable comparator based on scale.
P3	**Intermediate** **Funding - site viability gaps are met through a combination of Joint Ventures and grant funding** **Scope – viable/available land parcels only**	**Discount**	This option has not been carried forward as it does not meet the requirements in terms of delivery quantum or scale and would not achieve the required levels of housing delivery identified.
P4	**Intermediate** **Funding - sites viability gaps are met through grant funding** **Scope – full portfolio**	**Discount**	The scale of grant funding required to deliver all nine sites in total is prohibitive to taking this option forward. Although it safeguards public assets it either does not meet, or only partially meets all the other POs and CSFs.
P5	**Intermediate** **Funding - site viability gaps are met through grant funding** **Scope – individual sites in sequence**	**Discount**	As above, the likely size of investment required to deliver full sites, individually or in sequence is unlikely to be achieved. As with the option above it also does not meet the required PO or CSFs.
P6	**Intermediate** **Funding - site viability gaps are met through grant funding** **Scope – viable/available land parcels only**	**Discount**	Although this is potentially viable on certain land parcels and has the potential to protect land assets and accelerated delivery, it could not be used to deliver the scale required to meet the POs of Liveable Exeter.

Option	Description	Assessment	Justification
P7	**Do Maximum** **The Exeter Development Fund model.** **Funding – grant funded** **Scope - Full portfolio**	**Discount**	This option would be to deliver the full portfolio of sites through the Fund structure. However, it has been discounted as the required level of grants to deliver the full portfolio are not available through existing grant funding streams.
P8	**Do Maximum - The Exeter Development Fund model.** **Funding – grant funded** **Scope - individual sites in sequence**	**Discount**	As above but this option also does not meet the scale of development required so has been discounted.
P9	**Do Maximum - The Exeter Development Fund model.** **Funding – grant funded.** **Scope - viable/available land parcels only**	**Discount**	As option P8, this does not match the scale of development required.
P10	**Do Maximum - The Exeter Development Fund model.** **Funding – equity funded.** **Scope - full portfolio**	**Carry forward**	This option meets all of the project's strategic objectives and all but one of the critical success factors and as such is carried forward. It's been marked as potentially meeting CFS5 regarding achievability as the scale of investment required is outside of that currently obtainable on existing projects in the UK of this type.
P11	**Do Maximum - The Exeter Development Fund model.** **Funding – equity funded** **Scope - individual sites in sequence**	**Discount**	This option has been discounted as it does not meet the scale required to act as a suitable proof of concept, it will instead be part of the scenario analysis for the Preferred Way Forward, when evaluated later in Section 4.18 – Scenario Analysis.
P12	**Do Maximum - The Exeter Development Fund model.** **Funding – equity funded** **Scope - viable/available land parcels only**	**Discount**	Similarly, this option has been discounted for the same reasons as P11.

Table 2.8 • Assessment and Justifications – Solution

2.4.7 Long List Evaluation – Delivery Options

The options related to 'delivery' of the project are concerned with establishing who will deliver the future solution. Within this dimension, it is concluded that the preferred option is to build delivery capability in house to support the aims and objectives of the project.

Scope	Option	Assessment	Justification
D1	**Allow the market to deliver**	**Discount**	This option does not align with the project's objectives or CSFs.
D2	**Procure development expertise as required**	**Carry Forward**	Carried forward as a business-as-usual comparator in option P1.
D3	**Build delivery capability in house**	**Carry Forward**	This is the preferred delivery option and meets the projects objectives and CSFs.

Table 2.9 • Assessment and Justifications – Delivery

2.4.8 Long List Evaluation – Implementation Options

The options related to 'implementation' of the project are concerned with establishing the programme timelines for delivering the future solution. Within this dimension, it is concluded that the preferred option is to implement a phased programme of delivery covering all the Liveable Exeter sites.

Scope	Option	Assessment	Justification
I1	**Allow the market to deliver**	**Discount**	This option does not align with the project's objectives or CSFs.
I2	**Deliver as funding streams become available**	**Carry Forward**	Carried forward as a business-as-usual comparator in option P1.
I3	**Phased Programme Delivery**	**Carry Forward**	This is the preferred delivery option and meets the projects objectives and CSFs.

Table 2.10 • Assessment and Justifications – Implementation

2.4.9 Long List Evaluation – Funding Options

The options related to 'funding' of the project are concerned with financing the project. Within this dimension, it is concluded that the preferred option is to secure upfront access to a funding facility for the full programme of delivery, however targeted funding has also been taken forward as a BAU comparator as it could reasonably be expected to expedite delivery on certain sites.

Scope	Option	Assessment	Justification
F1	**No funding requirement**	**Discount**	This option does not align with the project's objectives or CSFs.
F1	**Targeted infrasructure funding bid for as it comes online**	**Carry Forward**	Carried forward as a business-as-usual comparator in option P1.
F3	**Upfront funding secured for full programme of delivery**	**Carry Forward**	This is the preferred delivery option and meets the projects objectives and CSFs.

Table 2.11 • Assessment and Justifications – Funding Options

2.4.10 Developing the Shortlist

The results of the longlist assessment have been amalgamated to create a shortlist of options. This is shown in relation to the options framework dimensions in Figure 2.2 below.

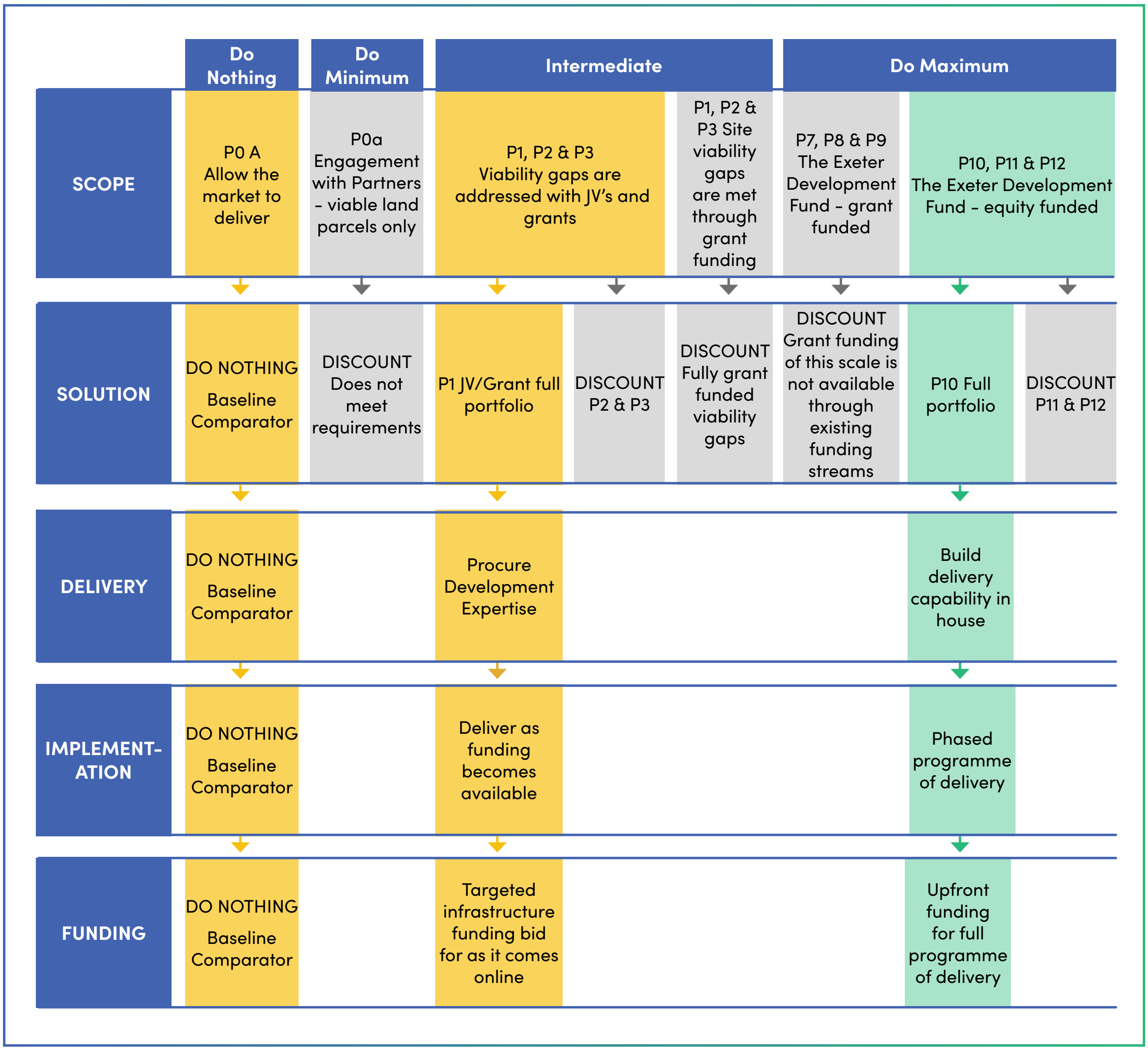


Figure 2.2 • Shortlist in Relation to the Options Framework

The resulting shortlist, which is explored as part of the economic appraisal, is presented in Table 2.12.

Scope Option	
Option 1	**Baseline: Do nothing** Public sector owned land parcels only that are offered for sale
Option 2	**Intermediate: JV/Grant - Full Liveable Exeter portfolio** Using existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter aspirations for the full portfolio
Option 3	**Do Maximum – Equity funded viability gaps** Design and implement a development delivery model that is publicly owned, professionally run, impact driven and retains profits locally – full portfolio with viability gaps funded through Government equity to attract private finance

Table 2.12 • Shortlist of Options

2.5 Preparing the Economic Appraisal

2.5.1 Introduction

The purpose of the economic appraisal is to evaluate the costs, benefits and risks of the shortlisted options in order to identify the option that is most likely to offer best public value for money. In line with current HM Treasury Green Book project business case guidance, this involves:

- Estimating whole life capital and revenue costs for each option;
- Undertaking an assessment of benefits and risks for each option, wherever possible quantifying these in monetary-equivalent values;
- Using the Comprehensive Investment Appraisal (CIA) Model to prepare discounted cash flows and estimate the Net Present Social Value (NPSV) for each option;
- Score the risks for each option and rank them according to their respective risk scores; and
- Presenting the results, including sensitivity analysis, to determine the preferred option.

The key features of each option are shown in the Table below.

2.5.2 Comparison of Shortlisted Options

A summary of the expected outputs for each of the short-listed options is shown in Table 2.13.

	Option 1: Do Nothing	Option 2: Intermediate	Option 3: Do Maximum
Units			
Apartments	Unknown	9,448	9,448
Townhouses	Unknown	1,251	1,251
	Unknown	**10,699**	**10,699**
Area Ha *	**90.64**	**181.27**	**181.27**
Site Areas by Sector (sq ft)			
Retail/leisure	Unknown	733,736	733,736
Offices	Unknown	1,285,349	1,285,349
Large Industrial	Unknown	224,707	224,707
Light Industrial	Unknown	1,388,244	1,388,244
Community/Public Facilities	Unknown	106,229	106,229
Schools			
Primary places	0	1,420	1,420
Secondary places	0	0	0

* In Option 1: Do Nothing it is assumed that 50% of the total land within the Liveable Exeter site boundaries is owned by the public sector. It is unclear what quantum of development would be applicable to this land area.

Table 2.13 • Summary of the Shortlisted Options Outputs

Option 1: Do Nothing

In Option 1 it is assumed that land is sold to private developers. Expected development quanta would therefore be at the discretion of the purchaser/developer, in line with existing planning policy.

For the purposes of modelling the do-nothing scenario, as required in line with Green Book guidance, it has been assumed that 50% of the total land identified within the Liveable Exeter sites is under public sector control, would be made available for sale and would be purchased at the same rates used to value the land in Options 2 and 3.

These have been taken from the Department for Levelling Up, Housing and Communities (DLUHC) Appraisal Guide Book Table C.0.1: Post permission residential land value estimates per hectare dated 2016. This can be found in Appendix 2.D - DCLG Appraisal Data Book. For Exeter this was £3,020,000 per hectare.

In this option the only control of outcomes would be through existing planning policy. It's not expected that this option would deliver to the standards required to meet the Liveable Exeter aspirations.

Option 2: Intermediate or Business as Usual (BAU)

In Option 2; Business as Usual, we have assumed that the full portfolio of nine sites would be delivered, but with a watering down of the aspirational Liveable Exeter standards. This would be achieved through utilisation of existing skills, experience and capacity to develop business cases to potentially fund a future pipeline of infrastructure investment opportunities targeted at delivering Liveable Exeter sites and linked to the market failure. Viability gaps would be addressed through grant funding applications made into central government.

This would deliver on the required scale and has limited potential to meet the required standards, but it is expected that we would see aspiration leakage through a watering down of the build standard to meet any potential partners requirements regarding financial returns.

It would also be extremely onerous to negotiate effective JV or partnership agreements with potentially multiple landowners spread across the public and private sector, to obtain the agreements required to bring forward the developments. From the JLL site appraisals we have been able to model the viability gaps and these are presented as negative land value, and it is assumed land is provided at no cost, but ownership is retained.

Costs for Option 2 were prepared for Exeter City Council by Jones Lang LaSalle (JLL) in November 2018 as a part of the full appraisal carried out for the City Point, a new mixed-use quarter forming the largest part of the East Gate development. These appraisals can be found at Appendix 2.E – Exeter Bus Station JLL Appraisals. This land parcel was initially called The Bus Station before it was assigned the name City Point.

City Point encompasses a new bus station (now open) and Passivhaus leisure centre (due for completion Autumn 2021). The remainder of the site is expected to be delivered through a joint venture with Crown Estates, who hold the long leases for many of the residential and retail outlets to be redeveloped. It also includes the current Civic Centre which is to be relocated to new premisses and the existing building retrofitted to provide residential accommodation.

This data was extrapolated to cover the full portfolio of sites as a means of modelling BAU for the full portfolio . This was used in two ways:

- To provide a basis for the estimation of benefits arising from a scheme delivered in this way
- To provide a suitable comparator for appraisal of the costs included and to sense check overall development costs and expected returns.

A full summary of the assumptions required to utilise the appraisals prepared for the remainder of the land at City Point to provide a suitable base to estimate benefits for the full portfolio can be found in Appendix 2.F – Business As Usual Modelling Assumptions.

Capital costs for Option 2 are assumed to be the identified negative land values provided through the JLL site appraisals. Option 2 also assumes that the land would be gifted by the public sector into any JV arrangement to de-risk development for any project partner.

Option 3: Do Maximum – The Exeter Development Fund

Costs for Option 3 were also prepared by JLL. It was selected through a procurement exercise run by ECF through the ECC procurement team in December 2019. JLL was successful in its response and engaged in March 2020. The cost consultancy process was hampered by the Covid pandemic and initial delays caused through a sudden switch to home working for the full consultancy team. The final report and sign off of the JLL deliverables was in June 2020.

Details of the capital costs or receipts for each of the short-listed options is shown in Table 2.14.

	Option 1	Option 2	Option 3
Capital cost/(receipt)	(£273,717,700)	£191,225,241	£4,815,550,443

Table 2.14 • Capital Costs/(Receipts)

The detail of these costs is provided in the Site Appraisals which are provided in Appendix 2.E. The assumptions included within JLL's site appraisals can be found in Appendix 2.G – JLL Development Assumptions.

In addition to initial capital requirements there will be ongoing operating expenditure costs to manage the portfolio of properties over the appraisal period. In line with HMT Green Book guidance the operating costs have been estimated for each option over a 60 year appraisal period. These costs were provided by JLL as a part of the appraisal process and are included within the Deloitte's financial model. This can be found in Appendix 2.H – Exeter City Futures – Financial Model – Final – V2.00.

2.5.3 Estimating benefits

A benefits register has been created for the project in line with the HMT Green Book requirements. This was defined through both data capture exercises and consultation with relevant stakeholders from Exeter City Council, Exeter City Living (the councils wholly owned Passivhaus development company) and Co-Cars (a social enterprise collaboration providing shared e-mobility solutions in the South West).

The detailed process and methodology for benefits identification and quantification is found in Appendix 2.I – Benefits Methodology.

The benefits register identifies the relevant class of benefits and including any cash, non-cash, societal and un-monetisable benefits arising from the scheme. The benefits are referenced in the economic and financial cases.

For each identified benefit, the register encompasses a brief description, detailed service features, responsible officer, any activities calculation rationale and cost of delivery and timeframe of the benefit over the appraisal period of 60 years, where appropriate to do so.

Option 1 'Baseline: Do nothing' we are unable to realise any benefits. This option involves sale of land for development and very low control over those development outcomes.

Option 2 'Intermediate: JV/Grants' we are able to release £51,487,115 of discounted benefits.

Option 3 'Do maximum: Equity funded viability gaps' we are able to realise an optimal level of monetisable and unmonetisable benefits. The monetisable benefits total £840,896,736 of discounted benefits. As part of the production of the OBC the benefits have been reviewed and discussed with stakeholders who are able to comment effectively on the rational and baseline data used in the calculations.

Overall, the discounted value of cash and non-cash benefits identified in Option 3 is £155,843,057 at OBC stage, with a further £685,053,679 of Societal benefits as shown in Table 2.15. A discount rate of 3.5% has been applied to both costs and non-Qualy benefits, with a discount rate of 1.5% used for Qualy benefits, in line with the HM Treasury Green Book guidance. The full benefits register is shown in Appendix 2.J – Benefits Register- Exeter Dev Fund V1.

	Option 1	Option 2	Option 3
Cash releasing benefits	£0	£0	£104,912,313
Non-cash releasing benefits	£0	£0	£50,930,744
Societal benefits	£0	£51,487,115	£685,053,679
Total Benefits	£0	£51,487,115	£840,896,736

Table 2.15 • Monetisable Benefits by Option

2.5.4 Unmonetisable Benefits

This Section reviews benefits that is has not been possible to quantify in monetary terms, and instead scores them against each of the 3 short listed options.

Five benefits have not been monetised; these are fully detailed in the benefits register found in Appendix 2.J. These have not been monetised due to the inherent difficulty in confirming the impact of these in terms of a defined financial benefit. Most of these are qualitative benefits that are commensurate with the project's overall strategic objectives, these are summarised as being:

- Supports local Net Zero declarations, providing confidence in political leadership;
- Delivers on Exeter's defined housing requirements over the next 20 years;
- Enables stewardship of public sector assets for future generations and prevents asset leakage;
- Builds in house delivery capability to enable future projects to be delivered by the public sector;
- Provides a replicable model that can support other public sector bodies to deliver complex projects while maintaining standards and providing future income streams.

Unmonetisable benefits have been ranked for each short-listed option, these rankings can be found in Table 2.16 below.

	Option 1	Option 2	Option 3
Supports local Net Zero declarations, providing confidence in political leadership.	No	No	Yes
Delivers on Exeter's defined housing requirements over the next 20 years.	No	Partially	Yes
Enables stewardship of public sector assets for future generations and prevents asset leakage.	No	Partially	Yes
Builds in house delivery capability to enable future projects to be delivered by the public sector.	No	Partially	Yes
Provides a replicable model that can support other public sector bodies to deliver complex projects while maintaining standards and providing future income streams.	No	No	Yes
Overall Score of Unmonetisable Benefits	**0**	**1.5**	**5**
Ranking of Options by Unmonetisable Benefits	**3**	**2**	**1**

Table 2.16 • Unmonetisable Benefits

2.6 Estimating Risks

This Section discusses the process that was used to identify risks as they appear in the project risk register, which can be found in Appendix 2.J. These risks have been analysed across the 3 short-listed options and each risk has been red, amber, green rated (RAG) under each option. The process used for weighting is detailed in Section 2.6.1 – Risk scoring by Option.

The risks for each option have been assessed and divided into high-level categories, these being:

- Political
- Financial
- Stakeholder Engagement
- Internal Governance
- Timeframe
- Planning
- Development
- Operational
- Strategic

A high-level strategic risks workshop was held at the end of 2018 with stakeholders from Exeter City Council. At this stage it was to explore potential and perceived risks prior to commencement of any work on the proof-of-concept business case for the fund. This was to ensure the project was viable and there was the appetite within the council to proceed.

The workshop was an open conversation between key stakeholders at ECC, as the largest public sector landowner in the city, including politicians and senior management to ensure all commentary and a variety of opinions were captured. At this workshop a total of 39 risks were identified, these were categorised, and a detailed response or mitigation was provided, in addition each of the risks was scored for potential impact. These were then presented back to the workshop attendees in the form of a PowerPoint slide deck for any commentary and approval.

A subsequent workshop was held on the 27 May 2021 with Richard Marsh (Project Director – Liveable Exeter) to discuss appropriate risk categories based on his extensive knowledge and experience, not only of the 9 Liveable Exeter sites, but through his development career.

More detailed work then followed to capture any further risks identified since the initial workshop and these were summarised under the revised risk categories. The original 39 identified risks were cross referenced to the updated register to ensure all identified risks have been recorded.

All risks in the risk register have then been scored for both Impact and Likelihood to give a RAG rating. A mitigation has then been applied to all risks and they have been re-scored as Mitigated Risks.

It has not been possible, nor would it be appropriate at proof of concept stage, to attempt to value the risks on the project. Risk will be fully reviewed, re-assessed and appropriately quantified throughout the next stage of work required under Work Stream 2 to deliver a Full Business Case based on initial flagship sites.

2.6.1 Risks Scoring by Option

This Section, and Table 2.17, show the risks identified and the weighted scoring applied for each in each of the short-listed options, these options can be found in Section 2.5.2.

If the risk has been assessed as High in an option it scores 3, a Medium risk will score 2 and a Low risk 1. If the risk does not present in that option, or is entirely mitigated then it scores 0.

Category	Risk Detail	Weighting Option 1 (1-3)	Weighting Option 2 (1-3)	Weighting Option 3 (1-3)
Political	Stakeholder Engagement is "slow burn" and understanding will take time to build up. Risk of knowledge loss around election times. Also, personal levels of buy-in and party political stance need managing.	1	2	2
Political	Policy & Strategy impact on government delivery partners may be considerable (funding streams, legal framework)	1	2	2
Financial	Legislative changes as above, risks arising from poor advice or indeterminate level of legal de-risking at outset, leading to avoidable legal issues (criminal, civil leading to cost/time impacts) post-"go live"	1	1	2
Financial	Legislative changes as above, risks arising from poor advice or indeterminate taxation position at outset, leading to avoidable taxation issues (cost/partner return impacts) post-"go live"	1	1	2
Financial	Legislative changes as above, risks arising from poor advice. Notably, disposal powers and securitisation of assets. Freedom to select the vehicle of choice. State Aid issues. CPO.	2	1	2
Financial	Risk of insurance programme not performing in event of claim. Either through provider collapse or more likely through "contract of good faith" failure.	1	1	1
Financial	Recession risk. Demand risk (poor uptake of housing stock) & general drop in value of Fund.	1	1	1
Financial	Risk of not having defined mechanism to value Fund shares at any one time, therefore partner inequity arising.	0	0	1
Financial	Materials, labour costs inflate beyond contingent levels	1	2	2
Financial	Uncertainty of level of private sector returns required, levels of grant funding available, interest rates, initial cash injection	0	0	1

Category	Risk Detail	Weighting Option 1 (1-3)	Weighting Option 2 (1-3)	Weighting Option 3 (1-3)
Stakeholder Engagement	Competing priorities, equal commitment and input, recognition that partner cashflow profiles will change and be accommodated, how to "manage the emotion" that this is new and may become the new "normal", feeling of "loss of control" and concern over fair valuation of partner inputs & timing of development of own land	0	1	2
Stakeholder Engagement	PBs not at the table in any capacity may pose as potential blockers.	0	2	2
Stakeholder Engagement	Disengagement may prevent access to key grant/ lending stream	0	0	1
Stakeholder Engagement	Residents/other general public including media feel disengaged/not consulted/lack understanding of what might seem technical/suspicion if communication is not steady, frequent, open and consultative. Public support important to keep the city and wider on its path. Lack of willingness to change to new modes of transport and step changes (vs.. gradual)	2	2	2
Internal Governance	Risk associated with skills, experience and degree of association with key partners	0	1	1
Internal Governance	Inappropriate processes, systems and behavioural compliance.	0	0	1
Timeframe	Time is money. Resultant impact on pace of return for partners, incurred overheads and delivery of housing to residents	3	2	1
Timeframe	Novel infrastructure solutions will be worked up using initial profits i.e. land not included before a solution is found.	0	1	1
Timeframe	Do we have enough non-revenue generating assets	1	1	1
Planning	Akin to political risks. Operational overlay to this is partly procedural, partly political. Potential obstacles could arise.	0	1	1
Development	Right scale, quality, experience, understanding of novel methods necessary which may limit our options.	0	2	2
Development	Partner may encounter financial difficulty, under-perform (standards, timeframe)	0	2	2
Operational	Governance aspects continue into InvestCo and for the long-term. Additional costs arising from higher than anticipated labour and materials (including 3P suppliers) costs of repair and maintenance.	0	1	1
Operational	Additional resource/risk must be allowed for/expected, but is a key deliverable for the Fund. Whilst risk is defined as uncertainty, there presents a real upside here. Novel solutions!	0	0	2

Category	Risk Detail	Weighting Option 1 (1-3)	Weighting Option 2 (1-3)	Weighting Option 3 (1-3)
Strategic	Failure to deliver the required housing and infrastructure needed to support the population and growth targets. A failure to deliver in the required quantum's will lead to a lack of growth and potentially economic stagnation for Exeter.	3	2	1
Strategic	A failure to fully address the climate crisis and achieve the politically agreed outcomes required to ensure Exeter meets it's Net Zero target of 2030.	3	2	1
Strategic	Lack of viability on brownfield sites, and a defined and secure funding stream to address them. This leads to urban sprawl as developers favour green field sites as a cheaper alternative.	3	2	1
Strategic	Public sector land disposal to provide capital receipts required to meet funding gaps for public services.	3	1	1
Strategic	Existing standards for development do not align with UK policy, not do they deliver the required social outcomes due to a lack of accountability in the private sector to always pay towards infrastructure commitments.	3	2	1
Overall Risk Score		**30**	**36**	**41**

Table 2.17 • Risks Scored by Option

The risk register has been circulated to project stakeholders for comment and review and any feedback has been incorporated into the final version which is found in Appendix 2.K – Risk Register – Exeter Development Fund V1.

The resulting expected risk scored during the whole appraisal period are shown in the Table 2.17. It demonstrates that although the risks associated with development increase in relation to the complexity of the solution, this is in a large part offset by the risks to the city of not delivering on housing provision and political commitments.

2.6.2 Scoring of Risks in Option 3

As the Fund model, combining public sector assets and leveraging both Government support and private sector finance, is an innovative concept presenting a number of specific challenges and risks that have been captured within the risk register.

These risks are inherently difficult to quantify as they only arise under an asset pooling, Fund delivery model. As such these risks are shown in the Table 2.18 under each option and have been ranked to support the economic appraisal of the short-listed options.

	Total Risk Score	Ranking
Option 1	30	1
Option 2	36	2
Option 3	41	3

Table 2.18 • Ranked Unmonetisable Risks

Overall, Option 1 which involves selling land, results in the lowest risk, followed by Option 2 which involves entering into Joint Ventures and obtaining grant funding to deliver development.

Option 3, The Exeter Development Fund, results in the highest risk score. This is entirely expected due to the innovative and novel nature of the fund structure. Any unprecedented model will be high risk, especially at proof of concept stage.

As work progresses to full business case, we would expect to see the risk score decrease for Option 3 The Exeter Development Fund, as we obtain greater certainly on elements like partner involvement and appetite, and potential funding resource availability. We would also expect to see the risks rise in Options 1 and 2 as the pace of delivery, and the crystalisation of any expected benefits due from this, do not keep pace with the city's strategic requirements.

2.6.3 Management of Risks

Although many of the risks are identifiable as standard risks on a development project of this type, the scale of the proof of concept does present some additional challenges, especially considering the current development market. Price increases for materials could be a significant challenge, alongside a shortage of skilled labour supply, which is particularly noticeable in the South West of England.

For these more traditional delivery risks it's possible to mitigate as you would under any delivery model and as such these don't present in any greater or lesser extent in Options 2 and 3. They largely don't present at all in Option 1 as land is sold and there is no accountability following this for the development outcomes.

There is significant development experience currently siloed within the various project partners and their delivery teams. One of the key strengths of the fund model is that this experience can be pooled for the benefit of all public sector partners.

Although the project presents a number of challenges in terms of deliverability, these are considered manageable, having a capable development resource within the project partners, and through the appointment of professional designers, constructor-partner, and with continued key stakeholder input to the project.

Through Exeter City Living (Exeter City Council's wholly owned development company) we have access to Emma Osmundson and her team, widely recognised as an expert in her field of Passivhaus delivery. This ensures that there is already a wealth of available learning and experience that has already been gained on the ground in Exeter that will help mitigate a number of the risks traditionally experienced through delivery of net zero developments.

The Project Group will maintain and review monthly an overarching Risk Register. On approval of the OBC, the risk register will be updated and maintained throughout the Full Business Case (FBC) stage, and handed to the project delivery team for continued updating and monitoring throughout the delivery of the yet to be identified initial flagship sites.

The FBC will include a fully costed Risk Register, which will apportion the contingency percentages included at this Outline Business Case. The mechanism for managing risk transfer is primarily the correct and appropriate procurement of construction partners. Where a risk transpires which falls to the Fund, there is a mechanism for variation (Compensation Events), the costs of which are met from the costed risk 'pot'.

This project presents an opportunity to be a Living Lab for emerging technologies across a wide range of specialisms, and as such could generate significant benefits through early fostering and adoption where possible and feasible to do so. These benefits, if crystallised, and are anticipated to be of benefit nationally through ECF's commitment to sharing of knowledge and expertise.

To enable innovation across the project and to engage and support local SME'S, a level of failure risk will be required across the life of the project. It's anticipated however that the benefits gained from this collaborative and innovative process will out way any costs to the project.

2.7 Cost Benefit Analysis

2.7.1 Economic Appraisal Results

As part of the OBC, ECF has populated the Comprehensive Investment Appraisal (CIA) model to support the appraisal of overall value for money and cost-benefit of the shortlisted options. This can be found in Appendix 2.L – CIA_Model EDF V1. The assumptions above have been incorporated into a discounted cash flow for each of the options. In line with HMT Green Book requirements:

- Costs, benefits and risks are calculated over a 60-year appraisal period.
- Year 0 is 2020/21.
- Costs and benefits use real base year prices – all costs are expressed at 2020/21 prices in line with the baseline costs.
- The following costs are excluded from the economic appraisal:
  - Exchequer 'transfer' payments, such as VAT;
  - General inflation;
  - Sunk costs; and
  - Non-cash items such as depreciation and impairments.
- A discount rate of 3.5% is applied to years 1-30, 3.0% from year 31 onwards.

The economic summary, detailing results from the CIA model, as well as the ranked risks and unmonetisable benefits, is shown in Table 2.19.

	Option 1	Option 2	Option 3
Net Present Social Value (NPSV) (£'000)	£0.00	(£353,729)	£603,246
Ranking of NPSV	**2**	**3**	**3**
Benefit/Cost Ratio (BCR)	0	0.13	3.54
Ranking of BCR	**3**	**2**	**1**
Unmonetisable Benefits Ranking	**3**	**2**	**1**
Risk Ranking	**1**	**2**	**3**
Overall Ranking Score	**9**	**9**	**6**

Table 2.19 • Economic Summary and Ranking for Shortlisted Options

Table 2.19 shows that the option with the lowest score, and therefore representing the preferred way forward, is Option 3, with a score of 6.

Options 1 and 2 both have a score of 9, meaning they are placed equal second.

This compares the three shortlisted options and demonstrates that Option 3, presents the preferred way forward as it offers the best value for money since:

- It results in the best Net Present Social Value (NPSV) of £603m. This represents the net value of monetised benefits less whole life costs.
- Benefit Cost Ratio of 3.54. This represents the proportion of benefits in relation to costs.
- It achieves all of the identified unmonetisable benefits
- It scores the worst of all the options on risks, but this is more than offset by its improved performance in the other categories.

The measure of NPSV best represents the overall value of this scheme, as it reflects both the cash and non-cash benefits but also the societal benefits for the broader economy. The project team would expect to further refine benefits cost and risk as part of the FBC to inform an updated CIA model.

2.7.2 Sensitivity Analysis

This Section looks at the sensitivity of changes to both the benefits and costs of the short-listed options. Modelling is undertaken to look at scenarios where these change, both positively and negatively, to see if these changes could impact on the selection of a preferred option. Sensitivity analysis has been undertaken on the results which models the degree to which costs and benefits could realistically be expected to change, and if these changes would then impact on the final ranking of the options.

Benefits Sensitivity

The expected benefits under Options 2 and 3 have been adjusted to show the effects of a 10% and 20% change, both negatively and positively. As there are no benefits under Option 1 this has not been included in the analysis. The results of these are shown in Table 2.20 and Table 2.21.

Sensitivity Applied	Discounted Benefits	BCR	NPSV
-20%	£41,189,692	0.10	(£364,026,676)
-10%	£46,338,403	0.11	(£358,877,965)
0	**£51,487,115**	**0.13**	**(£353,729,253)**
+10%	£56,635,826	0.14	(£348,580.542)
+20%	£61,784,538	0.15	(£343,431,830)

Table 2.20 • Benefits Sensitivity Options for Option 2

Sensitivity Applied	Discounted Benefits	BCR	NPSV
-20%	£682,903,538	2.87	£445,252,623
-10%	£761,900,137	3.21	£524,249,223
0	**£840,896,736**	**3.54**	**£603,245,822**
+10%	£919,893,335	3.87	£682,242,421
+20%	£998,889,934	4.20	£761,239,020

Table 2.21 • Benefits Sensitivity Options for Option 3 (PWF)

Reviewing the sensitivity analysis shows that even in the best case (+20% additional benefits) for Option 2, compared to the worst case (-20% benefits) for Option 3, Option 3 would still be the preferred way forward.

Benefits for Option 3 would in fact need to drop by c.93% to be comparable to those realised in Option 2.

Costs Sensitivity

The expected costs or capital receipts under Options 1, 2 and 3 have been modelled below to show the expected impact of both positive and negative variances of 5% and 10%. The results of these are shown in Tables 2.22.

Currently we have seen an increase in construction costs of around 6% per year, but this is largely due to constraints on supply caused by Covid and Brexit. It is widely expected that this increase will decrease as supply settles out with demand.

Sensitivity Applied	Option 1	Option 2	Option 3
-5%	(£260,031,815)	£181,663,979	£4,574,772,921
-10%	(£246,345,930)	£172,102,717	£4,333,995,399
0	**(£273,717,700)**	**£191,225,241**	**£4,815,550,443**
+5%	(£287,403,585)	£200,786,503	£5,056,327,965
+10%	(£301,089,470)	£210,347,765	£5,297,105,487

Table 2.22 • Cost Sensitivity for Option 1, 2 & 3: Costs/(receipts)

2.8 Optimism Bias

This Section covers the values included within the appraisals to address the requirement to factor in optimism bias into business cases. Optimism bias is used to redress the tendency to be overly optimistic. Appraisers should make explicit, empirically based adjustments to the estimates of a project's costs, benefits, and duration. It is recommended in the Green Book guidance that these adjustments be based on data from past projects or similar projects elsewhere and adjusted for the unique characteristics of the project in hand.

The main aims of applying optimism bias are to:

- Make adjustments to the estimates of capital and operating costs, benefits
- Values and time profiles; and
- Provide a better estimate of the likely capital costs and works' duration.

As this is a proof-of-concept business case for a replicable financial model, and in the absence of a more specific evidence base, the Project Team has taken the decision to use the best available data to provide adequate comfort that optimism bias is suitably encompassed within the Figures used for the appraisals within the Economic case.

Details of these estimates are summarised in full in Table 2.29 – Summary of Lowest Potential Optimism Bias Included within the Modelling Assumptions

2.8.1 Build Cost Estimates

Cost estimates for the development of the 10,699 residential units included within the Liveable Exeter designs have been provided by JLL using standard BCIS build costs. A "Design Enhancement" cost has then been applied on top of these to reflect the uplift in quality of development required to meet the aspirational Liveable Exeter standards.

Design Enhancement Costs:

- £10,000 per apartment
- £25,000 per townhouse

A summary of what is included in these costs can be found in Appendix 2.G – JLL Development Assumptions.

An analysis was carried out to review these costs against real world examples provided by Exeter City Council's wholly owned development company, Exeter City Living. The Exeter City Living team has been delivering innovative and sustainable housing in Exeter for over a decade and has considerable experience in developments of this type. Table 2.23 shows a comparison of the costs applied by JLL for the purposes of modelling, against the build costs Exeter City Living have achieved on recent developments.

	Exeter City Living	JLL
Houses - costs per sq ft	£144.00	£123.84
Houses - design enhancement	£4,000	£25,000
Apartments - cost per sq ft	£124.39	£140.47
Apartments - design enhancement	£3,000	£10,000

Table 2.23 • Comparison Costs – JLL

Table 2.24 shows a summary of the anticipated savings when applying the rates achieved by Exeter City Living on Passivhaus projects delivered recently in Exeter.

However this saving could potentially be as high as £206m, as Exeter City Living has been able to achieve even lower build rates on some projects.

Units		Wonford Village	West Gate	Water Lane	South Gate	Sandy Gate	Red Cow Village	North Gate	Marsh Barton	East Gate	Total
Apartments		125	617	1,436	300	1050	428	308	4,435	749	**9,448**
Townhouses		11	0	131	0	0	0	0	1,109	0	**1,251**
Total		136	617	1,567	300	1050	428	308	5,544	749	**10,699**
Apartments											
One bed - 538 sq ft	15%	19	93	215	45	158	64	46	665	112	**1417**
Two bed - 753 sq ft	65%	81	401	933	195	683	278	200	2883	487	**6141**
Three bed - 926 sq ft	20%	25	123	287	60	210	86	62	887	150	**1890**
Total		125	617	1436	300	1050	428	308	4435	749	**9448**
		Wonford Village	**West Gate**	**Water Lane**	**South Gate**	**Sandy Gate**	**Red Cow Village**	**North Gate**	**Marsh Barton**	**East Gate**	**Total**
ECL Apartments		£12,098,758	£59,719,467	£138,990,526	£29,037,018	£101,629,563	£41,426,146	£29,811,338	£429,263,916	£72,495,755	Total Buildings Only Cost
ECL Townhouses		£1,748,384	£0	£20,821,664	£0	£0	£0	£0	£176,268,896	£0	
Total		**£13,847,142**	**£59,719,467**	**£159,812,190**	**£29,037,018**	**£101,629,563**	**£41,426,146**	**£29,811,338**	**£605,532,812**	**£72,495,755**	**£1,113,311,431**
JLL Apartments		£14,489,298	£71,519,172	£166,453,050	£34,774,314	£121,710,099	£49,611,355	£35,701,629	£514,080,275	£86,819,871	Total Buildings Only Cost
JLL Townhouses		£1,740,770	£0	£20,730,991	£0	£0	£0	£0	£175,501,291	£0	
Total		**£16,230,068**	**£71,519,172**	**£187,184,041**	**£34,774,314**	**£121,710,099**	**£49,611,355**	**£35,701,629**	**£689,581,566**	**£86,819,871**	**£1,293,132,114**
Total Indicative Saving		**£2,382,926**	**£11,799,705**	**£27,371,851**	**£5,737,296**	**£20,080,536**	**£8,185,209**	**£5,890,291**	**£84,048,754**	**£14,324,116**	**£179,820,683**

Table 2.24 • Comparison of Construction Costs Using ECL's Highest Build Costs

2.8.2 Land Values

Land values used within the Deloitte financial model have been taken from the Department for Levelling Up, Housing and Communities (DLUHC) Appraisal Guide Book Table C.0.1: Post permission residential land value estimates per hectare. This can be found in Appendix 2.D – DCLG Appraisal Data Book. For Exeter this was £3,020,000 per hectare.

This has subsequently been revised and updated land values have been published by the Valuation Office Agency (VOA). These can be found in Appendix 2.M – VOA land values 2019. The revised residential land value in Exeter is now £2,900,000 per hectare. Commercial office space on the edge of town has a value of £2,500,000 and industrial land £900,000. The VOA Figures derived for the purposes of appraisal have been calculated using assumptions on the next page.

The Figures provided assume no affordable housing provision and are, therefore, hypothetical, as in the majority of local authorities it is likely that such a scheme would not obtain planning consent. The Figures on this basis may be significantly higher than could reasonably be obtained for land in the actual market.

- Any liability for the Community Infrastructure Levy (CIL), even where it was planning policy as at 1 April 2019, has been excluded.
- It has been assumed that full planning consent is already in place; that no grants are available and that no major allowances need to be made for other s106/s278 costs.
- The Figures provided are appropriate to a single, hypothetical site and should not be taken as appropriate for all sites in the locality.
- In a small number of cases schemes do not produce a positive land value in the Model. A 'floor value' of £370,000 (outside London) has been adopted to represent a Figure at less than which it is unlikely (although possible in some cases) that 1 hectare of land would be released for residential development.
- This has been taken on a national basis and clearly there will be instances where the Figure in a particular locality will differ based on supply and demand, values in the area, potential alternative uses etc. and other factors in that area."

This also impacts on the "Vacant Possession" calculation, which is assumed to be 50% of land values. Using the revised VOA values a revised land value and vacant possession estimate is shown in Table 2.25.

Land Type	Percentage	Ha per type	Value per Ha	Total
Residential	67.39%	122.16	£2,900,000	£354,250,250
Office/Retail/Other	18.54%	33.61	£2,500,000	£84,021,189
Industrial	18.54%	25.51	£900,000	£22,955,639
VOA Land Value				**£461,277,078**
Vacant Possession (50%)				**£230,613,539**

Table 2.25 • Revised Land Values and Vacant Possession Costs

A comparison of the revised land and vacant possession values, against those used in the model is shown in Table 2.26. This gives us a likely estimate of the optimism bias included within the values applied within the financial modelling.

VOA Land Value	Vacant Possession (50%)	Total
461,277,078	230,613,539	691,840,617
Applied Land Value (DCLG)	**Applied Vacant Possession**	**Total**
547,435,400	273,717,700	821,153,100
Land Value Reduction	**Vacant Possession Reduction**	**Total Reduction**
86,208,322	43,104,161	**129,312,483**

Table 2.26 • Potential Reductions in Land Values and Vacant Possession Costs

It is important to note though that these revised VOA values are also still likely to be overstated given the assumptions implicit in the calculation, the main factors being:

- No affordable housing provisions
- Assumed planning consent is already in place

Given these factors the identified potential optimism bias of £129 million could be significantly understated.

2.8.3 Estimates for Demolition, Remediation and Ground Risk

Sanctus Ltd were asked to undertake a Preliminary Desk Study of the Liveable Exeter sites to allow estimated budgets for demolition, remediation and ground risk mitigation to be formed.

To facilitate this the 9 original Liveable Exeter sites were Sectioned into 12 distinct reports to allow for more accurate fee estimation and separation based on their locations, and perceived ground risk. This included review of historical maps of the area dating from before 1890; environmental information collected from regulatory bodies and national agencies; and geological, hydrogeological and hydrological information. This information was collated and summarised, including individual site reports, in Appendix 2.N – S2872-01 Phase 0 Desk Study Rev.A

These were used to provide a range of estimates from the simple optimistic to more multifaceted site requirements requiring potential additional remedial works or added complexity. These are reflected in the range of estimated mitigation budgets and represent a range of estimated mitigation budgets. For the purposes of including values within the model Sanctus were asked to also provide a "weighted average" expected cost for each site, taking into account the likelihood of the contributory factors on each distinct area. A summary of these is shown in Table 2.27.

Sanctus Report Number	Site Name	Site Area (ha)	Postcode	Eastings	Northings	BCIS Tender. Construction costs Indices (multiplier) factor	Simple Estimate	Complex Estimate	Weighted Estimate
002	Red Cow Village	3.37	EX4 4NT	291215	93404	1.00	£1,490,780	£5,765,650	£3,991,037
003	Water Lane	28.72	EX2 8BU	292151	91572	1.00	£9,982,248	£48,554,000	£40,975,374
004	Marsh Barton	78.64	EX2 8QH	292100	90848	1.00	£27,775,880	£126,675,000	£108,115,616
005	East Gate	8.94	EX1 2DA	292657	92839	1.00	£3,097,096	£15,190,500	£6,126,345
006	West Gate	9.07	EX2 4DD	291580	92104	1.00	£2,757,750	£12,998,200	£5,593,362
	South Gate	4.11				South Gate (Combined)	£2,322,348	£9,404,500	£4,163,031
007	Southgate (West)	3.14	EX2 4DA	292105	92228	1.00	£1,556,600	£6,337,550	£2,802,423
008	Southgate (East)	0.97	EX2 4SU	292542	92432	1.00	£765,748	£3,066,950	£1,360,608
009	North Gate	3.91	EX1 1HF	291845	92670	1.00	£2,795,620	£10,371,850	£4,674,452
	Sandy Gate	33.88				Sandy Gate (Combined)	£9,182,970	£45,240,149	£19,288,170
010	Sandy Gate (North)	27.01	EX2 7PR	296469	91506	1.00	£9,059,884	£44,780,750	£19,113,425
011	Sandy Gate (South)	6.87	EX2 7NN	296177	90877	1.00	£123,086	£459,399	£174,745
012	Wonford	2.36	EX2 6NG	294193	91519	1.00	£1,227,824	£5,287,000	£2,312,763
						Total Estimates	**£59,404,692**	**£274,199,849**	**£192,927,386**

Table 2.27 • Sanctus Cost estimates – Liveable Exeter

The weighted average cost estimate is almost 70% of the complex estimate, which includes potential additional risks and complexity envisioned based on the review undertaken. The weighted cost estimates when compared against the simple estimates, give a potential optimism bias included within the financial modelling of £133,522,694.

2.8.4 Benefits

Benefits identified for the project fall under the following categories:

- Quality of life improvements through reducing fuel poverty
- Avoided cost of retrofit
- CO2 reductions due to a reduction in private vehicles
- Improved wellbeing of tenants
- Wider benefits to all residents of Exeter

Optimism bias has been included in some of the calculation where there is some level of uncertainty over the calculation or appraisal values used. The Benefits Register can be found in Appendix 2.J, and 2. I, Benefits Methodology, contains details of the calculation assumptions and links to data sets used.

Table 2.28 shows the level of optimism bias included in the calculation of monetisable benefits for the project.

Benefit Description	Annual Benefit Value	Percentage OB Applied	Annual Value of Optimism Bias
No. 01 - Fuel Poverty (age 60+)	£3,099,330	10%	£309,940
No. 02 – Fuel Poverty (age 10-59)	£7,637,635	10%	£763,764
No. 03 – Fuel Poverty (age 0-9)	£1,475,871	10%	£147,587
No. 04 – Improved wellbeing for tenants	£10,699,000	50%	£5,349,500
No. 05 – Improved wellbeing for Exeter residents	£6,445,000	50%	£3,222,500
Total Annual Optimism Bias			**£9,793,291**

Table 2.28 • Benefits Optimism Bias

An annual value of £9,793,291 has been deducted from the monetized project benefits to allow for optimism bias. As these benefits are expected to be realised over the full appraisal period of the project, this gives an undiscounted total optimism bias of £597,390,751 over the full 60 years, which gives a discounted optimism bias value of £267,940,619.

2.8.5 Optimism Bias Summary

Owing to the innovative and conceptual nature of the Fund, optimism bias has been included within the Figures used to model the potential solution. A summary of the lowest potential optimism bias included within the appraisals is shown in Table 2.29 below.

Category	Value of Optimism Bias Included
Construction Costs	£179,820,683
Land Values	£129,312,483
Demolition, Remediation & Vacant Possession	£133,522,694
Benefits (discounted)	£267,940,619
TOTAL	**£710,596,479**

Table 2.29 • Summary of Lowest Potential Optimism Bias Included within the Modelling Assumptions

2.9 Conclusion

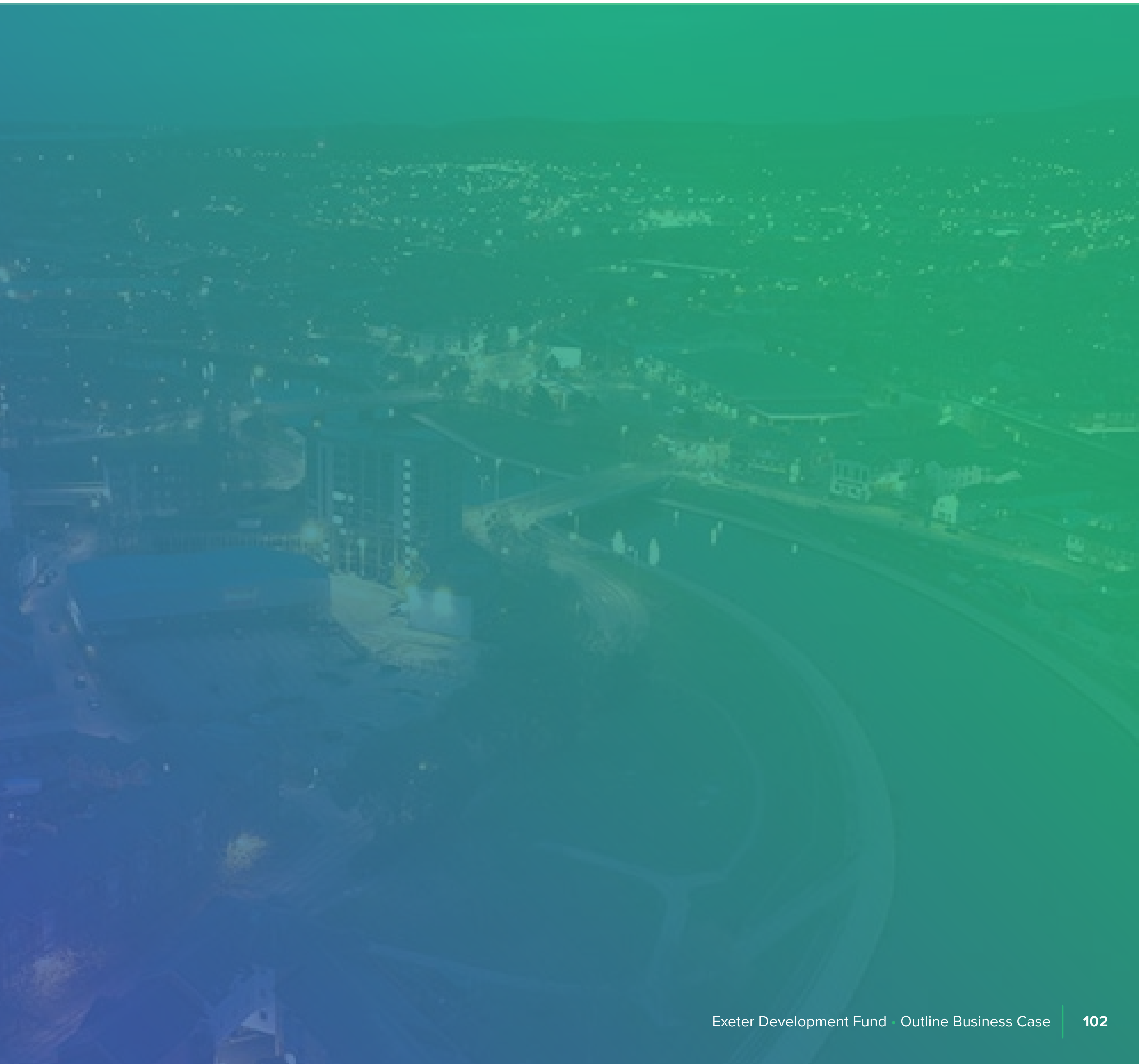
Of the three shortlisted options, Option 3, which involves using the fund structure with an upfront equity investment, is the preferred way forward.

This option achieves all of the project objectives and meets its critical success factors, delivering a high level of benefits in comparison to the other delivery options available.

As a result it not only aligns with a significant number of national and local Government and policy objectives, but also has the highest net present social value and a benefit-cost ratio higher than the other options.

Exeter Development Fund

3. Commercial Case



Exeter
Development Fund

Contents

3.1 Introduction

The Commercial Case explores the commercial viability of the Fund at this "Proof of Concept" stage. The Phase 2 roadmap, set out in the accompanying Management Case will further assess that viability, set out the detailed commercial and financing structure, establish a suitable procurement strategy, construction and financing partners and manage associated risks.

This Section of the OBC outlines:

1. Bridging from the economic case and LDA/JLL's site design options appraisal in the previous Section into a commercial, corporate and delivery analysis, analysed for financial impact, qualitative benefits and risks; and
2. The proposed deal in relation to the preferred option.

3.2 Commercial Analysis and Structure of the Fund

Deloitte LLP was commissioned by ECF to assist it with financial modelling for the preferred option and to analyse the benefits, risks and options associated with various fund and financing structures in the context of the full portfolio of sites included in the development appraisal work carried out by JLL.

In the context of data provided by JLL and the objectives of the OBC, Deloitte performed an initial desktop exercise to narrow various options for finance and delivery of the Fund's objectives down to three structures for later, detailed analysis and outline financial modelling:

Option 1

A three entity structure including development, operational and financing entities whereby the financing entity receives a single capital injection from the Sponsors and Private Lenders.

Option 2

A three entity structure including development, operational and financing entities whereby the financing entity receives tranche capital injections from the Sponsors and Private Lenders.

Option 3

A two entity structure including a development and operational entity with tranche capital injections being passed directly to each entity. Workshops were held on the 24 September 2020 and 8 October 2020 to refine these options further and socialise them with the Project team.

The resulting analysis considers both the Fund's perspective and a lender's perspective to highlight the key parameters to support evaluation of each of the proposed options. The diagram in Figure 3.1 highlights each of the considerations discussed.

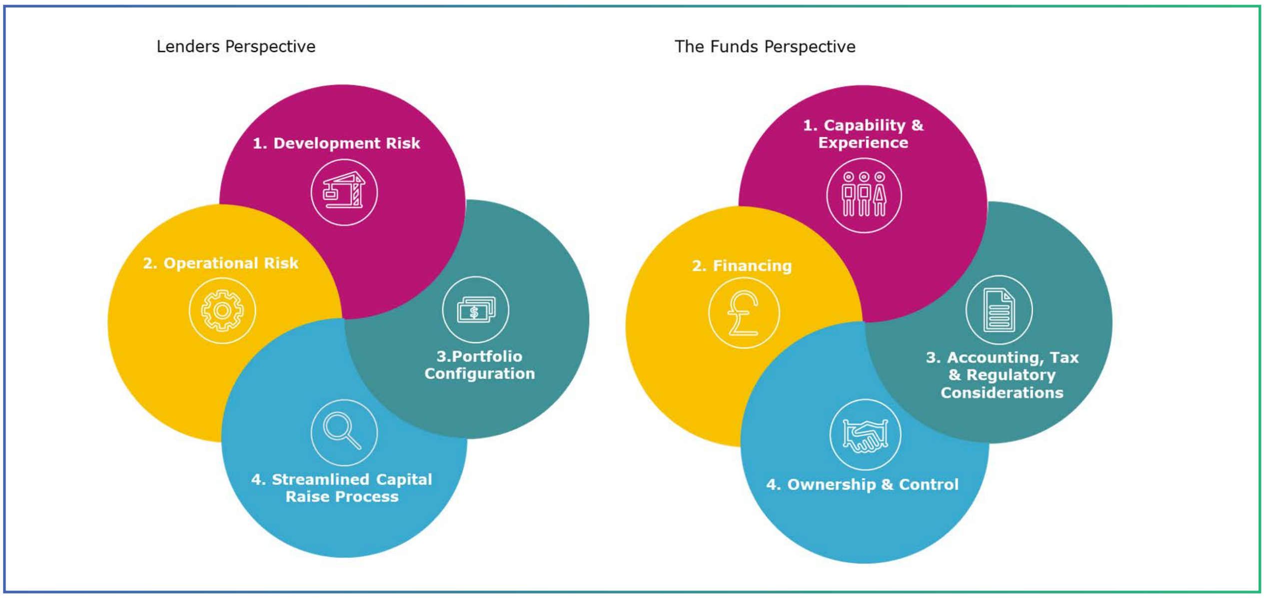


Figure 3.1 • Fund vs Lender Considerations

Whilst the above demonstrates the key considerations from a lender/Fund perspective the key determinant of its feasibility is whether the Fund generates a sufficient return whilst ensuring delivery of the Placemaking vision that the project demands.

After discussing the key considerations against each of the proposed Funds it was decided that Option 2 was preferred as this:

- Provided a clear structure of accountability with each entity being responsible for key elements of the project lifecycle including funding, development and operation; and
- Maximised return as interest is only accrued on capital deployed due to draw downs being tranche.
- In making this decision the Project team discussed the following drawbacks:
- Lenders may prefer providing a single capital injection as this limits the number of drawdowns and therefore operational cost whilst maximising their returns through interest;
- A tranche approach increases the administrative burden as formal diligence is required for each drawdown. This will increase the costs to the Fund as more staff will be required to manage this process; and
- Lenders may prefer investing directly into the development and operational entities as this provides greater transparency on the collateral funds are deployed against.

Further work is needed to understand the market appetite for each Funding route. However, for the purpose of understanding the feasibility and financing requirements of the portfolio, Option 2 has been modelled as the optimal structure. This includes a 100% Sponsors-owned arms-length entity referred to as 'Top Co' which has two 100% owned subsidiaries called 'Dev Co' and 'Invest Co'.

It is expected that the Sponsors will provide equity funding into the Fund in return for distributions to demonstrate their commitment to help attain private sector financing.

Top Co

The Top entity which is 100% owned by the Sponsors and is responsible for managing the activities of the overall Fund. It is expected that Top Co will engage with the private market to source financing to support with delivery.

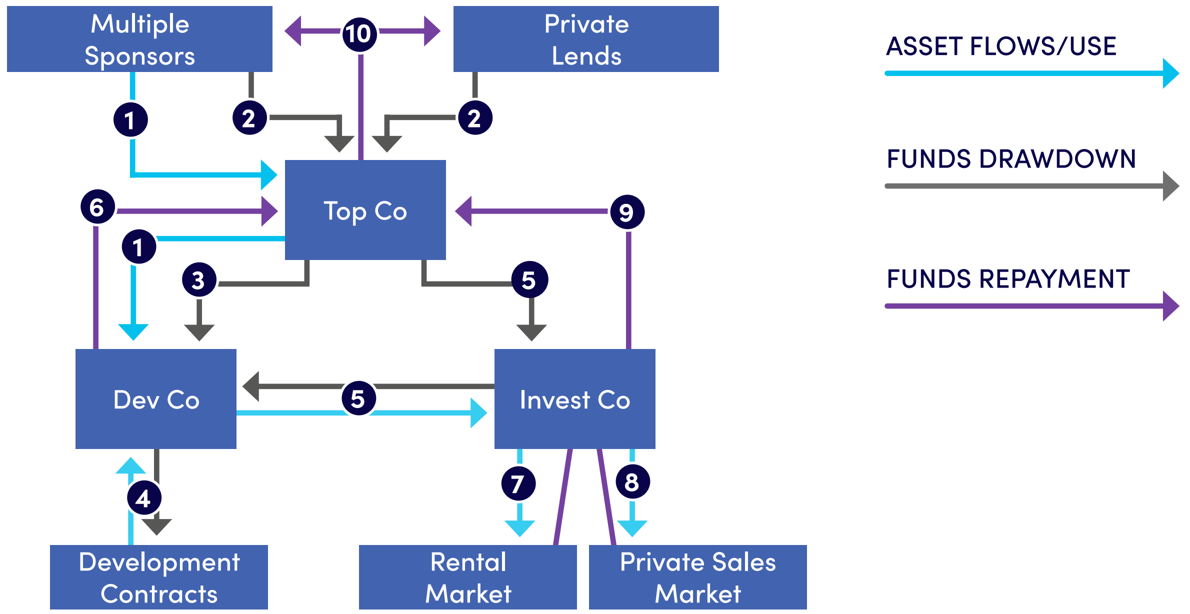
Dev Co

The Development entity is 100% funded by Top Co and is responsible for developing or contracting development to build all portfolio assets. Dev Co will transfer all assets to Invest Co upon completion.

Invest Co

The Investment entity is 100% funded by Top Co and is responsible for collecting rental income and maintaining all assets held

The asset and cash flows of the assumed delivery Fund can be found below:



1. Top Co receives equity funding from the Sponsors in return for distributions which part funds development costs and the transfer of assets from Dev Co to Invest Co[1].
2. Top Co receives private funding to fund the remaining loan requirements of Dev Co which are not covered from equity funding. Top Co funds the remaining requirement, if any, of Invest Co via an ongoing Working Capital Facility ('WCF').
3. Dev Co draws down loans from Top Co.
4. Dev Co uses the drawdown funds for the purchase of land and development contracts to build the assets. (Note, landowners could include both Sponsors and external parties)
5. Invest Co draws down loans from Top Co to purchase assets from Dev Co.
6. Receipts from asset sales to Invest Co are used to repay Dev Co loans from Top Co.
7. Invest Co leases the assets to the rental market.
8. Invest Co may sell the assets to the market in the final year (note, the base case assumes all assets are retained by the Fund and hence a residual value exists in the NPSV calculations in the economic case).
9. Receipts from rental assets (and private sales where relevant) are used to repay Invest Co loans from Top Co.
10. Top Co repays the loans to Sponsors/Lenders and provides distributions to the Sponsors.

Figure 3.2 • Fund Asset and Cash Flows

1 Note, this is an assumption adopted for the base case. How equity will work in reality is yet to be decided and/or negotiated with potential government sponsors.

3.3 Funding and Financing Structure

This Section provides commentary on the funding sources available, how financing could be structured as well as the base case assumptions adopted in the Model for:

- Top Co
- Dev Co/Invest Co

There are many financing options available to deliver Funds of this nature as shown by the diagram in Figure 3.3. The following Sections discuss some of these options in more detail in line with ECF's expectations of where financing will be raised. Further work would be required should different financing sources be preferred.

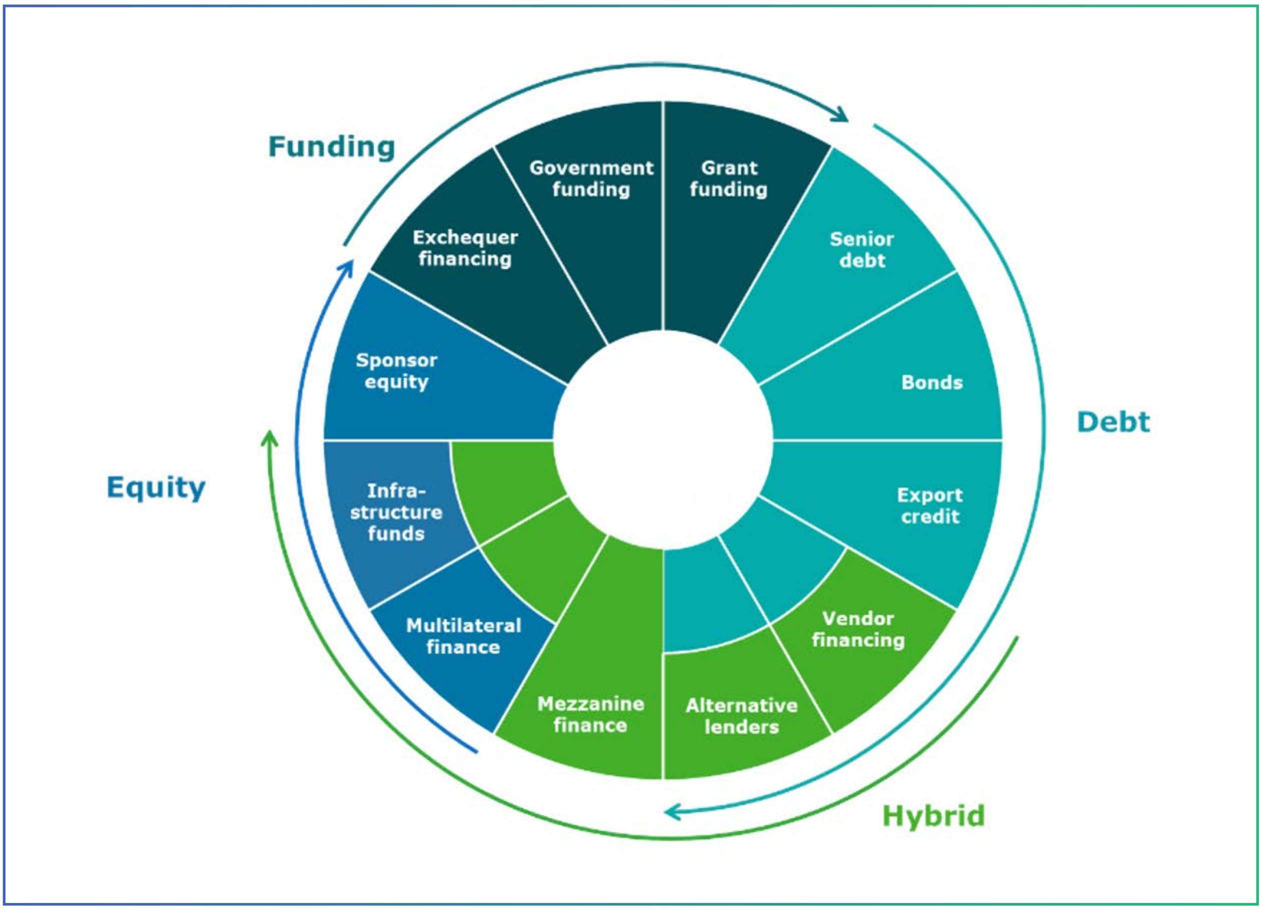


Figure 3.3 • Financing Options

3.3.1 Top Co

As noted above, Top Co will be responsible for the overall management of the Fund and therefore will be accountable for acquiring the required funds for delivery. The Project team is exploring two key sources of financing including equity funding from the public sector and lending from the private sector.

3.3.2 Equity Funding

The Department of Levelling up, Housing and Communities' single departmental plan sets out an ambitious target to deliver 300,000 net additional homes by the end of 2022. However, between 2018 and 2019 the annual housing supply in England amounted to 241,340 net additional dwellings highlighting that further work is needed. As a result, the then-housing secretary Robert Jenrick announced on the 8th of September a new £11.5 billion Affordable Homes Programme to be delivered over 5 years from 2021 to 2026 delivering up to 180,000 new homes across the country.

Following this recent announcement, there is optimism around the impetus the government is placing on securing the increased supply of housing. However, the true impact of Covid-19 is yet to be seen. On one side this could create difficulty as reduced budgets create increased competition for funding which in turn could reduce accessibility. Alternatively, large infrastructure programmes such as this may be viewed by government as a road map to recovery as it helps generate mass scale employment during development.

The Project team has held initial discussions with Homes England to explore the availability of funding. However, Homes England is unable to commit or allocate any specific funding at this stage. Having regard to the composition of the portfolio assets, the Project team is also exploring other funding opportunities with stakeholders other than Homes England, including the Department for Education and Department for Transport. Equity and/or grant funding is critical to the success of this Programme as it used to support the establishment of the Fund, initial development activity and improve market confidence through increased credibility unlocking private investment.

Equity funding will also ease capital requirements, principal drawdown requirements and subsequent interest payments by the Fund which in turn will help the Fund retain ownership and control of the portfolio.

As a single injection of equity funding is required, the commercial and financial model's base case has assumed a single cash injection via the working capital facility equal to 31% of the total estimated cost of Land Acquisition, Land Preparation, Construction and Developers Profit, where Developers Profit is set to zero.

The Project team has adopted these assumptions under the base case to test the portfolio's feasibility in line with parameters discussed with Sponsors to date. Given this equates to circa £1.5 billion in grant funding, an initial 'to market' flagship site programme (the subject of the Phase 2 work to FBC) will seek smaller funding packages to present a clear and transparent case to the public sector funders and private lenders.

3.3.3 Private Sector Funding

Private sector investment is important for the success of the Programme given the current shortfall in funding identified under the base case. Using the input data provided by JLL, it is expected that the total Land Acquisition, Land Preparation, Construction and Developers Profit will equate to circa £4.7 billion.

The Fund will fund this through rental receipts, equity funding and private sector investment. The base case estimates that circa £3.2 billion will be required from private investors to deliver the full Portfolio. Given the lack of comparable projects whereby private investors have provided this level of funding the scenario analyses in the Financial Case of this OBC and the subject of Phase 2 of the work to FBC applies smaller more marketable funding packages as noted below.

There also exists increased competition for private funding post Covid-19 as the government looks to kick start the economy. This highlights the importance that the Fund adopts a flexible approach in creating marketable funding packages which differentiate from competitors.

As private institutions look to diversify their portfolios, alternative investments in real estate have become a viable option. There are a range of private institutions who are interested in these investments including Legal and General, M&G and Aviva. This programme will be of interest to these institutions for a number of reasons including:

- A government backed portfolio provides risk sharing opportunity with the public sector;
- Investments in programmes supporting the government to achieve its carbon-net zero vision is strong for corporate social responsibility;
- A strong pipeline of assets supports long term funding opportunities which in turn provides secured returns;
- A diversified portfolio of assets minimises risks through one investment; and
- Investing in an experienced operational team provides assurance in delivery.

The Fund management will need to be flexible and pragmatic when engaging with private investors and working collaboratively with them to create a tailored delivery Fund and funding approach which creates confidence in the portfolio's probability of success.
There is a wide range of financing options available from private lenders including senior secured debt, senior unsecured debt, subordinated debt and mezzanine financing. The key differences between these funding sources is driven by the order of repayment in the event of bankruptcy as noted in the diagram in Figure 3.4.

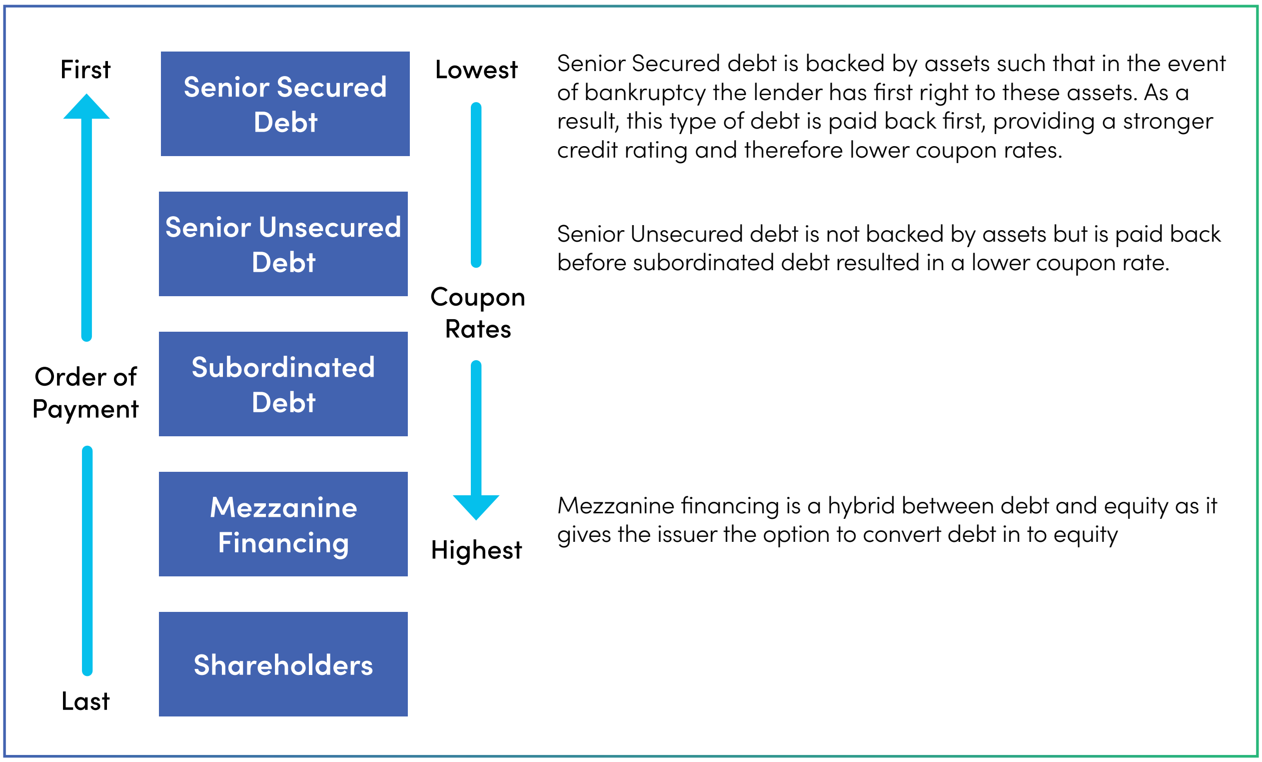


Figure 3.4 • Variety of Funding Sources

The diagram in Figure 3.4 hows there are clear pros and cons of each funding source driven by the equilibrium of coupon rates and control in the event of bankruptcy. All these sources could come in the form of a single capital injection or multiple tranches whereby the Fund is able to drawdown funds on multiple occasions.

A tranche approach incurs a higher administrative burden, however it does drive financial efficiencies due to lower carrying costs when compared to a single drawdown event. It is anticipated that in Phase 2 of the work, the Project team will engage with the market to get an understanding of the different sources of financing available and how they align to the priorities of the Programme.

Another key consideration when acquiring private investment is understanding the variety of repayment structures available such as bullet; partial bullet then annuity; and annuity. A summary of the pros and cons of these repayment structures can be found in Table 3.1 below:

Repayment Structure	Summary	Pros	Cons
Bullet	The total loan balance including interest is repaid on a specified date.	This eases cash flow pressures during construction as interest payments are capitalised meaning repayment occurs on a later specified date.	The Fund will need to generate enough cash to pay the total loan balance on a specified date or risks being in default.
Partial Bullet then Annuity	On a specified date the Fund pays an amount equal to the total amount of cash available[2] and then uses an annuity repayment structure for the remaining loan balance.	This eases cash flow pressures during construction as interest payments are capitalised meaning repayment occurs on a later specified date. The Fund will not default on the loan if it does not have enough cash to pay the total loan amount on the specified date, providing greater flexibility. Following the payment of the partial bullet, the Fund will have the opportunity to refinance the annuity element of the loan should market conditions be favourable.	The total amount of interest paid will be higher compared to the bullet option if the full loan amount is not paid on the date the bullet is due.
Annuity	The Fund begins repaying the loan on an annuity basis from the date of first draw down. The amount repaid is equal to the principal plus interest.	This provides the Fund certainty on what the repayment profile will look like providing budgetary benefits in terms of cash flows.	There will be higher cash flow pressures in early years compared to a bullet style loan as repayments begin from the first drawdown.

Table 3.1 • Repayment Structure Analysis

When deciding the preferred repayment structure, the Fund will need to consider the pros and cons of each option in relation to the Fund. The preferred option will maximise cash flows and thus minimise the probability of default whilst delivering the vision of the Programme.

The Fund must provide confidence to investors that revenue streams are credible, secured and robust such that repayment will be made under the desired profile.

Another consideration when acquiring private financing is the impact of loan covenants. A loan covenant is a promise within the debt agreement that a certain scenario will or will not happen.

If a loan covenant is broken, the company in question has breached the terms of the debt agreement which may be due to a shortfall of cash.

2 Please note, this is a modelling assumption only. In reality, it is likely that a minimum cash balance would be required

For infrastructure funds, typical loan covenants include Loan-to-Value ratio ("LTV") and Interest Coverage ratios ("ICR"), the standard definition of these covenants can be found below:

- LTV = The total loan balance / The Total value of assets on the balance sheet
- ICR = The annual profit / Interest Expense in the Income statement

When commencing engagement with private investors, the Fund should take consideration of the loan covenants discussed as this will help determine the likelihood of the Vehicle experiencing a default event.

In Phase 2 of the work, assessment of a flagship site programme will create smaller funding packages which maximises lender appetite. Each investor will have different requirements and preferences in terms of investments driven by their current risk profile. For example some investors may require:

- A certain asset class as opposed to a portfolio
- A minimum amount of capital to be deployed
- A certain repayment profile
- A certain loan term

Smaller funding packages which consider the above drivers ensure resilience in revenue flows; and selects the sites which most align with the vision of the Programme.

The Project team and Deloitte have tested the portfolio's feasibility under a variety of different financing assumptions. These assumptions have not been verified with the market and it is anticipated that in Phase 2 of the work the Project team will conduct market testing to understand the accuracy of the assumptions.

However, for the purpose of this analysis, the below financing assumptions have been modelled:

- Top Co draws down to fund the requirements of Dev Co on a back-to-back basis
- Coupon rates is set at 6%
- The loan term is set at 40 years
- An annuity repayment structure
- LTV ratio is set at 85%
- ICR is set at 1.1x

3.3.4 Alternative Funding Sources and/or Saving Opportunities

Dependent on how engagement progresses with the public and private sector, the Fund may wish to consider alternative funding sources and/or opportunities for savings if a shortfall is anticipated.

This could include:

- Selling some of the Portfolio's assets to the private market in early years to generate a cash injection;
- Borrowing facilities from the public sector (e.g. PWLB); and
- The opportunity to reduce the costs associated with the Community Infrastructure Levy given the Portfolio incorporates a range of public amenities. If this option is desired, the Fund would need to engage with the local authority to understand if this is possible.
- Further work would be needed to model the implications of alternative funding sources on the Portfolio should they be required.

3.3.5 Dev Co and Invest Co

Dev Co and Invest Co are wholly owned subsidiaries of Top Co. Dev Co has been established for the management of the development phase and transferring assets to Invest Co whilst Invest Co is responsible for the operation and maintenance of the assets.

These entities fund their operations via loans from Top Co meaning Top Co is responsible for setting the loan terms including type of debt, drawdown conditions, repayment profiles and loan covenants.

Therefore, Top Co receives cash from these subsidiaries through the repayment of loans and distributions. Consequently, Top Co should have a partnership agreement and loan terms with these entities which optimise cash flows from the Portfolio's perspective. As a result of this, the following base case assumptions have been adopted:

Category	Assumption	Reason
Drawdown	Dev Co and Invest Co will have a Revolving Capital Facility with Top Co. Dev Co - Draws down annually an amount equal to: The cash flow requirement to fund land preparation, construction and developer profit costs whilst having regard to cash at bank in the previous period Invest Co – Draws down annually an amount equal to: The cash flow requirement to fund the purchase of investment properties whilst having regard to cash at bank in the previous period	The rational for tranche drawdowns is that it reduces the interest payable when compared to a single capital injection.
Coupon Rate	Dev Co/Invest Co – The coupon rate applied to the loans from Top Co to Dev Co/Invest Co is set at 0%	As the Fund acts as one entity, it is expected that no coupons will be applied to intra-group loans.
Repayment Profile	Dev Co/Invest Co – Repayment of the loan from Top Co is on a cash sweep basis i.e. any excess cash at the end of a period is used to repay the loan.	Under this repayment profile any excess cash held by Dev Co and Invest Co in a given period is passed on to Top Co. This is important as it enables Top Co to use cash generated from one site and feed that to another site which in turn reduces the loan drawdown from private investors and thus financing costs.
Distributions	Dev Co/Invest Co – Any excess cash after the repayment of the loan in a given period is passed to Top Co via distributions.	For modelling purposes it is assumed that distributions are paid as soon as the repayment of the loan has occurred. This enables the Fund to operate on a true cash sweep basis bringing the benefits identified above.

Table 3.2 • Assumptions

3.4 Procurement Strategy and Route

Phase 2 Work Procurement

External advisor input for the Phase 2 work is to be procured by ECF using the £840k DLUHC capacity funding. Given ECF's status as a public entity this represents a public sector procurement process and to that end ECF will mirror the procurement processes adopted by ECC as a proxy. This is how ECF has operated its procurement for the external advisors to this OBC.

Fund Procurement: Advisors, Developers and Professional Services

Chosen processes will largely be determined by the legal and regulatory frameworks applicable to the legal vehicles chosen. The Fund requires commercial flexibility, whilst retaining some degree of public sector authority. As discussed in the management case, the Fund will carry some of the fundamental characteristics of a PDC and on face value may require to follow the necessary OJEU processes (or non-EU equivalent following once OJEU is replaced).

However, it is designed to be both commercial and innovative in its approach and is to carry out infrastructure provision on commercial terms to the extent possible. To that end, it may be possible to create its own bespoke procurement processes, on which the Fund board will sign off and on which the Project team will take legal advice as part of the Phase 2 work. Some initial legal consultation on this and other aspects of the Fund are outlined in the next Section.

3.4.1 Legal and Commercial Considerations

Early engagement with Ashfords LLP has identified the following headline legal/commercial issues. These questions and issues will be addressed in greater detail during Phase 2 works.

Legal structure of the Fund (LLP, LP or corporate entity):

- Statutory power of the Public Bodies to invest in/hold shares in the Fund;
- Tax implications of the structure for the Public Bodies;
- Tax implications of the structure for the Fund.

Transfer of property into the Fund:

- Public Bodies ability to sell the land directly to the Fund without an open market exercise;
- CIPFA valuation of the land to determine market value to comply with Section 123 of the LGA 1972;
- Site preparation;
- Compulsory Purchase Orders;
- Appropriation of the land for planning purposes;
- Control of the Public Bodies over land once in the Fund;
- Extent of due diligence required by funders; and
- Where does planning risk sit?

Transfer of the property within the Fund:

- Tax implications of transfers – can intra-group relief apply? and
- Debt funders charges over property.

Fund specific issues:

- Identifying whether the proposed Fund will constitute either a collective investment scheme (CIS) or an alternative investment fund (AIF) for the purposes of the Financial Services and Markets Act 2000 (FSMA)/the UK retained Alternative Investment Fund Managers Directive (AIFMD). If the Fund is a CIS or AIF, the operator/manager of the Fund would need to be regulated under FSMA:
- The structure will need to be sensitive to the requirements of private investors providing development finance by way of debt facilities. It will be a matter for negotiation but such investors may expect a share of development profit as well as interest and eventual repayment of their loans. If that is the case, it may have regulatory as well as tax implications depending on how the profit share is structured.

Procurement

- Fund potentially not a Contracting Authority for the purpose of the Public Contracts Regulations 2015 (PCR 2015);
- However, consider any procurement obligations imposed by DLUHC; and
- If the Fund anticipates providing any services or works to the Public Bodies, Teckal exemption to be considered.

Subsidy Control (Formerly State aid)

- All funding/property provided by the Public Bodies to the Fund provided on market terms;
- All services/works provided by the Public Bodies to the Fund (if any) provided on market terms;
- Advice on the Subsidy Control status of the DLUHC funding.

TUPE

- Consideration of any TUPE implications of the Fund for the Public Bodies.

3.4.2 Phase 2 Service Requirements and Outputs

Phase 2 encompasses two main elements. Firstly, the work to design, test and evaluate the Fund legal structure, target operating model and partner relationships. This will consider input from third party advisors across legal, regulatory, financial, taxation, planning, energy, transport/mobility and other aspects to optimise outputs and minimise and manage risks. Secondly, feasibility analysis to work up a flagship site portfolio and establish appropriate procurement processes to set in place a robust, flexible end-to-end supply chain.

The flagship site work will process (a) multi-stakeholder site(s) with all relevant stakeholders, such that the fund has (a) site(s) ready to take live after FBC stage. All stakeholders must have the confidence at FBC stage that the first site is "shovel ready", legal obstacles have been removed and the site is essentially deliverable. A delivery partner should be aligned and "invested" at that point, thus minimising any mobilisation period post FBC and "go live" decision. To this end, meetings have been scheduled with Homes England, Exeter City Council, Liveable Exeter to map ownership and select a suitable flagship site set.

ECF have engaged early with Exeter City Living, Exeter City Council's own development company to better inform the financial modelling assumptions. Discussions have begun and will ensue (with other potential partners too) during the early Phase 2 stages to help further specify build quality standards, scalability, resource, personnel and processes. A framework of partners to allow for peaks and troughs in development speed and scale will be explored as an option and early messaging incorporated in the project plan.

3.4.3 Specific Risks

The Fund represents an innovative approach to the combination of public sector finance, viability gap funding and private sector investment. In the case of the site portfolio on which the OBC has been based, the scale is unprecedented, and as such the public sector funding requirements are assumed from a source that is as-yet untested at this size.

The Financial case in this OBC runs various scenario analyses to apply the Fund structure to an initial flagship set of sites that are within commonly accepted funding envelopes for similar projects. Nevertheless, the Fund concept, as designed in this OBC, carries three key specific risks for consideration and mitigation as part of Phase 2 works:

Risk 1: Funding Risk

The Fund represents a bold and innovative approach to teaming government capital with private sector finance. In a post-PFI, post-Brexit UK, a tried and tested long term model for infrastructure spend has yet to replace incumbent approaches from the previous two decades. A risk exists that the Fund concept does not provide government with enough comfort to allocate its infrastructure budgets as equity in this way. Equally and as a result, without government intervention for a project of this scale the risk exposure to private sector lenders may be too high for their involvement at the scale required.

- **Mitigation:** The project team has an active and open engagement process with government, with regular progress meetings with Homes England and other government departments. However, Homes England is unable to commit or allocate any specific funding at this stage. Discussions are underway already as to which sites within the broader programme can be allocated to a first tranche of funding and potential project for initial flagship sites.

Risk 2: Skills and capacity

The development, infrastructure and housebuilding markets are all under strain. Building standards are changing rapidly alongside development of new technologies to meet those standards in carbon, modern methods of construction, project management and procurement. Coupled with rapid increases in demand for housing in the UK, a dearth of talent and capacity exists that risks rendering the Fund's ambitions undeliverable at the quality, pace and scale required for success.

- **Mitigation:** The project team has opened discussions with SME, carbon, spatial and innovative developers with an interest in the Fund concept. ECF has had open engagement with that market as well as Green-tech suppliers such as Co Cars to supply E-mobility solutions to developments and the associated data. Additionally, with ECF's board comprising the University of Exeter and Exeter College, the project has a direct line into the education and skills agenda in the region.

Risk 3: Local support and agendas

Cities operate with multiple public sector institutions that represent the varied and complex agendas of the inhabitants. From NHS Trusts to Universities to the Council, local public sector organisations experience some attrition between individual agendas as their approaches to carbon, commerciality, placemaking and human resources reach differing levels of maturity.

To that end, the Fund's structure, which assumes a relatively seamless approach to divesting assets into a separate vehicle for development, albeit owned and controlled by the public sector, risks exposing further attrition between institutional agendas. Methods of procurement differ, appetites for control and risk differ and approaches to investments outside of core functions differ. The Fund risks failure through an inability to collaborate at the top level.

Mitigation: The city already has a successful collaborative governance structure in ECF, with many examples of successful collaborations both financially and operationally on the Net Zero agenda. Equally, the city has backed the Fund concept design in submitting a bid for and winning funding for the next phase of the project under the Fund concept. In July 2021, £840k was awarded by DLUHC to ECF to progress the Fund to its next stage on behalf of the city: Phase 2 work.

3.4.4 Fund Risk Allocation

The equity facility from the public sector is drawdown for the purchase of land and land preparation costs. While the risk sits with the public sector at this point the risk is proportional to the value of the land that has been purchased.

As the sites enter construction phases private sector loans are sought. At this point the risk to the public sector increases as in the case of insolvency and a sale of asset is forced, debt is repaid first before the equity is repaid. During construction phases and prior to when the assets are generating income it is likely that the public sector equity will face its highest risk profile with the fund in a negative asset position. This has been forecast to continue for the first seven years.

Once the phases of the portfolio are built out and start generating revenue this reduces the risk to the private sector as the debt interest will be serviced by revenue.

Debt is scheduled to be paid off at the earliest instance via a cash waterfall in the financial model to keep interest repayments to a minimum. Equity is due to be repaid back to the sponsor within the first half of the project after which the sponsor will be receiving income from the fund and there will no longer be risk.

This is illustrated in the Table 3.3.

Phase	Early Construction	Mid Construction	Late Construction	Fully Operational
Debt (Private)	High Risk	Medium Risk	Low Risk	Low Risk
Equity (Public)	High Risk	Medium Risk	Medium Risk	Low Risk

Table 3.3 • Risk Assessment

3.4.5 Accountancy treatment

Cash inflows / outflows and balances

For simplicity, no minimum cash balance has been modelled in the finance case in respect of cash flows to the Fund i.e. the commercial vehicle will sweep out all Cash at Bank / Free Cash Flow to the Fund. The management of the commercial vehicle is likely to set this amount once established.

Top Co will not experience a cash deficit under the current approach as it will assume that a 'working capital' injection will always be provided.

Top Co can also cross subsidise cash requirements across Sites i.e. where there is a cash shortfall in a particular Site, prior to drawing down an additional 'working capital' amount from the Fund, the model will assess whether there is enough cash available from other schemes within the Portfolio to meet this requirement.

Working capital contributions are treated as interest bearing loans. However, interest is accrued and is only required to be repaid by the Fund where there is free cash flow following operating and financing activities and prior to any distributions. The base case assumption sets interest on the Working Capital at 0% such that this funding source is treated akin to equity.

Treatment of investment properties

1. Assets created are treated as investment properties and held on Invest Co's balance sheet.

2. No depreciation of assets is assumed.

3. All acquisitions are assumed to occur at the start of a period

4. A revaluation is conducted as a 1% per annum of the carrying book value.

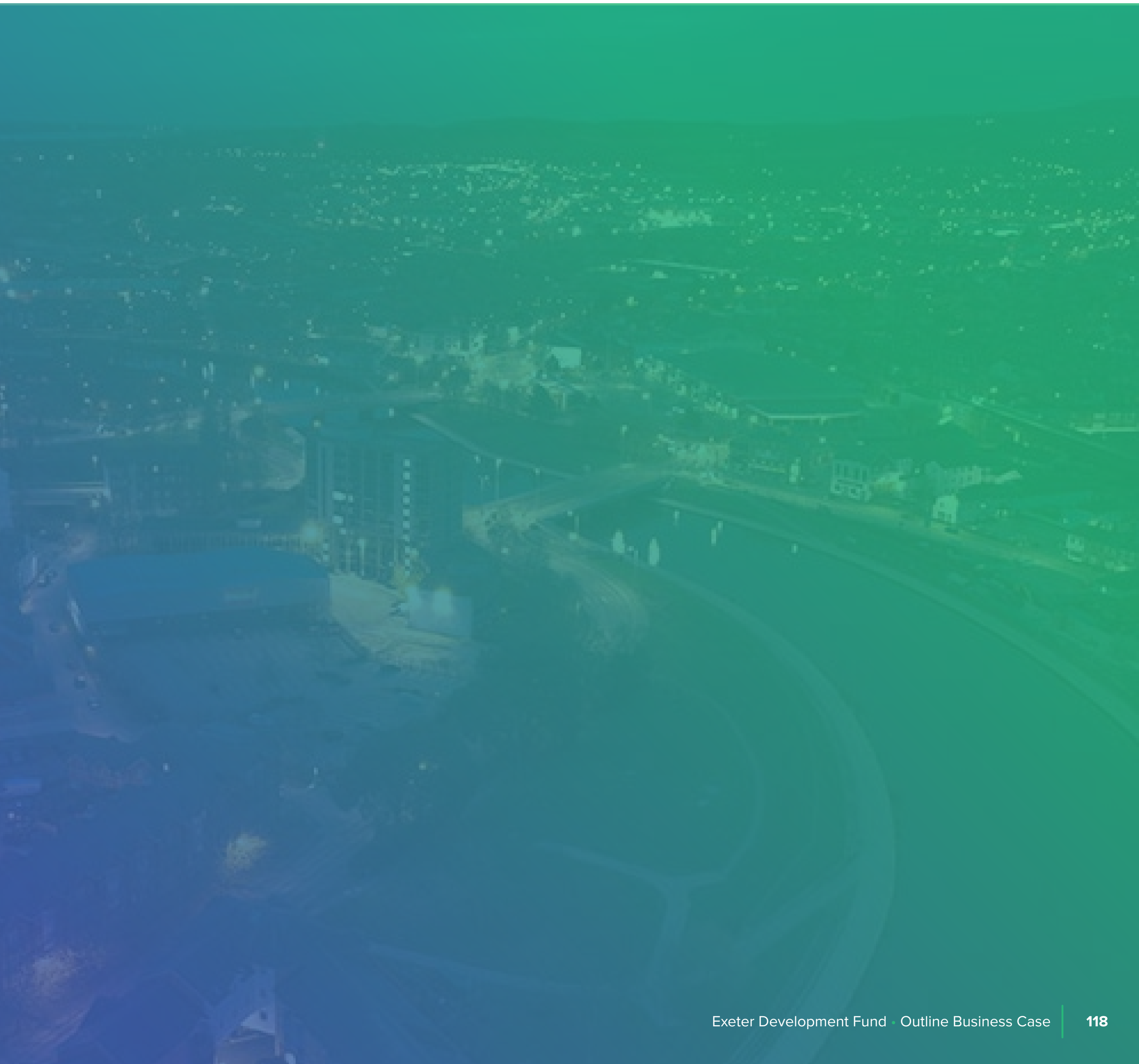
5. Once established, the Fund will be required to conduct remeasurements of asset values in accordance with applicable accounting standards and in agreement with its relevant external auditor.

Treatment of Land

- Dev Co acquires land via loans from Top Co.
- Preparation Costs incurred by Dev Co are capitalised with the value being added to the land. These costs include abnormal costs, infrastructure costs, regulation costs, demolition costs, vacant possession costs and professional fees.
- Dev Co sells the land to Invest Co at a price equal to the Total Preparation & Acquisition Costs and Invest Co holds land on its balance sheet
- A revaluation is conducted as a % per annum of the carrying book value.
- Once established, the Fund will be required to conduct remeasurements of land values in accordance with applicable accounting standards and in agreement with its relevant external auditor.

Exeter Development Fund

4. Financial Case



Exeter
Development Fund

Contents

4.1 Introduction

The purpose of this Section is to set out the forecast financial implications of the preferred option as set out in the economic case and the proposed arrangement as set out in the commercial case. The Figures assessed here show the Fund's financial performance as a result of the 'base case' delivered with £1.5bn of government equity and with specific scenario analysis for investible, initial flagship projects created following feedback from stakeholders to the project.

This Financial Case examines the affordability and funding arrangements for the Exeter Development Fund project; in particular exploring the cashflows, risks and key assumptions associated with the now-determined Preferred Way Forward (PWF). As stated in the Economic Case, the PWF assumes the Fund concept, operating at scale across the nine sites of the Liveable Exeter sites. It focuses on the affordability of the capital and lifecycle requirements of the Fund and examines the headline financial statements over the term. Key sensitivities, scenarios, accounting and taxation issues are noted, in as much as they are known at OBC stage.

All costs referred to in this Financial Case relate to the preferred way forward (PWF) Option 3 at short-list appraisal – The Exeter Development Fund: Equity Funded Viability Gap, Full Portfolio. At long list appraisal this option was referred to as Option 10.

4.2 Impact on the Fund's Income

The Fund's (Top Co) anticipated income and expenditure impact for the project over its intended 60-year life span is set out in Figure 4.1 and in Table 4.1 which shows the first 15 years of the project and years 16 to 60 combined.

Year	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8
Fund I+E	(65,840,989)	(124,394,048)	(203,837,440)	(430,083,426)	(731,758,438)	(549,736,342)	(270,138,252)	(54,225,126)

Year	Y9	Y10	Y11	Y12	Y13	Y14	Y15	Y16 - 60
Fund I+E	(146,662,136)	(25,258,033)	(20,988,646)	26,670,731	41,778,346	54,154,575	45,001,573	24,535,296,961

Table 4.1 • Income and Expenditure of the Exeter Development Fund

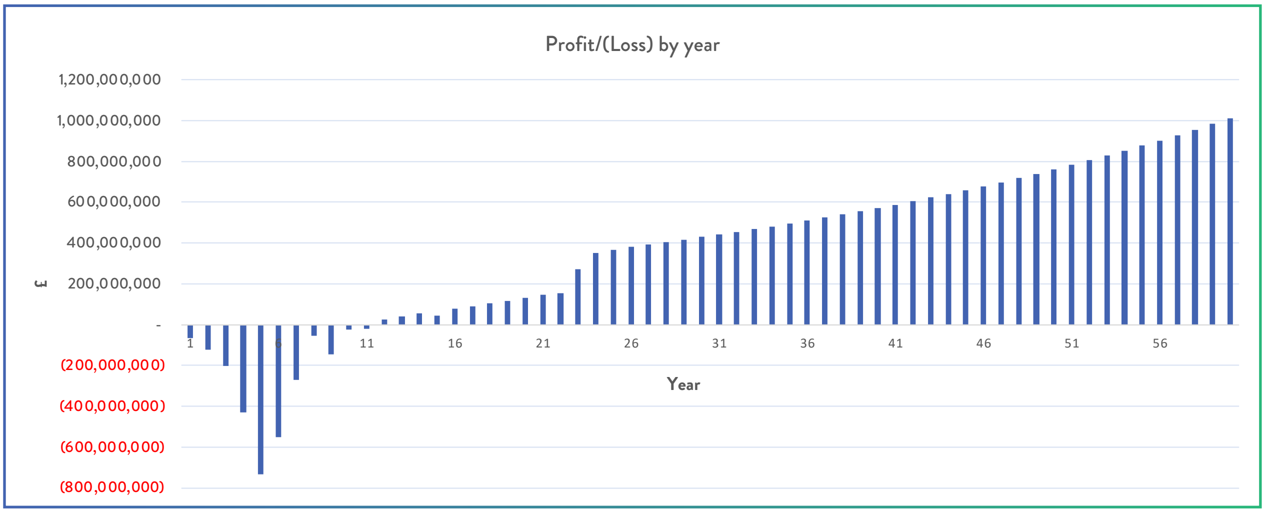


Figure 4.1 • Profit and Loss by Year to Year 60

In the first 11 years of the project Exeter Development Fund is loss-making. This is mainly representative of the Fund accruing interest on its private loan facilities during construction periods in advance of its having sufficient practical completions to begin collecting rental or sales revenues. Following year 11 (after construction on South Gate, East Gate, North Gate, St David's Gateway and West Gate are completed which is 58% of total assets) sufficient sales and rental revenues to outstrip debt servicing costs result in a profit making position each year thereafter.

All loans are repaid at the end of year 39 with the project incurring only operational costs from year 40 onwards. All assets are completed at the end of year 23 and the Fund's revenue is at maximum capacity, demonstrated by the spike in profitability in the graph in Figure 4.1 in that same year, rising with inflation year on year thereafter. The project generates a post tax equity IRR of 6.82% with total revenues of £26.7bn and £18.0bn distributions to Sponsors.

4.3 Fund Balance Sheet

Table 4.2 shows the total value of the balance sheet in years 1 to 10 and year 60. Build of the portfolio completes in year 23.

	Year				
Top Co Balance Sheet	**1**	**2**	**3**	**4**	**5**
Non Current Assets	64,937,229	188,897,154	392,287,447	821,910,759	1,553,195,739
Current Assets	1,506,847,847	1,456,005,827	1,397,558,069	1,232,966,884	1,027,568,291
Liabilities	(1,575,346,068)	(1,659,423,460)	(1,801,667,226)	(2,101,143,138)	(2,606,851,286)
Net Assets/(Liabilities)	**(3,560,991)**	**(14,520,479)**	**(11,821,710)**	**(46,265,496)**	**(26,087,256)**
Capital Account	**(3,560,991)**	**(14,520,479)**	**(11,821,710)**	**(46,265,496)**	**(26,087,256)**

	Year				
Top Co Balance Sheet	**7**	**8**	**9**	**10**	**60**
Non Current Assets	2,372,081,829	2,425,791,101	2,571,922,422	2,596,634,247	-
Current Assets	871,419,927	955,671,950	1,001,001,092	1,140,469,699	10,057,511,093
Liabilities	(3,213,382,854)	(3,292,180,133)	(3,439,578,313)	(3,512,856,950)	-
Net Assets/(Liabilities)	**30,118,902**	**89,282,918**	**133,345,201**	**224,246,997**	**10,057,511,093**
Capital Account	**30,118,902**	**89,282,918**	**133,345,201**	**224,246,997**	**10,057,511,093**

Table 4.2 • Top Co Balance Sheet

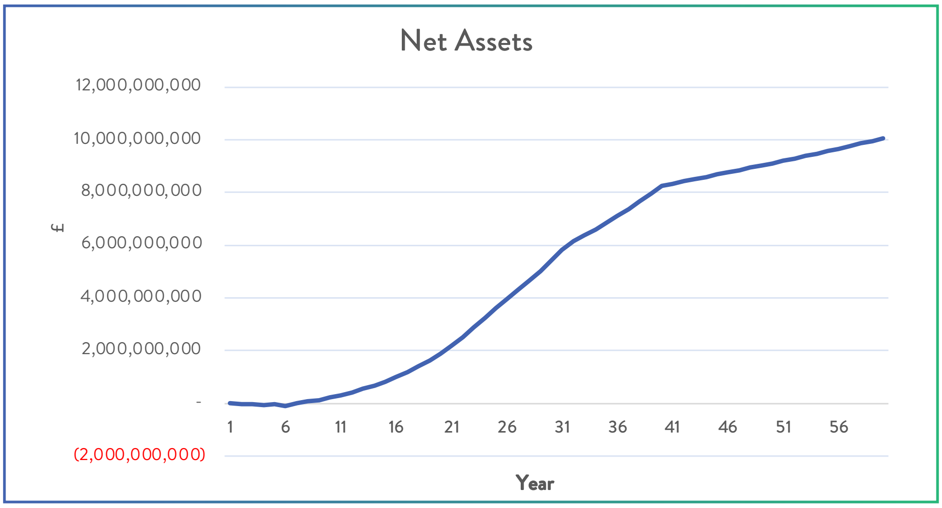


Figure 4.2 • Net Assets

4.4 Analysis

4.4.1 Asset Values

Owing to the nature of the build period with the request for up front working capital the balance sheet it not in a net asset position until the 7th year where the non current assets, decrease in annual losses and the increase in land and property values (with built out properties) start exceeding the value of the long term loans.

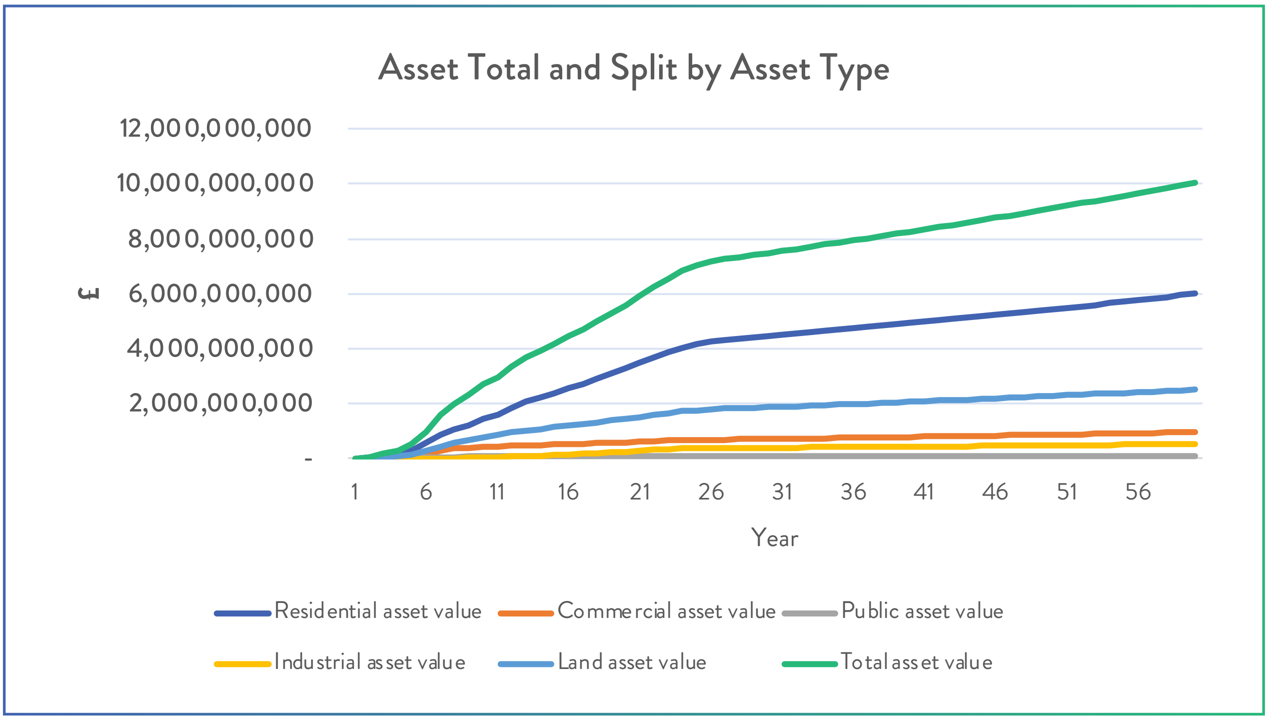


Figure 4.3 • Asset Total and Split by Asset Type

Figure 4.3 shows the change in value of the assets. All assets are built by the end of year 23. Residential, Commercial, Industrial and Land assets all have inflationary increases of 1% per annum of asset value.

4.4.2 Members' Interest

Member's interest is represented by asset values less loans. When all loans are repaid at the end of year 39 total asset value represents the member's interest.

Table 4.3 shows the breakdown of Members' interest and the relationship between Dev Co, Invest co and Top Co. All annual profits as generated by Invest Co are transferred to Top Co from which payments to Sponsors are made.

The year 60 Figure of £10,057,511,093 represents the year 60 net asset balance sheet value of Top Co as seen in Figure 4.3.

Member's Interest breakdown	Year 1	2	3	4	5
Member's Interest represented by:					
Dev Co Capital Account:					
b/f	-	-	(3,531,970)	6,351,447	(11,991,463)
Annual Profits	-	(3,531,970)	9,883,418	(18,342,911)	57,085,771
Distributions to Top Co	-	-	-	-	-
c/f	**-**	**(3,531,970)**	**6,351,447**	**(11,991,463)**	**45,094,308**
Invest Co:					
b/fwd	-	-	744,656	10,346,714	29,164,594
Distribution to Top Co	-	-	-	-	-
Annual Profits	-	624,334	8,116,415	16,107,652	23,573,203
Revaluation of Residential Assets	-	87,076	774,661	1,639,270	2,860,859
Revaulation of Commercial Assets	-	-	327,308	330,581	862,193
Revaluation of Land	-	33,246	383,674	740,378	1,346,354
Result for the financial year (Including revaluation) available for discretionary division to Top Co	**-**	**744,656**	**10,346,714**	**29,164,594**	**57,807,203**
Member's Interest	**-**	**(2,787,314)**	**16,698,161**	**17,173,131**	**102,901,511**

Member's Interest breakdown	Year 56	57	58	59	60
Invest Co:					
b/fwd	9,573,996,759	9,668,784,812	9,764,520,746	9,861,214,039	9,958,874,265
Distribution to Top Co	(905,400,132)	(931,656,736)	(958,674,781)	(986,476,349)	(1,015,084,164)
Annual Profits	905,400,132	931,656,736	958,674,781	986,476,349	1,015,084,164
Revaluation of Residential Assets	57,060,606	57,631,212	58,207,524	58,789,599	59,377,495
Revaulation of Commercial Assets	13,891,385	14,030,299	14,170,602	14,312,308	14,455,431
Revaluation of Land	23,836,062	24,074,423	24,315,167	24,558,318	24,803,902
Result for the financial year (Including revaluation) available for discretionary division to Top Co	**9,668,784,812**	**9,764,520,746**	**9,861,214,039**	**9,958,874,265**	**10,057,511,093**
Member's Interest	**9,668,784,812**	**9,764,520,746**	**9,861,214,039**	**9,958,874,265**	**10,057,511,093**

Table 4.3 • Breakdown of Member's Interest

4.4.3 Repayment of Loan and Working Capital Facility

Figure 4.4 on the following page shows the debt profiling and repayment. Private loans are sought on an "as needs" basis and are repaid are the earliest possible moment. The "working capital" represents the £1.5bn government equity. All creditors are due to be repaid at the end of year 39.

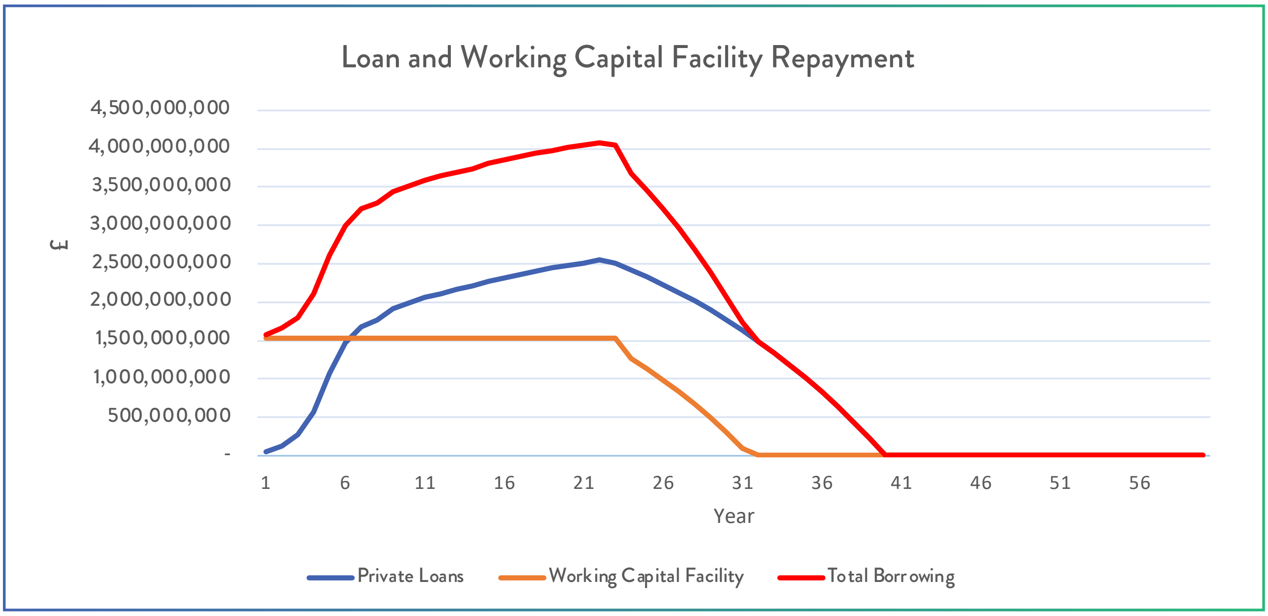


Figure 4.4 • Loan and Working Capital Facility Repayment

4.4.3 Borrowing Profile Against Payments to Sponsor

Figure 4.5 details the relationship between borrowing and when payments to sponsors are due to commence. Payments to Sponsors happen at the earliest possible moment in year 33 once the majority of debt has been paid. There is prudent cash management within the Fund to ensure that the least amount of debt is taken on and that payments to sponsors can be done in a sustainable manner.

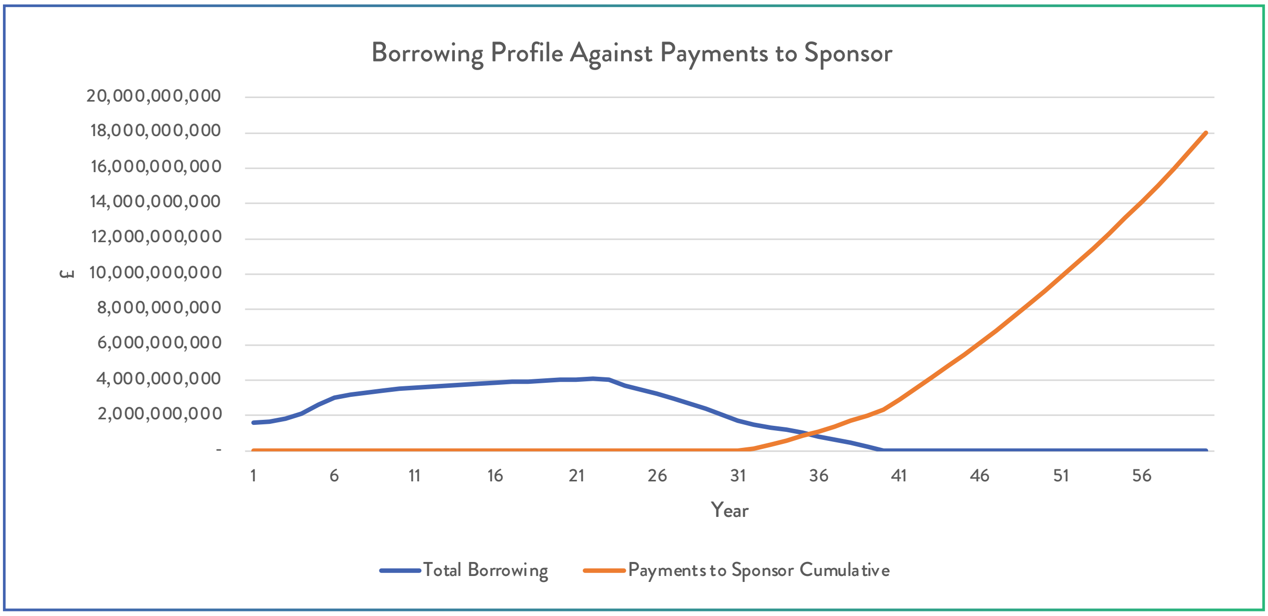


Figure 4.5 • Total Borrowing against Payments to Sponsor Cumulative

4.5 Capital Costs

The PWF has capital costs of £4,816m for the full development cost of all nine Liveable Exeter sites, and further capital lifecycle costs of £276m for the 60-year appraisal period of the project. The projected turnover is £26,962 over 60 years.

The Fund will be seeking a contribution from the public sector of circa 31.8% (£1,531m) of total capital to team with £3,284 of private sector debt finance to deliver the project.

Since the Strategic Outline Business Case stage application several factors have meant that the public sector contribution has increased from that originally anticipated. These include:

- Site viability gaps across the entire portfolio when full costed to Liveable Exeter's design aspiration standards.
- Inclusion of public sector infrastructure and facilities within the model, the costs for which could already be covered by existing public sector budgets, or which would likely be incurred under any proposed development of this scale.
- An increase to inflation assumptions due to the impact of Covid and Brexit and the constraints on the supply of both labour and materials in this sector.

Before site appraisals were completed for the Liveable Exeter portfolio it was anticipated that there would be a mix of profitable and unviable sites, with the profitable ones generating the returns required to meet some, or all, of the viability gaps on the more challenging sites. However high-level appraisals further supported by more in-depth viability assessment work carried out by ECC on some of the preferred sites has revealed a number of issues that have negatively affected the anticipated profitability of these sites.

However, these viability gaps will require additional funding to address them under any proposed development structure. The principle of the Fund structure is such that in the PWF the funding required to release the land for development would be held as equity in the fund and generate a return to investors.

This contrasts with the expected likely BAU model where funding to address site viability gaps is most commonly provided in the form of grants, with no opportunity to provide an ongoing return, or to return the original grant funding provision to support future projects.

The capital costs show in Table 4.4 are taken from the site appraisals and cash flows provided by ECF's cost consultants JLL. The full report provided by JLL which includes the cost summaries by site can be seen in Appendix 4.A - ECF JLL Report Final.

Whole of Life Costs	£s
Construction Costs	3,270,822,822
Preparation Costs	927,910,410
Land Acquisition Costs	616,817,212
Total Disposal Costs	-
Total OPEX	66,855,434
Developers Profit	-
TOTAL	**£4,882,405,877**

Table 4.4 • Whole of Life Costs

The capital cost of the PWF is made up of several key components including land assembly & preparation costs, construction costs, operating expenses, and professional fees. This capital expenditure will deliver the critical success factors which are shown in Table 4.5.

Critical Success Factor	Options assessed as to how well they meet the following goals
Strategic fit and local needs	Meets local/national net zero aspirations Delivers on housing requirements to meet local needs
Potential value for money	Optimises public sector assets for the long term
Public sector capacity and capability	Ensures development outcomes match or exceed aspirations Builds development capability in the public sector Expedites public sector development delivery times
Potential affordability	Can be funded through potential, existing or emerging funding streams Generates the platform to attract private finance
Potential achievability	Is likely to be deliverable given partner regulatory approvals processes Matches level of available skills and resource required for successful delivery

Table 4.5 • Critical Success Factors

4.6 Portfolio Saving Effect

As sites will be staggered as they are being built, profit generated by sites, upon completion, will be recycled into the Fund and be used to reduce the level of borrowing required to finance the future build stages. This results in a portfolio saving of £276m additional debt that would have been needed without the profit recycling mechanism in place, as represented in Table 4.6.

	Portfolio	Site 1 South Gate	Site 2 East Gate	Site 3 North Gate	Site 4 Marsh Barton	Site 5 St. David's Gateway	Site 6 Sandy Gate	Site 7 Water Lane	Site 8 West Gate	Site 9 Wonford	Portfolio Saving Effect
(In £'m)											
Public / Priva	3,284	70	201	82	1,749	105	479	412	153	34	-
Total Upfron	1,531	32	94	38	816	49	223	192	71	16	-
Total Ongoir	-	4	7	3	96	7	77	61	15	4	(276)
Total	**4,816**	**106**	**302**	**123**	**2,661**	**161**	**780**	**666**	**239**	**54**	**276**

Table 4.6 • Portfolio Savings Effect

The phasing of sites impacts on this portfolio saving effect and it is reviewed in the scenario analysis carried out in Section 4.18.

4.7 VAT Treatment

While the landlord can opt to tax, and therefore charge VAT on rental income rent is usually considered to be VAT exempt. In this model, the rental income has been treated as exempt VAT, while this means that input VAT is not recoverable, VAT on new build projects are zero rated.

4.8 Stamp Duty

It is assumed that no incremental duty is paid on land transfers within the Fund structure and group reliefs would apply.

A transaction will qualify for group relief if both the seller and the buyer (in the case of land transfers) or the lessor and the lessee (in the case of grants or assignments of leases) are both members of the same group of companies at the effective date of the transaction (usually the date of completion).

The buyer and seller (or lessor and lessee) will be members of the same group of companies if:

- one owns at least 75% of the share capital of the other; or
- a third company owns at least 75% of the share capital of both the buyer and seller (or lessor and lessee).

Group relief applies only to companies and will not apply to other entities such as partnerships. SDLT is a self-assessed tax and claiming group relief on the SDLT return form does not guarantee that relief will be granted. HMRC has nine months from the date on which the return is filed to enquire into a land transaction return (21 years in the cases of fraud or negligence).

4.9 Capital Gains

Should the Fund be set up as an LLP, it will be liable to capital gains tax on the gain of a sale of an asset. The gain will be split between all partners as per the partnership agreement. As it is envisaged that the Fund will be wholly owned by the public sector, no taxation should be due on the sale of any asset.

4.10 Tax Specialists

The taxation position of the Fund will be fully evaluated with specialist advisors as part of Phase 2 work and will be largely informative of the final Fund structure.

4.11 Sensitivity Analysis

For the construction costs of £2,685m there are contingency costs of £132m (5%). Furthermore, within the economic case there is £711m of optimism bias. This is reflective of the unknown start date of the project, beyond that there are no contingency costs. It is important to note the phasing of the projects means that any delays will lead to an increase in costs through inflation and a loss of revenue with rental properties not ready in time. Externals have been budgeted at 10% of build costs and 15% for townhouses and professionals at 10%, excluding the MSCP and schools.

The ONS (Appendix 4.B) notes that since January 2020 construction costs for new-work house building has increased by 5.8%. The UK construction industry supply chain remains under significant pressure as the world recovers from the Covid pandemic and the UK continues to negotiate with the European Union on its long-term arrangements. This does not mean that constructions costs will continue to rise at the same rate in the future with the Bank of England forecasting that inflation should return to 2% in Q3 of 2023 in their November 2021 monetary policy report.

The outlook for global activity against the backdrop of the pandemic will be a critical factor. The global recovery has so far been more highly concentrated on goods than services which has contributed to the upward pressure on the global prices of goods which has also been compounded by transportation bottlenecks.

Labour shortages in the construction industry also remain a concern. As the economy recovers from the pandemic, there has been an increase in the demand for workers with construction and in particular house building a high-profile industry. The demand for construction labour will continue to be high even with the first sites aiming for construction to start in 2021.

The Project Director of Liveable Exeter, Richard Marsh, recommended that North and South Gate were good initial flagship sites to use as they are strategically pertinent sites that encompass multiple owners. Program for delivery is underway with detailed design work done for the car parks associated with those sites.

4.12 Revenue

Income by site, shown by asset class can be seen in Table 4.7

	Portfolio	South Gate	East Gate	North Gate	Marsh Barton	St. David's Gateway	Sandy Gate	Water Lane	West Gate	Wonford
Asset Class	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Residential	**20,255**	593	1,488	593	10,578	808	1,797	2,988	1,164	247
Commercial	**4,786**	17	802	492	1,114	163	1,796	229	166	7
Energy	**-**	-	-	-	-	-	-	-	-	-
Transport	**-**	-	-	-	-	-	-	-	-	-
Public	**5**	-	-	-	-	-	-	-	-	5
Industrial	**1,916**	-	-	-	1,916	-	-	-	-	-
Total	**26,962**	**610**	**2,290**	**1,085**	**13,608**	**972**	**3,593**	**3,216**	**1,330**	**258**

Table 4.7 • Income by Site and Asset Class

The income Figures have been provided as part of the cost consultancy work provided by JLL. They are based on estimated income for the rental of the developed properties, using local market knowledge to ensure appropriate rental yield and market absorption rates.

All residential assets are based on 35% affordable rents (80% of market rates) and 65% market rent. A 5% design enhancement premium has been applied to the market housing element only.

Commercial rents include six months rent free for offices, and three months rent free for retail, leisure and industrial uses. Assumed yields of 6.5% for offices and industrial and 7.5% for retail and leisure uses. All the yields adopted assume high investment grade strong covenants and full Repairing and insuring (FRI) leases.

4.13 Operating Costs

JLL have calculated operating costs to be 21% of rental income.

Estate Management	1.0%
Maintenance	0.2%
Insurance	2.0%
Utilities	1.0%
Management	2.0%
Letting Costs	7.6%
Service Charge	7.0%
Other and unallocated	0.2%
TOTAL	**21.0%**

Table 4.8 • Operating Costs

4.14 Cash Releasing Benefits

The Fund generates £840m worth of benefits, discounted to present value. Of these £105m is represented by cash releasing benefits in the form of profit distributions to equity sponsors, again discounted to present value. A summary of this is shown in Table 4.9 below:

Full Portfolio Summary	
Private Loans	£3,238m
Government Equity	£1,577m
Total	**£4,816m**
IRR to Equity Holders	6.42%

PV of Benefits	
Cash Relating Benefits	**£105m**
Benefits	£736m
Total	**£841m**

Table 4.9 • Cash Releasing Benefits

4.15 Revenue Affordability

It is anticipated, from the detailed financial modelling undertaken by Deloitte, that provided the Fund receives the upfront capital required at inception, from then on, the Fund would be self-supporting in terms of revenue affordability.

Profits generated from developed-out assets would be recirculated to meet ongoing revenue obligations, these being payment of loan obligations, Fund salaries and OPEX costs associated with the rental of residential and commercial properties.

4.16 Capital Affordability

Across the portfolio the Fund requires £1.5bn of government equity. At present no recognised channel exists for government to invest this quantum of equity, albeit that the Fund structure represents the optimal solution to deliver Liveable Exeter and an optimal route to deliver a city's housing, infrastructure, placemaking and net zero goals at scale.

Consequently, and following feedback from Homes England, local partners and the stakeholder group, further work and socialisation of the project in Whitehall is needed to generate additional appetite, momentum and new funding channels from Treasury that meet the ambitions of the Fund.

Equally, and as a next step, initial flagship sites require identification and further detailed feasibility testing within the Fund structure outlined in this OBC. Some of this work on identifying initial flagship sites is underway, with the next steps on bringing those sites to market through the FBC included in the Phase 2 scope of work.

For reference in this Section, the Fund portfolio is broken down per site, and each site's associated required equity investment. Results are shown in Table 4.10.

Site	Private Loan £'m	Public Equity £'m	Ratio Private to Public Equity
South Gate	74	32	31%
East Gate	208	94	31%
North Gate	85	38	31%
Marsh Barton	1,845	816	31%
St. David's Gateway	112	49	30%
Sandy Gate	556	223	29%
Water Lane	474	192	29%
West Gate	168	71	30%
Wonford	38	16	29%

Table 4.10 • Ratio of Private to Public Loan by site

4.17 Confirmation of Stakeholder Support

Local stakeholders attended a meeting at Sandy Park on 11 October to walk through the results of this OBC and declare their level of support for the Fund. Unanimous agreement was obtained to continue with Phase 2 work and work up the FBC on the basis of the Fund structure and initial flagship sites provided by the stakeholder group, an initial steer on which is included in the next Section. Minutes and a report of this meeting is held in Appendix 4.C.

4.18 Scenario Analysis

Stakeholder feedback indicated that scenario analysis was required to look at smaller packages of land parcels already included within the main portfolio of the base case Fund proposition. The following sites were separated from the portfolio and reanalysed within the Fund's financial model. Table 4.11 shows how this affects each site's up front equity requirement in the absence of the portfolio approach and its associated profit recycling leading to savings.

Site	Private Loan £'m	Public Equity £'m	Ratio Private to Public Loan
South Gate	22	80	78%
North Gate	49	71	59%
Marsh Barton	1,526	1,039	41%
Water Lane	223	382	63%

Table 4.11 • Analysis of private to public loan requirements by site if done individually

Table 4.10 shows that without the portfolio saving affect, a greater percentage of up front capital is required as compared to the full Fund Portfolio in order to manage private sector debt covenants and the risk periods during construction in advance of collecting revenues.

The higher public equity requirements for developing sites separately are driven by the following factors:

- sites require a high level of infrastructure works and up front costs. The viability gaps on a site by site basis are stark in some cases
- covenant of private loan to equity cannot be maintained at 85%
- interest coverage ratio cannot be maintained

Combining Sites

Given the limitations that exist on a single site approach shown in the Section above, the scenario analysis in Tables 4.12 and 4.13 test North Gate and South Gate as a condensed portfolio under the base case Fund financial model structure, and taking advantage of the associated economies of scale and portfolio saving effect In this example, 38% of the condensed portfolio requires up front equity to manage the private sector debt covenants and recycle built-out revenue optimally.

Site	Public/Private Loan £'m	PWLB £'m	Ratio PWLB to Private Loan
North and South Gate	137	85	38%

Table 4.12 • North and South Gate Combined site

Loan Draw Down		Portfolio	Site 1 South Gate	Site 3 North Gate	Portfolio Saving Effect
Public / Private Loan	Nominal £m	137	63	74	-
Total Upfront WC	Nominal £m	85	39	46	-
Total Ongoing WC	Nominal £m	0	3	2	(5)
Total		**222**	**105**	**122**	**5**
		OK	OK	OK	
Site Start Date	Date	01/04/2021	01/04/2023	01/04/2021	
Date of first positive cash flow	Date	01/04/2027	01/04/2027	01/04/2024	
Date All Loans paid back	Date	01/04/2060	01/04/2062	01/04/2060	

Table 4.13 • Portfolio Saving Effect – combined North and South Gate

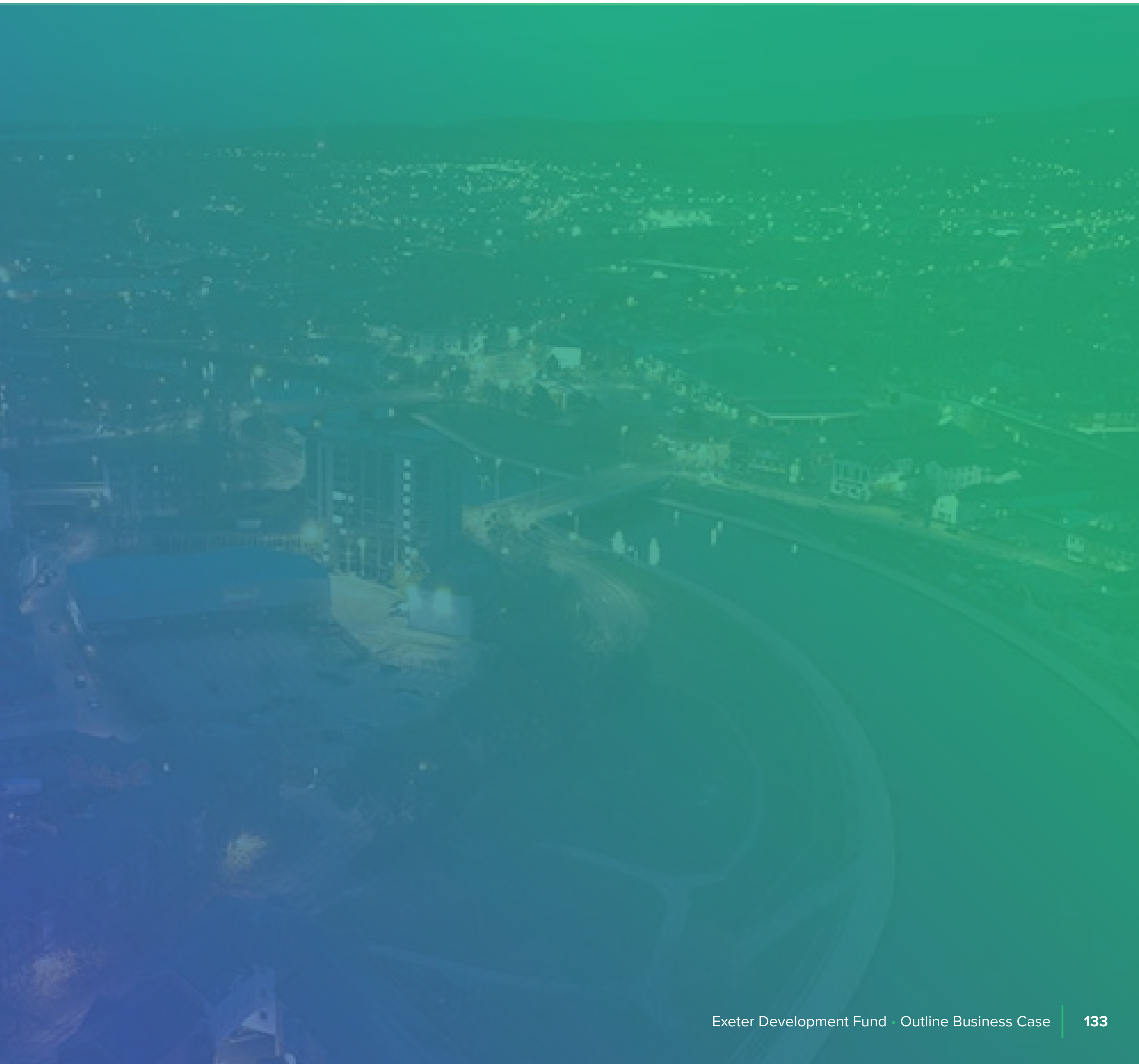
The portfolio saving effect is driven be having sites completing, generating revenue and using that revenue to fund the next phase of the build. As more sites are included the greater the portfolio saving effect.

While the full build requires £1.5bn of working capital from public funds, as a percentage of the total build cost this is only 32% compared against South Gate requiring noticeably less at £80m but this representing 78% of the total build cost.

The best case scenario is the full portfolio build, requiring the least percentage of total working capital of public funds while generating £22bn of operating profit and £18bn distribution to sponsors.

Exeter
Development Fund

5. Management Case



Exeter
Development Fund

Contents

5.1 Fund Management Structure, Governance, Risks, Roles & Responsibilities

This Section of the OBC addresses the achievability of the scheme. It demonstrates that the city and its partners in the Fund have or will acquire management capacity and capability to deliver the project and to realise the benefits. This Section covers two elements of the project's deliverability and management:

- Fund management structure: outline discussion of the Fund governance, risks, roles and responsibilities
- Management considerations for the project into FBC and delivery of the project plan for it, "Phase 2", funded by DLUHC

Exeter Development Fund ("the Fund") presents a novel way of funding the development of new communities, with outcomes mirroring published Government objectives on placemaking, net zero, clean growth and affordable homes. It aims to harness private sector agility, access to funds and expertise akin to a typical private sector infrastructure fund, coupled with the successes and powers inherent in elements of Public Development Corporation (PDC) operative frameworks. The approach to the Fund management and delivery structure is in direct response to Government's consultation on reforms to PDCs[1].

5.1.1 Public Development Corporations: Government's Ambitions on Reform

In October 2019 Government published a technical consultation to reform PDCs:

"The nature and scale of projects delivered by development corporations is such that the private sector needs to be at the heart of their delivery. Development corporations already have a strong tradition of levering in significant private investment and harnessing the expertise of the private sector through multidisciplinary boards. Government wants to see a new generation of development corporations that bring together private and public sector partners to an even greater extent and that work with local communities to deliver the regenerated town centres, renewed facilities, critical infrastructure and transformational housing they need.

With new legislation in 2018 to enable the creation of locally-led new town development corporations Government required that a majority of members of the board be independent, including both the chairman and deputy chairman. Additionally, Government expects the board members to collectively have a wide range of place making skills including expertise and experience from the private sector.

In light of this, Government is now interested in exploring what additional measures might help to attract more investment and the greater private sector involvement in the leadership of development corporations. Greater involvement could take a variety of forms, for example measures around governance structures, board composition or the introduction of more explicitly described powers to enter into contractual agreements with private sector partners."

The Fund's management and delivery structure aims to respond directly to this consultation, where it is able to draw on some of the typical PDC statutory powers to team with private sector ways of working: PDCs exercise significant public duties, for example in relation to planning and compulsory purchase orders (CPO). This is a great tool in the context of the Fund's ambitions. However, any measures to increase private sector involvement in a vanilla PDC environment would need to ensure that the integrity of decision-making around these functions is fully maintained.

1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/841908/_Development_corporatiown_reform_technical_consultation.pdf

For example, the mixture of approaches to planning functions in turn affects whether development corporations can use mechanisms such as a Community Infrastructure Levy (CIL), Strategic Infrastructure Tariff (SIT) and section 106 planning obligations to secure contributions from developers to help fund the infrastructure necessary to support development.

Therefore, in order for the Fund to deliver large and complex schemes it needs to have a range of other powers, including providing infrastructure, highways and acquiring land, including through compulsory purchases, subject to the mayor's consent and authorisation by the Secretary of State. And this is not enough: through its consultation referred to above, Government has already questioned whether its current planning tool package is sufficient for the broad needs of development corporations or whether further bespoke tools would be useful. The Fund aims to provide those bespoke tools by retaining some powers common to PDCs while operating in a commercially optimal fashion.

For example, transferring planning powers away from local authorities in a typical PDC structure is politically sensitive, whereas CPO, land assembly, development agility, access to private and public finance and representation to, say, Central Government departments are must have tools are must-have tools.

5.1.2 The Fund Reporting, Processes and Powers versus a Typical Development Corporation

In light of the above, the Fund aims to create a new delivery platform for development that represents the Government's request for a "new generation of development corporations".

The first step is to establish whether the Fund intends to act as a public corporation in this regard. Figure 5.1 steps through the Government's standard criteria for PDC classification[2].

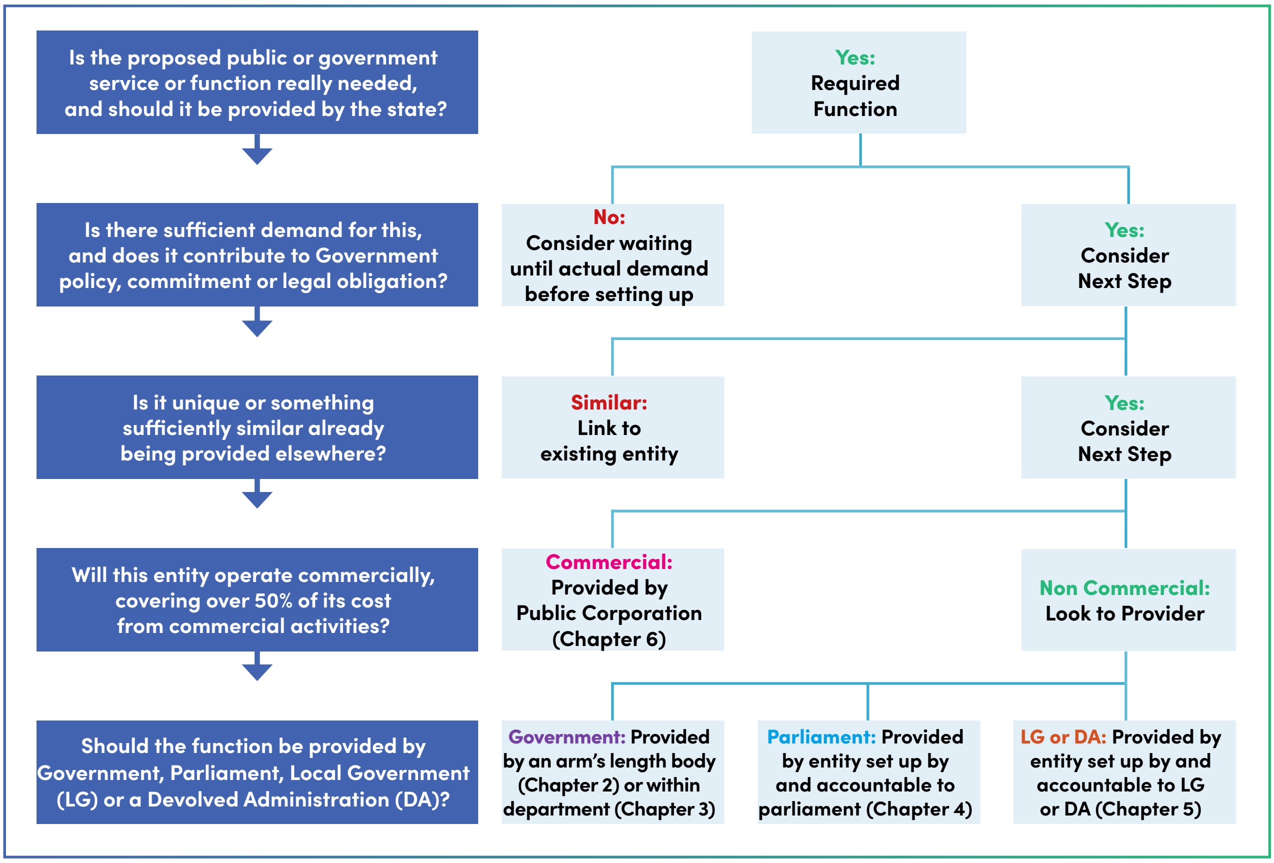


Figure 5.1 • Classification of PDCs

2 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/519571/Classification-of-Public_Bodies-Guidance-for-Departments.pdf

Figure 5.1 demonstrates, using the flow charted questions, that the Fund can be classified as a public corporation. To that end, the Fund would act as a statutory body which reports to the Secretary of State. It will be created by a Statutory Instrument which is laid in Parliament.

A typical Development Corporation's objective is to 'secure the regeneration of its area' and this is to be achieved through:

- Bringing land and buildings into effective use
- Encouraging the development of existing and new industry and commerce;
- Creating an attractive environment; and
- Ensuring that housing and social facilities are available to encourage people to live and work in the area.

Therefore, in order to achieve the regeneration of Exeter akin to the objectives in this OBC, the Fund will:

- Acquire, hold, manage, reclaim and dispose of land and other property;
- Carry out building and other operations;
- Seek to ensure the provision of water, electricity, gas, sewerage and other services;
- Negotiate and acquire finance packages from private and public sources;
- Carry on any business or undertaking for the purposes of its objective; and
- Generally do anything necessary or expedient for the purposes of its objective or for purposes incidental to those purposes.

However, the Fund will not have any of a local authority's planning functions transferred to it. Rather, it will negotiate planning through the relationships it has with partner local authorities, in this case ECC and DCC.

In this way, the benefits of the Fund are that it can focus on taking forward the regeneration and development of the city, and devote substantial resources towards that objective, without its focus being diverted by the broad range of activities that a local authority needs to manage on a day to day basis. Additionally, the Fund can cover more than one local authority area – with potential benefits for co-ordination of decisions on sites that cross boundaries. The Fund will be working with local partners (including ECC, DCC, ExColl, UoE and RD&E) and landowners to act as a catalyst for the creation of the city's placemaking vision.

5.1.3 Lifespan

There is no fixed timespan proposed for the Fund. Ordinarily, urban development corporations operate over a relatively short time period. It is important that they have enough time to develop and implement their objectives, but this should be kept under review.

Equally, the Fund represents a departure from ordinary development corporations, since it seeks to take a more aggressive and commercial approach to the city's development programme, with greater risk and access and interaction with private lenders. To that end, its lifespan will be governed by its commercial activities and returns profiling. It is proposed that the Fund should be subject to a review five years from its establishment.

5.1.4 Relationship with Local Public Partners

The local partners of ECC, DCC ExColl, UoE and RD&E, led by ECC and ECF have all been actively involved in the proposal to create the Fund. Each of the partners is a member of the ECF Board which has been consulted on the composition of the Fund, its role, its powers and the geographic boundaries in which it will operate. It is intended for this to continue and expected for all partners to be represented on the Fund's Board after it has been established.

It will be essential for the Fund and separate planning authorities to work together closely to ensure a coordinated approach to the provision and support of infrastructure and facilities and take into account the needs of the existing community in the wider area.

5.1.5 Relationship with Existing Communities

For this OBC, the geographic boundaries of the Fund would assume to be prescribed in secondary legislation and be confined to Exeter City and the sites brought forward via the Liveable Exeter plan or an evolved plan akin to Liveable Exeter.

The Fund will also have the power to work outside its boundaries where that is necessary or expedient to its objectives. In practice, if the Fund succeeds in developing a central Exeter site, it will need to take into account the circumstances, needs and views of neighbouring communities. That could, for example, mean that some of the investment that is made by the Fund would be on infrastructure such as transport improvements or other facilities located outside its formal boundaries.

It is intended for the Fund to act as the catalyst for the regeneration and development of the area, ensuring that any future development benefits the existing residents, businesses and landowners in the wider area, not only those within the Fund's boundary.

5.1.6 The Fund's Role

The Fund will be responsible for acting as the spearhead for placemaking in Exeter at pace. The Fund will deliver on its mandate by working with partners and the local communities to deliver the vision for the area and a strategy for delivering that vision under the four key principles outlined in Section 5 of the Strategic case:

- ✓ **Publicly owned;** the solution must ensure that the financing of projects is publicly owned. Only by ensuring overall control in the public sector can the city guarantee the outcomes of developments on a piecemeal basis

- ✓ **Professionally run;** the solution must have the right team of experienced directors that have tried and tested success in turning a profit on urban developments. Recognising that this is not the core skill set of many public sector organisations, a recruitment campaign may be necessary and the right team needs to be built.

- ✓ **Impact Driven;** having recognised the deficiencies in the current system and in the urban development market, the solution must ensure it carries out developments to an agreed, impact-driven agenda agreed by the board, and one that drives place-making. While some projects have traditional profit making characteristics, others will be purely for social impact, such as cycle pathway infrastructure, walkways, social housing etc.

- ✓ **Locally retained profits;** all excess profits from projects are retained in the city and re-invested into the city's ongoing place-making programme.

In order to execute that strategy, some of the main levers at the Fund's disposal are likely to be:

- **Direct investment;** the Fund will be able to invest directly in housing and in infrastructure that unlocks development. This could include investing in public infrastructure such as roads, emobility solutions and renewable energy provision solutions or investing on commercial terms in individual development sites, e.g. to fund ground preparation.

- **Borrowing;** the Fund will have the power to negotiate and borrow money from private sources akin to any private sector development company.

- **Public Funding;** subject to government approval, the Fund will have the power to access public capital funding via traditional public sector application channels and via the use of business case preparation for infrastructure funding. Whilst some of this funding might be spent directly by Government departments, a substantial element of it could be channelled through the Fund.

- **Housing, commercial and mixed use property development;** the Fund will provide a mix of in-house and procured services that assemble land, finance, design, build and operate mixed use developments.

- **Planning partnerships;** clearly the ability of the Fund to navigate planning applications will be a key mechanism for ensuring the delivery of the high quality sustainable development needed to fulfil the vision for the City. Whilst the Fund will not have statutory plan making powers, we expect that it will work closely with the local planning authorities to ensure that the development of the City is undertaken coherently and, where appropriate, additional guidance may be produced to supplement existing development plans.

- **Compulsory purchase powers;** the Fund will have its own powers, similar to those available to local authorities, to purchase land on a compulsory basis. These are for the purposes of its objective and functions. Compulsory purchase orders are not used lightly and may be required only rarely. However, they can be essential, to ensure effective placemaking, where negotiations to purchase land fail.

- **Acting as a catalyst;** analysing the requirements of the area, bringing parties together and persuasion. For example, the Fund could undertake studies of the infrastructure needs of the City as a whole and then present infrastructure providers such as emobility providers with a viable business case for undertaking investment, jointly or otherwise. That could apply as much to investment in private infrastructure (e.g. electricity, etransport, water) as to public infrastructure (e.g. roads, schools).

5.1.7 The Board

The Fund's Board will be responsible for ensuring that it discharges its functions effectively and efficiently; that it fulfils the overall aims, objectives and priorities set out in its corporate plan; and that it complies with all statutory or administrative requirements relating to the use of public funds.

The legislation in Schedule 26 to the Local Government, Planning and Land Act 1980, states that an organisation of this size and nature must have a board appointed by the Secretary of State that consists of a Chairman, a Deputy Chairman and a number of other members (between 5 and 11) as decided by the Secretary of State. Equally, and in response to Government's consultation and calls for a new generation of PDCs, the Fund's board will require tried and tested private sector expertise with links to institutional funders, public sector finance and the development market.

The Board will be responsible for ensuring that the Fund delivers on what will be a challenging and complex agenda, and will therefore need to have a range of skills and experience, including commercial development, design and master planning, environment, finance and infrastructure delivery. The Fund will also work effectively with the local community. To that end, each of the five public sector partners will be represented on the Board.

In order to accommodate this wide range of skills, experience and local knowledge whilst ensuring that the Board retains its focus, the proposed Fund Board should have 10 members in total (i.e. a Chairman, a Deputy Chairman and 8 other members, including five public sector representatives). It is not a legal requirement that all of the Board members are in place at the time that the Fund and its Board are established. It is quite likely that the Fund will start operations with a Board of fewer than 10 members.

Transparency and Openness

Transparency and openness are essential to ensuring that Fund will be accountable to local people and indeed to the wider public. As an arm's length body of the city's public sector, the Fund will be subject to the same transparency requirements that apply to all of the public sector's typical arms length bodies, including monthly publication of expenditure over £250 and the disclosure of certain salary information.

As a public body, the Fund will also be subject to the Freedom of Information Act as well as the Environmental Information Regulations 2004.

Whilst the Fund will not be a local authority nor a planning body, and therefore not directly covered by the Local Government Transparency Code, it is intended that the Fund should generally (to the extent relevant) follow the same transparency provisions expected of local authorities.

It is expected, also, for the Fund to adopt the principles set out in the Openness of Local Government Bodies Regulations 2014 – enabling members of the public to report on meetings of their council using digital and social media. It is also anticipated that the Corporation will regularly hold Board meetings that are open to the public.

Key roles and responsibilities

A placeholder budget has been embedded within this OBC's modelling exercise for initial overheads, (the 6 roles defined below) in addition to a one-off incorporation budget to cover the legal, marketing, taxation, finance, accounting, administration and depositary aspects of Fund set-up.

The next phase of work on the Fund project ("Phase 2") will model and document a granular level of detail in relation to the Fund's management structure. The key expected roles are listed below:

Senior Management Team:	CEO and CFO
Operational Team:	4 FTEs: Finance/Fund and Development Directors, Project management and Administration

5.2 Management Considerations for the Project into FBC: "Phase 2"

Phase 2 of the broader project to which this OBC relates comprises a full business case on the basis of initial flagship sites for inclusion within the Fund structure and incorporation of the Fund itself for the purposes of carrying out what will its first infrastructure project. Funding of £840k for Phase 2 has been awarded by DLUHC, with some preliminary work underway on that work stream.

5.2.1 Senior Responsible Owner (SRO) for the Project

The programme will be 'owned' by the Fund Board post incorporation who will act as the overall 'Investment Decision Maker'. In the run up to incorporation of the Fund and in developing this OBC further via the Phase 2 project plan, the SRO for the project is Karime Hassan, Chief Executive and Growth Director of ECC and Chief Executive of ECF. He is supported by the ECF project team.

5.2.2 Phase 2 Key Roles and Responsibilities

Phase 2 project management will be performed by Exeter City Futures. ECF will procure services as necessary with external parties. The ECF Project team is familiarised with the details and design of the Fund model, and the team comprises financial experts, (qualified accountants) project management skills and financial modelling capability. The project that is Phase 2 will result in an organisational design, governance framework and recruitment process to set in place all facets such that the Fund is ready to be mobilised upon reaching the end-Phase 2 milestone and decision point.

The Project Team and reporting lines are shown in Figure 5.2, supplemented as necessary and within the budget by specialist advisory input.

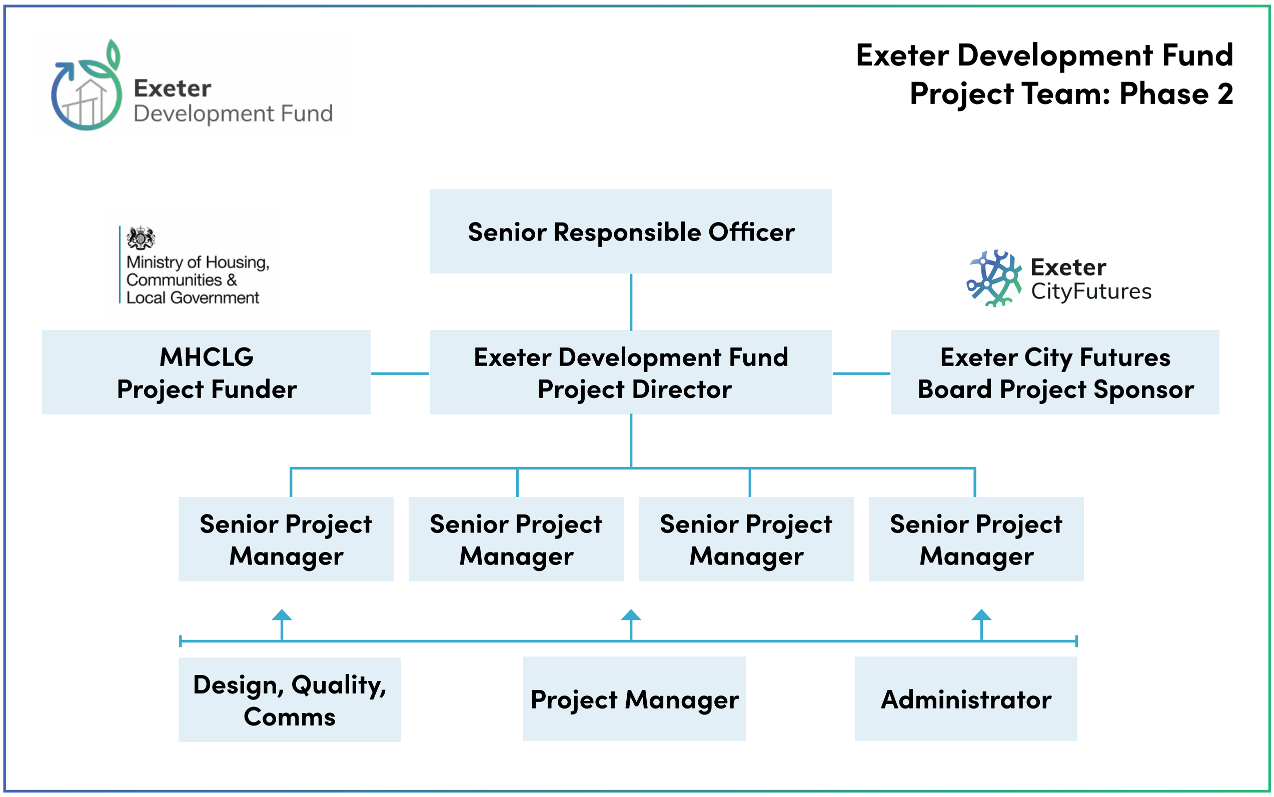


Figure 5.2 • Phase 2 Project Team

Table 5.1 below shows the details of responsibilities assigned to the roles from Figure 5.2.

Role	Summary of Responsibilities
Senior Responsible Officer	• Provides leadership on culture and values • Owns the business case • Keeps project aligned with organisation's strategy and programme direction • Governs project risk • Focuses on realisation of benefits • Recommends opportunities to optimise cost/benefits • Ensures continuity of sponsorship • Provides assurance • Provides feedback to the Board of Directors
EDF Project Director	• Provides commercial direction for the project and guidance to the Project Managers and wider team • Leads the team through the procurement and to FBC • Checks that business benefits are being identified through the competition and are compared to those presented in the OBC. • Presents the result of the competition in the FBC • Works alongside commercial bidders to evaluate the source of funding for the project • Reviews and approves changes to plans, priorities, deliverables, schedule, and other key components of the scheme • Identifies and appoints steering group members • Gains agreement among stakeholders when differences of opinion occur • Assists the project when required (especially in an out-of-control situation) by exerting organisational authority and the ability to influence • Helps resolve inter-project boundary issues • Helps the Project Managers in conflict resolution • Makes the project visible within the organisation • Encourages stakeholder involvement and builds and maintains their on-going commitment through effective communication strategies working alongside the Comms and Engagement lead
Project sponsors	• Contributes to the strategic direction of the Project • Provides an external independent view over the commercial direction and requirements of the project • Gives additional guidance around project direction and scope • Gives additional guidance around risk and issue management • If required to, aids in communication to the wider trust environment
Senior Project Managers	• Communication with senior management and the project governance authorities (Executive Sponsor, Project Owner, Steering Group, etc.) with the frequency and formality that they deem necessary • Managing the project through the procurement process and up to the production of the FBC. • Monitoring progress against the baselined project plans • Managing risk and any issues as they arise, escalating to Project Steering Group as necessary • Evaluating and advising on Sub-Project planning and reporting • Managing the overall configuration of the project and potential scope creep • Handling problems escalated from any Sub-Projects • Supporting and advising the Project Owner to aid delivery

Role	Summary of Responsibilities
External Special Advisors	Provide functional expertise in their particular field, for example: **Corporate Financial** Provide financial advice to help design the bid process Evaluate the financial bids from potential partners to ensure the opportunities presented are carefully checked according to a robust assessment method. Provide an assessment of the funding proposals and the corporate finance structure to ensure the financial risks are understood **Legal** Provide legal advice to help design the bid process. Provide draft legal documentation to assist the procurement process through to commercial closure e.g. heads of terms for: land assembly agreements, shareholder agreements, service agreements, Fund incorporation. Provide support to the assessment of risks and risk transfer though the contracting process. **Technical** Real estate feasibility, Engineering, QS, and capital cost advice to enable the technical and design aspects of the bids to be evaluated. Provide advice to enable the procurement of, for example, e-mobility solutions **Procurement** To design and manage the procedure and relevant documentation and notices. To ensure the bid process is designed to be PCR compliant and to provide the project partners with assurance that the Fund's activities are in accordance with the Regulations. To minimise the risk of a PCR related dispute and subsequent action against Exeter City Futures The advisors will: • Assist the EDF Director and Project Managers in the production of the overall project plan through procurement, and to FBC, then on through the delivery strategy. • Provide relevant information to the project manager to enable the co-ordination and the production of all reports as required by the SRO and board. • Help to develop and maintain systems for recording project and ongoing costs. • Define and document procedures in accordance with agreed methodology • Where necessary and agreed by the Project Director as within scope of budget, advise and assist project team members in their area of expertise. • Contribute to the development of risk and issue logs and change control processes. • Support effective communication mechanisms between the project teams. • Undertake any tasks as specified by the Programme Director.

Table 5.1 • Assigned Responsibilities

5.2.3 Project Plan and Milestones

The project plan complete with milestones is shown in Appendix 5.A. The Fund itself will adopt a pipeline and portfolio of assets, dependent on availability of land and investment appetite of landowners. The pipeline of projects will be developed as part of Phase 2 work, beginning with the identification of and, implicit landowner commitment of initial flagship site land parcels.

5.2.4 Phase 2 Work Project Plan

This Section sets out the plans the Project Team has for developing the Fund model through to Full Business Case stage and the milestones, checkpoints and engagement work to be undertaken to embed the plans.

Phase 2 work aims to show that the Fund is practically deliverable and that the major blockers to its success can be addressed and overcome, if done at an early stage.

Phase 2 encompasses two main elements to the FBC to run concurrently:

1. The work to design and evaluate Fund legal structure, target operating model and partner relationships. This will consider input from third party advisors across real estate, master-planning/design, legal, regulatory, financial, taxation, planning, energy, transport/mobility and other aspects to optimise outputs and manage risks.

2. Selecting initial flagship sites and mobilise procurement activities to establish feasibility and investment process. The Commercial Case describes these in further detail, light-touch commentary being noted below.

The test pilot site work will work with all relevant stakeholders to select initial flagship site(s) for the Fund, ready to take live at Full Business Case stage. All stakeholders must have the confidence at FBC stage that the first site is “shovel ready”, regulatory and legal obstacles have been understood and the site is essentially deliverable. A delivery partner should be aligned and “invested” at that point, thus minimising any mobilisation period post FBC and “go live” decision. To this end, meetings have been scheduled with Homes England, and Exeter’s local partners to map ownership and select suitable initial flagship sites.

ECF have engaged early with the Liveable Exeter in-house team at ECC and Exeter City Living, ECC’s own development company to better inform the financial modelling assumptions and discuss appropriate sites. Discussions have begun and will ensue (with other potential partners too) during the early Phase 2 stages to help further specify build quality standards, scalability, resource, personnel and processes. A framework of partners to allow for peaks and troughs in development speed and scale will be explored as an option and early messaging incorporated in the project plan.

Key activities in Phase 2 are:

- Phase 2 Project Initiation
- Business Case Update (Furtherance of Detail): What are the key elements to update? How/Who responsible?
- Full Initial Flagship Scheme (Full Test Bed for all aspects, focusing on feasibility and deliverability)
- Associated procurement of advisory services to augment the initial flagship site readiness: feasibility, legal, regulatory, planning
- Provision of Financial Model Development on the basis of initial flagship sites and the Fund structure
- Development of the Fund’s Target Operating Model
- Market engagement (developer, finance, housing associations, public sector finance)

5.2.5 Use of Specialist Advisors

Phase 2 will require specialist advisory input and we shall procure this using ECF's back-to-back arrangement with Exeter City Council to utilise their procurement processes. The Project team assess potential suppliers' capability, capacity and experience alongside value for money before procuring their services. The ECC process is an end-to-end process for pre-qualifying suitable candidates, allowing for others to enter the process (SMEs in particular), designing and issuing tenders, evaluating bids, managing the standstill process, communicating both outcomes and the award and proceeding through to contract.

In addition to procuring advisory services to inform Phase 2 works, a Procurement Strategy will be developed to articulate which services we need to procure and when. This will be an early piece of work to assess the level of market interest and the quality of bidders. Tendered services would include some of the following:

- Financial (Structuring)
- Accounting
- Taxation
- Legal (Fund)
- Legal/Due Diligence Support for Generic Public Body Partner
- Planning
- Building regulatory
- Public Body Regulatory
- Masterplanning/Detailed Site Planning
- Cost Consultancy
- Architecture
- Construction Drawings
- Structural Engineering
- Quantity Surveying

Processes for the procurement of services and onward contract and supplier management will be determined as part of the Phase 2 work. Chosen processes will largely be determined by the legal and regulatory frameworks applicable to the legal vehicles chosen. The Fund requires commercial flexibility, whilst retaining some degree of public sector authority. The Commercial Case considers this in greater detail.

5.2.6 Change Management Arrangements

It is understood that there will be considerable thought needed to the establishment of the Fund's cultural codes, ways of working and communicating. The Fund represents a significant departure from business as usual ways of working for its partners. Its collaborative demands, ambitious placemaking goals and requirement for 'patient' investment is a cultural shift.

This goes beyond standard governance procedures and legal structures, the nub of which is the way in which human beings cooperate to achieve common aspirations. Inception and ongoing cultural alignment and change management activities will be considered under a specific management framework, agreed by the partners and embedded in the Phase 2 work and Fund establishment proposals.

It is worth noting at this juncture, that certain regulatory processes will likely not be circumnavigated by even the most cooperative Fund TOM. For example, each landowner will have its own bespoke processes which are triggered when land is invested and/or divested: processes which will require full airtime alongside any commitment of land parcels to initial flagship sites by partners.

Fund operation and timescales must factor in realistic expectations of what different processes must be accommodated, which can perhaps be "tweaked", how they differ by authority and the extent to which Fund communication channels, stakeholder and cultural alignments can mitigate or assist. These issues are to be managed by the change management framework described above as part of the Phase 2 scope of work.

The Exeter Development Fund will be a new organisation, with stakeholders who have not gathered formally in such a capacity. This is an exciting proposition, but one which must be approached with care and consideration to the needs, ways of working, legacies and language of the constituent "parts".

A key consideration for the stakeholder communication work, once well into detailed feasibility and TOM work will be HOW the organisation and the people within it should work together.

5.2.7 Culture: Partners Mix

A key point to note is that the partner mix will likely change over time. It is possible that the Fund comes to life with only two partners, others coming on-line shortly afterwards as land becomes available to contribute.

We will consider this more fully throughout Phase 2, but the reason for noting this here is that cultural aspects will change in line with this. Hence, an initial piece of work to define cultural values will be important. Many of these will be common to those of the partner organisations, but there will no doubt will be subtleties which need to be understood and determined for optimum operation of the Fund.

Cultural values must be aligned to the Strategy and Objectives of the Fund, as well as the structure. It will be critical to gain staff input once appointed as part of a periodic refresh of the cultural values and connection to day to day behaviours.

5.2.8 Benefits Realisation Arrangements

A detailed benefits register in Appendix 5.B has been compiled to Green Book standards and links directly to the economic case appraisal methodology in Section 3.

The register has been continuously updated and exists as a standing agenda item at Project Team meetings (a list of Project Team meetings is contained within EDF Engagement Summary V1 (Appendix 5.C)

The development of Fund governance processes will include development of a Benefits Realisation/ Performance Management tool. This will be developed in consultation with stakeholders to ensure that the financial, other tangible and intangible benefits arising from the Fund over its life and by site are tracked in a robust, pragmatic way, which facilitates high-level messaging to the Board, the underpinning of appropriate behaviours and allows for corrective action and positive feedback accordingly.

The benefits register charts the relevant class of benefits as referenced in the Economic and Financial Cases. For each identified benefit the register encompasses a brief description, detailed service features, responsible officer, activities required to deliver, calculation rationale and cost of delivery and timeframe of the benefit over the appraisal period, being reflective of the asset life.

The benefits register will continue to operate beyond the OBC as a live document, and will be carried forward to the FBC as Phase 2 develops.

5.2.9 Risk Management Arrangements

Risk Profile Assessment

A high-level risk register has been developed in line with Green Book Guidance during this phase of work: proof of concept. A workshop was held with key stakeholders (both senior management and political representatives of the partner organisations) and outputs from this have been captured.

These outputs have been refined and feedback sought opposite the Liveable Exeter portfolio more recently and both sets of feedback organised into the High Level Risk Register shown in Appendix 5.D.

This analyses risks as follows:

- Outline Risk Category
- Sub-Category
- Reference to link back to original Stakeholder Risk Workshop
- Description of Risk
- Likelihood of Risk Crystallising
- Impact of Risk Crystallising
- Risk Rating (Likelihood x Impact)
- Risk Quantification
- Risk Ranking

Work thus far has focused on identification of risk and preliminary evaluation and ranking. The risk register has been continuously updated and exists as a standing agenda item at Project Team meetings (a list of Project Team meetings is found at Appendix 5.D).

Further evaluation will form an early part of the work of Phase 2. Once this more detailed evaluation is signed off, a Phase 2 Risk Management Plan will be constructed to propose mitigation methods for each residual risk. Contingency planning and discussions with insurers will form an essential part of this. A key output for Phase 2 work is the formation of an accepted Risk Management Plan, with assigned responsibilities.

High level risks have been mapped and are appended and agreed with key stakeholders for this OBC. These will be analysed and agreed within the stakeholder groups at a detailed level during Phase 2. This process would be honed, the output being a workable, live risk management tool for use as a regular Board item once the Fund becomes live.

Risks must also be mapped by the bearer of the risk to ensure that relative concerns of stakeholders can be heard, understood and managed. This might have a material bearing on the risk/reward discussion pertaining to each stakeholder, the parameters for which will arise from the Financial Model design work.

5.2.10 Project Assurance

Post implementation and evaluation arrangements

Benefits Realisation Strategy & Plan

The Fund's performance management approach will be similar in design to that taken for risk. Simplistically, whereas risk will be managed or mitigated, the benefits will be sustained, maximised and monitored.

A comprehensive performance management process will be a broad approach which encompasses both strategic objectives and operational outputs. This is synonymous with a Benefits Realisation or Management Process and we term it "Benefits Realisation" (BR) herein. Essentially, our BR strategy is to identify benefits, plan and control a process for managing delivery of benefits and evaluate the register of benefits through an iterative process to ensure that the process is agile and responsive to both changing circumstances and realised variances to plan.

The target output for the BR process is a short cascade of dashboards, each with a basket of around 10 Key Performance Indicators, RAG rated and corresponding to the level of seniority within the Fund's governance structure. The KPIs are assigned to responsible owners and are relevant to the delegated levels of authority of the owning person or collective body (e.g. Board, Senior Management Team or operational area).

A series of workshops will take place with each of the partners and onward into executive appointment stage to develop the benefits register, roadmap, (reflecting the timings of realisation) dashboards and assigned ownerships.

Post Implementation Review Plan

An effective BR Process will ensure clarity on reality versus plan. There is a specific point at which a discrete Post-Implementation Review (PIR) should be conducted and done so with a degree of independence to assess amongst other things whether the BR Process is working effectively. Its purpose is to evaluate whether project objectives were met, to determine how effectively the project was run, to learn lessons for the future, and to ensure that the organisation maximises benefit from the project.

A perfect time to conduct a PIR is shortly post-delivery, when memories are fresh and learnings can be garnered thus. Post-delivery, there is inevitable a "snagging" period when operational systems and ways of working are tweaked and embedded; care should be taken to conduct PIR in a positive and constructive manner to allow for project fatigue at this point.

By conducting a thorough and timely PIR, key lessons can be learned and applied to future projects. Since PIR should be open, objective and cover a range of strategic and operational aspects, it is a useful tool to assess the size and nature of the gap between initial objectives and vision and the reality.

We consider that independent resource be secured to consult with stakeholders and help form a true and fair reflection of the positives and negatives arising from Fund programme completion and "rain check" on the effectiveness of not just the BR process, but the collaborative status of stakeholder relationships and communications, which will be so critical to the effective operation of the Fund.

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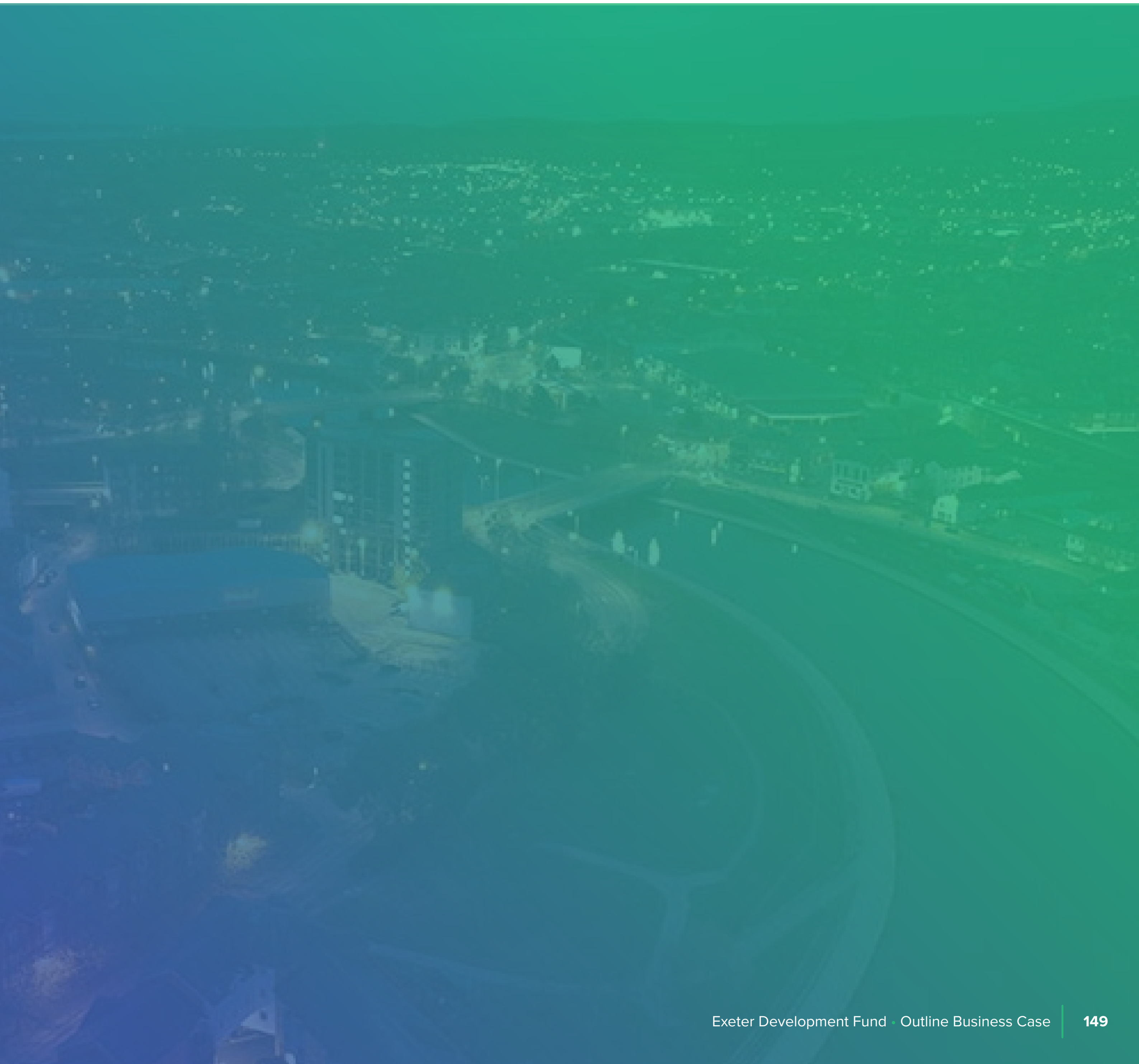

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