

**REPORT TO CORPORATE SERVICES SCRUTINY COMMITTEE**

Date of Meeting: 28 June 2018

**REPORT TO EXECUTIVE**

Date of Meeting: 10 July 2018

**REPORT TO COUNCIL**

Date of Meeting: 24 July 2018

**Report of:** Dave Bartram, Director  
**Title:** Exeter City Group Ltd Business Case (August 2018 to March 2019)

**Is this a Key Decision?**

No

**Is this an Executive or Council Function?**

Council

**1. What is the report about?**

This report proposes the establishment of a group of wholly-owned Council companies comprising:

- Exeter City Group Ltd - the holding company;
- Exeter City Living Ltd - the development company;
- Exeter City Homes Ltd - the residential property company; and
- Exeter City Living Property Ltd - the commercial property company,

Which are referred to collectively in this report as Exeter City Group Ltd or 'ECG'. Exeter City Homes Ltd and Exeter City Living Property Company Ltd will remain dormant until Full Council approval is received for them to operate.

This report and its appendices set out the strategic and year one business case for establishing ECG and includes the structure, governance and operational arrangements. The proposals contained in this report are the culmination of more than two years of work undertaken by Council officers, with support from external advisors. With regard to governance and operational arrangements, the Steering Group made up of Karime Hassan (Chief Executive), Cllr Peter Edwards (Council Leader), Cllr Rachel Sutton (Deputy Council Leader), Cllr Hannah Packham (Portfolio Holder for Housing Revenue Account), Cllr Emma Morse (Portfolio Holder for People), Cllr Rosie Denham (Portfolio Holder for City Transformation, Energy and Transport), Bindu Arjoon (Director & SMB Representative), David Hodgson (Chief Finance Officer (s151 Officer)) and Baan AL-Khafaji (City Solicitor & Head of HR Services) has sought to balance the desire for the Council to retain the necessary level of control over ECG, with the need to ensure that ECG has the autonomy to carry out the proposed actions in the year one Business Case.

Section 3 of this report and the Business Case (Appendix A) further explain the reasons and aims for setting up ECG.

## **2. Recommendation:**

The Executive recommends to Council to:

- 2.1 To approve the establishment of Exeter City Group Ltd and Exeter City Living Ltd.
- 2.2 To note that whilst Exeter City Homes Ltd and Exeter City Living Property Ltd have already been registered at Companies House, no approval is being sought for the Companies' activities as their financial impact on the Council has not yet been assessed.
- 2.3 To approve the Year 1 Business Case at Appendix A to be implemented by Exeter City Living Ltd for the period August 2018 to the end of March 2019.
- 2.4 To agree a loan of £4.35 million pounds to Exeter City Living Ltd in order to implement and complete the year one Business Case set out in Appendix A.
- 2.5 To agree the Management Agreement set out at Appendix B
- 2.6 To delegate authority to the Director (David Bartram) to agree any necessary amendments to the Management Agreement in consultation with the Leader of the Council, the Chief Finance Officer and the appropriate two Portfolio Holders (currently the Portfolio Holder for Place and Commercialisation and the Portfolio Holder for Economy and Culture).
- 2.7 To approve the Articles of Association for Exeter City Group Ltd and its subsidiary companies (Appendix C).
- 2.8 To delegate authority to the City Solicitor & Head of HR in consultation with the City Surveyor to sell at open market value any council owned land identified in the Year One Business Case.
- 2.9 To delegate authority to the appropriate Director (currently Dave Bartram) to act in the role of Shareholder Representative and to undertake the activities and decisions as identified in the Shareholder Representative Delegated Powers Document (Appendix D), including the ability to financially commit up to £499,999 funding for use by Exeter City Living Ltd for matters not in the Year One Business Case (August 2018 – end March 2019).

## **3. Reasons for the recommendation:**

- 3.1 There are three major drivers behind the Council establishing ECG:
  - i) Housing need has become so acute;
  - ii) existing approaches to the building of new housing are increasingly not delivering genuinely affordable homes or the types and/or quality of homes demanded by the city's residents; and
  - iii) Generate an economic return to Exeter City Council.
- 3.2 Over the past few years, house prices have risen by 30% in Exeter, putting home ownership in the open market out of the reach for an increasing number of local people. Private rents are expected to go up by a yearly average of 3.6% over the next five years, with an average two bed flat in the city costing nearly £900pcm; combined with reductions in benefits many families find themselves priced out of the market.

- 3.3 Despite being one of the most effective cities in preventing homelessness, Exeter has seen the number of homeless families needing temporary accommodation rise to over 140, this equates to 3 out of 1,000 households.
- 3.4 Independent research by the University of Durham indicates in excess of 8,000 general needs homes are required in the city of Exeter in the next 18 years. In addition to general needs housing, changes in government policy have seen too few affordable homes built across Exeter. At the beginning of May 2018, the number of applicants on the affordable housing list for Devon Home Choice was in excess of 1,800 for Exeter. 80% of the applicants require 1 or 2 bed homes.
- 3.5 The Council's Housing Strategy (2016-2020) identifies key objectives to seek to address these challenges, in particular facilitating the delivery of more than 8,000 additional homes by 2026 and addressing the issue of poor-quality homes by building replacement homes with the number of bedrooms to meet residents' needs through estate modernisation.
- 3.6 All the while that the demand for genuinely affordable homes has grown, it has become apparent that both private developers and housing associations are providing fewer and fewer genuinely affordable homes. There are a combination of factors driving this, including high land values and a lack of land available for development, increases in construction costs and reduced levels of grant for affordable housing.
- 3.7 Furthermore, private developers are providing fewer and fewer homes in the city centre, instead focusing on large family accommodation on the outskirts of the city or student accommodation in the city centre.
- 3.8 The Council's aspirations for ECG are that it will help the Council deliver a higher proportion of genuinely affordable new homes for the residents of Exeter than would be achieved through conventional approaches, such as relying on private developers and housing associations. In addition, ECG will deliver the types of open market homes that the city's residents need rather than those that will deliver the highest profit.
- 3.9 The cost of building genuinely affordable housing exceeds the financial value of the homes, and because grant from Central Government has been significantly reduced and limited in recent years, ECG will need to cross-subsidise the delivery of genuinely affordable homes from income generated from the sale on the open market of some of the houses it builds. This is no different to any other organisations developing new housing.
- 3.10 ECG will be eligible for various types of grant funding and will seek to further increase the levels of affordable housing that it can through securing grant monies. During this Business Case period, ECG will enter into agreements with grant funding bodies such as Homes England to ensure that these grants can be made available for the schemes.
- 3.11 The delivery of estate modernisation projects is particularly challenging. The costs associated with delivery, such as buying back long leaseholds and replacing homes for the existing community, creates particular financial challenges for these projects.
- 3.12 Evidence from elsewhere in the United Kingdom is that private developers and housing associations are only able to make these types of projects work where there is

significant injection of capital from the local council, or substantial reductions in levels of affordable housing.

- 3.13 By using ECG to deliver these large projects, the Council is able to meet its estate modernisation objectives and increase the levels of affordable housing, in a socially responsible and financially viable way. This is also the only way that the Council will be able to improve the quality of homes on some of its estates, allowing existing tenants to move into homes which are modern, safe, warm, dry and energy efficient with the right number of bedrooms to meet housing need.

#### **4. What are the resource implications including non-financial resources?**

- 4.1 Detailed viability analyses have been carried out for the Year One 2018/19 Business Case projects to support the on-going design development work and the submission of planning applications. Delivering the first year Business Case activities will require a total investment of around £4.35m, this represents the development costs for ECG.
- 4.2 To enable the delivery of the activities set out in this Business Case, ECG will draw down funding from the proposed £4.35m loan from the Council. The budget set out below provides an overview of how this funding will be spent.

<b>Category</b>	<b>18/19</b>
Staff & Interims	£128,169
Office & IT	£18,741
HR, Legal & Finance	£23,850
Development Costs	£3,668,985
Servicing Debt & Principal	£256,940
<b>Sub-Total</b>	<b>£4,096,685</b>
Contingency	£253,315
<b>Total</b>	<b>£4,350,000</b>

- 4.3 The identified staffing costs mainly comprise of re-charges to ECG for staff costs incurred by Council officers progressing work for the company.
- 4.4 ECG will be resourced appropriately by officers being seconded from the Council. It is anticipated that further opportunities for recruitment, internal secondments and professional development will be created.
- 4.5 In the governance proposals, ECG will create new, remunerated roles for two Non-Executive Directors.
- 4.6 In addition to the funding set out in item 4.2 above, it is recommended that a further additional sum of £499,999 be earmarked from the Council reserves to allow the Shareholder Representative to agree additional expenditure outside of the agreed Business Case for use by Exeter City Living Ltd in accordance with the Shareholder Representative Delegated Powers document contained in Appendix D.

#### **5. Section 151 Officer Comments:**

- 5.1 The section 151 Officer is comfortable with the proposal to set up a Development Company.

- 5.2 The loan being approved covers year one of the Business Plan only. Under State Aid rules the Council will charge a rate of 4.86% to the Development Company and interest and repayment of the loan on an annuity basis will cost the Development Company £304,326 in a full year. Presently the Council can borrow at around 2.5% over 25 years and therefore the cost to the Council annually will be around £236,100. In terms of the General Fund there will be a net benefit of around £100,000 per annum in terms of interest paid / received.
- 5.3 In overall terms, the Development Company is likely to seek around £14.1 million from the Council in borrowing over the first three years. This is a significant sum and will generate a significant benefit (around £300,000) annually for the General Fund in terms of interest paid / received.
- 5.4 However, there are risks to lending money. If the Development Company failed, the Council will still have the debt and responsibility to service that debt. This will of course require savings to offset the liability to cover the interest payments.
- 5.5 Members should note that the Business Case covers three years, but is based on borrowing money from the Council over 25 years. Whilst the Business Case demonstrates that a successful Company that stopped trading after three years would return sufficient cash to the Council, the Council may not be able to repay the loans early. However the Council does have sufficient headroom to transfer the amount to cover its underlying need to borrow for other capital schemes.
- 5.6 Whilst the Business Case demonstrates that the General Fund will benefit from staff transferring to work on the Development Company's activities, it makes no assessment of the Council's ability to absorb the extra work without taking on additional staff.
- 5.7 The HRA can only benefit financially from the Development Company's activities in the following ways:
- receiving a capital receipt for the sale of any land;
  - selling services to the Development Company;
  - By purchasing Houses built to meet affordable housing obligations (where it has the funds to do so);

Any assets that the HRA sell however will have the impact of losing rental income (partially offset by ongoing maintenance costs). As the HRA is self-financing, members are reminded of their responsibility to Council tenants and should seek to assure themselves that all decisions involving HRA land do not have a detrimental impact on the ability of the HRA to deliver services to their remaining tenants.

## **6. What are the Legal Aspects?**

- 6.1 Please see Monitoring Officer comments below.

The Council has received ongoing legal support from Ashford's LLP and the legal issues are summarised in paragraph 9.29 - 9.31 below.

## **7. Monitoring Officer's Comments:**

- 7.1 The Power of General competence set out in Section 1 of the Localism Act 2011 means that Exeter City Council has statutory power to do anything an individual generally may do.
- 7.2 In addition, Exeter City Council has power to invest under section 12 of the Local Government Act 2003 for the purposes of the prudent management of its financial affairs or in connection with any of its functions. Any borrowing must be affordable, prudent and sustainable and comply with the Prudential Code.
- 7.3 Local authorities have power under section 95 of the Local Government Act 2004 to trade commercially. In order to do so, it must carry out these activities through a company. It is for this reason that a limited company set up is the recommended vehicle. Before exercising this power to trade the Act requires the preparation and approval of a business case in support.
- 7.4 The City council must retain careful control of the company in order to retain what is known as the "Teckal Exemption". In order for the exemption to apply, Exeter City Council must:
- (a) Exercise control over the company similar to the control it exercises over its own departments;
  - (b) Ensure that more than 80% of the activities undertaken by the company relate to the performance of tasks assigned to it by the Council;
  - (c) Have a decisive influence over the company which cannot be limited by private financial involvement.

The Teckal exemption enables a local authority, in these circumstances, to directly procure services from an external company. If the Teckal exemption applies, it means that the procurement falls outside the Public Procurement rules and does not have to be put out to tender. In practice this means that Exeter City Council would potentially save significant procurement and related costs.

- 7.5 Exeter City Council is entitled to dispose of land held in its Housing Revenue Account without Secretary of State's Consent provided that:
- a) The land is sold for a consideration equal to its market value
  - b) The land sold is vacant

Obviously there is a cost to the council in decanting tenants.

- 7.6 Finally, the Council has to be mindful that it is not in breach of EU State aid rules. Where Exeter City Council acts in the same way as a private lender or investor, then the question of state aid will not arise. So in this instance, given that the loan will be made on commercial terms favorable to the Council, there are no state aid implications but obviously this needs to be kept under constant review.

## **8. City Surveyor Land Values Comments:**

No comments from City Surveyor.

## **9 Report Details:**

### **The Aspirations for ECG**

9.1 ECG represents one of the major initiatives being progressed by the Council to tackle the housing challenge.

9.2 To date, more than 150 local authorities have created wholly owned housing companies for a number of different reasons and aims. Establishing ECG is part of the Council's response to the worsening housing situation in the City. The principal aims of ECG are to:

- build and manage more and better homes, including genuinely affordable homes;
- help reduce the substantial pressures on the Council's housing waiting list; and
- improve the lives of those residents currently living in poor quality homes.

The Council is unable to simply build more traditional council homes because of the borrowing restrictions in the Housing Revenue Account. The Government supports local authorities establishing wholly owned housing companies to provide well designed, high quality homes in a range of tenures.

9.3 Increasing costs of development have meant that fewer and fewer genuinely affordable homes are being delivered by private developers and housing associations. ECG will help the Council to address these market failures and optimise the proportion of genuinely affordable housing that can be delivered through new developments and estate modernisation projects. ECG will enable the Council to reinvest the surplus that would otherwise be taken by private developers and to reinvest this into more homes. It will also give the Council greater control over the design and quality of new homes and estate modernisation projects, to enable more co-operative working with residents and communities and ensure that new developments deliver social, economic and physical improvements to local neighborhoods. There are also other opportunities such as developing a stock of homes for private rent, with long-term tenancies and rent stability, improving the quality and security of the private rented sector in Exeter, and using these homes to subsidise the building of more affordable homes in Exeter for local families.

9.4 The vision for ECG is set out below:

**ECG will work with Exeter City Council and others to build more and better homes to help address local housing need and contribute positively to Exeter.**

The following principles were established for ECG to pursue in order to fulfil this vision:

1. Building more and better homes to help tackle the housing crisis.
2. Providing high quality services for residents.
3. Investing resources efficiently and to maximise housing and regeneration outcomes.
4. Maximising partnerships with public and private sector organisations.
5. Being a strategic delivery partner for the Council.
6. Building and maintaining financial strength and deliver more homes.
7. Engaging with local communities and invest for the long term.
8. Providing affordable housing.

9.5 ECG's aspirations are to deliver both mixed use and mixed tenure development projects and smaller single use housing developments in Exeter to increase the supply of high quality homes and to maximise the proportion of genuinely affordable homes.

The shared objectives that support these aspirations and that are common to all companies within the Exeter City Group:

1. Deliver more housing for residents of Exeter.
2. Maximise the delivery of affordable housing at Council rent levels as well as other forms of affordable and intermediate housing.
3. For estate modernisation projects, ensure delivery to the Council's "Good Practice Guide for Building Neighborhood's".
4. Ensure all tenants receive high quality services.
5. Optimise opportunities to enhance social value.

## **Business Case**

9.6 The Business Case (Appendix A) sets out the objectives, planned activities, deliverables, financial operating framework and performance management framework for the companies within ECG, both collectively and individually. Individual business cases for the subsidiaries of ECG are aligned with this Business Case and are provided as appendices.

9.7 The Business Case provides a forecast for the period of August 2018 – March 2021 with a detailed focus on activities during the remainder of 2018/19 (August 2018 to March 2019). Going forward it is expected that the Business Case will be reviewed and revised annually with the next Business Case to be adopted for the beginning of the financial year 2019/2020.

9.8 The Business Case establishes the framework of actions and deliverables for the ECG boards to work towards over the Business Case period. It represents a key mechanism within the governance for the group of companies in setting the Council's intentions for ECG.

9.9 It shall be the responsibility of the boards of each company in the ECG to oversee the development and realisation of delivery strategies within the parameters defined in the Business Case, to direct the implementation of the activities required to realise the Business Case objectives and to monitor progress and risk.

9.10 This Business Case:

- Sets out forecast investment requirements for the period, and how key risks will be managed.
- Defines a suite of objectives for each of the operating companies and links these to key performance indicators, which will be used by the Council as the ultimate shareholder to monitor progress of the business activities.
- Sets out a statement of intent and forecast of proposed activities for the Business Case period. It will remain the responsibility of the boards of each company in the ECG to review progress against the Business Case and in the context of evolving economic and market conditions and other influencing factors to set the overall direction for ECG.

9.11 The financial year for ECG is 1<sup>st</sup> April to 31<sup>st</sup> March, which is aligned with that of the Council.

## **Contractual & Funding Issues**

9.12 The Council's Shareholder Representative will be granted the ability to appoint a Managing Director. The Council's Shareholder Representative will also be granted the ability to appoint the Non-Executive Directors.

9.13 The boards of each company of the ECG will enter into a range of key agreements and contracts in the Business Case period, in order to support both the corporate activities of ECG and development, estates and tenant management activities as set out within this Business Case.

9.14 These agreements may include (but are not limited to) the following:

- Form of Agreement for Land Purchase.
- Funding Arrangements and associated agreements (e.g. debentures, charges over the lease) for development finance, the purchase of units and working capital.
- Lease & Tenancy Agreements including shared ownership agreements.
- Form of service contract for service providers.
- Construction contracts and associated agreements such as warranties, parent company guarantees, bonds etc.
- Grant funding agreements.
- Estates & Tenant Management Services Contract.
- Planning Agreements including S106 Agreements, S38/278 Highways Agreements etc.
- Back-Office Service Agreements with the Council.

9.15 Where the Council is a counterparty to a key agreement or contract, the Council's own decision-making rules and processes as set out in the Council's Constitution will govern the Council's endorsement of the respective agreement or contract.

9.16 Adoption of this Business Case by the Council as the only shareholder of the ECG will be deemed by the respective boards of ECG and its subsidiaries as an instruction to:

- formally seek to commit to and progress those regeneration and development projects as identified in Appendix A including the necessary land and development transactions with the Council, third parties and between the companies in the ECG;
- draw down the required level of funding against the £4.35m start up loan facility subject to agreement with the appointed Council Officer(s) and put in place any intra-group arrangements to ensure liquidity across the group;
- enter into the necessary contracts with suppliers, contractors and grant funding bodies etc. to facilitate delivery of the schemes set out in the Business Case;
- prepare the necessary financial information to support the draw-down of capital funding to acquire land and develop new homes and enter into the funding agreements; and
- put in place the governance and operational arrangements as set out in section 6, including setting in place the key policies that will underpin operations across the group (such as the Procurement Policy, Conflict of Interest Policy and Financial Regulations).

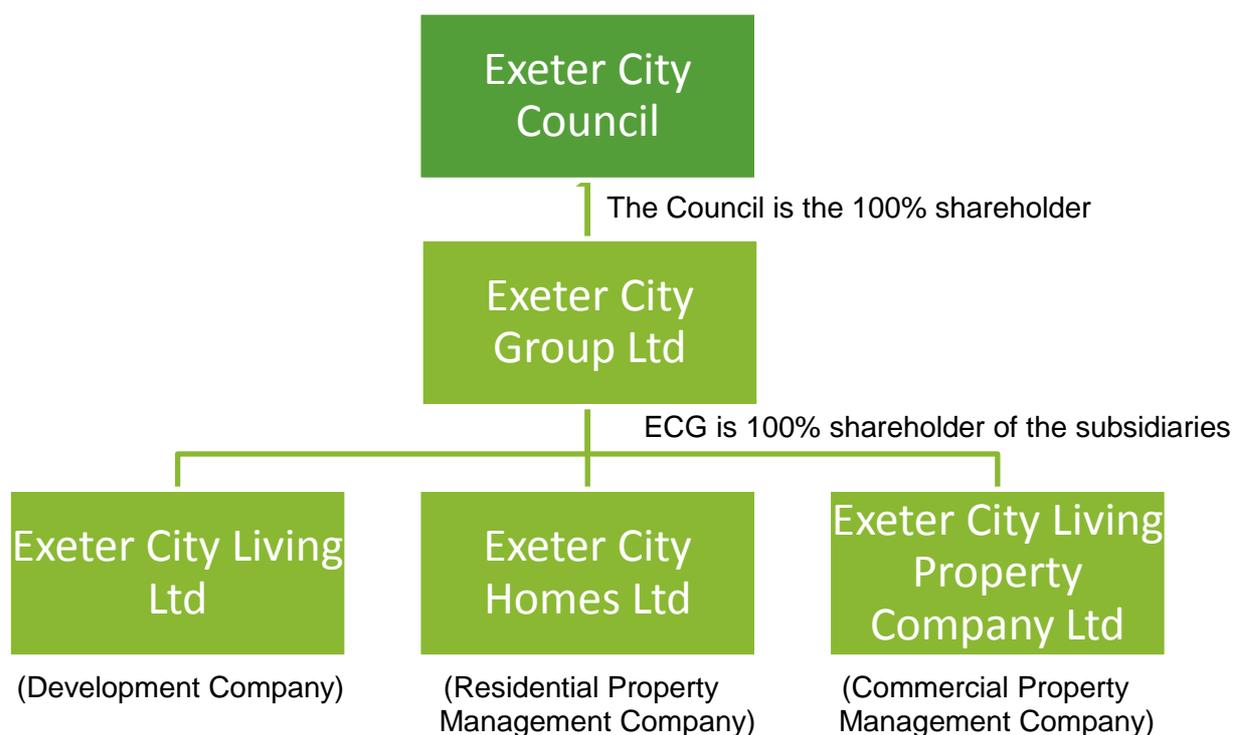
9.17 In order to enable the boards of the companies of the ECG to progress the Business Case, the Council will need to execute decisions (such as disposal of land and allocation of funding) in a timely manner according to its own delegated procedures.

## Management Agreement (Appendix B) & Articles of Association (Appendix C)

- 9.18 The Management Agreement represents an important governance contract that sets out the contractual relationship between the Council and ECG.
- 9.19 The Management Agreement sets out who can take what decisions regarding the operation of ECG.
- 9.20 The process for developing, reviewing and formally adopting the Business Case for the ECG (individually and collectively) is subject to the terms of the Management Agreement between each of the companies and the Council as the ultimate shareholder of the ECG.
- 9.21 The Articles of Association for each company sets out how that company will operate and are largely identical. If there are any conflicts between the Management Agreement and the Articles of Association, then the terms of the Management Agreement will take precedence.

## ECG Structure and Company Names

- 9.22 The structure of ECG is set out below; there are three subsidiaries operating under the parent company, Exeter City Group Ltd. The Council owns 100% of the shares in the Exeter City Group Ltd. The role of each company in the ECG is summarised below.



- 9.23 **Exeter City Group Ltd** is the holding company within ECG. It is a private company limited by shares of which 100% are held by the Council.
- 9.24 **Exeter City Living Ltd** is a development company responsible for building new homes. It is a private company limited by shares of which 100% are held by ECG. Its surplus profits can be re-invested into the ECG to help subsidise more homes.

9.25 **Exeter City Homes Ltd** is intended primarily to be a private rented sector housing company that will acquire new housing and ground rent/service charge investment opportunities from Exeter City Living Ltd to rent out for a surplus in the open market and to manage these homes over the long term. It is a private company limited by shares of which 100% are held by ECG. Its surplus profits can be re-invested into the ECG to help subsidise more homes. Whilst this company has been incorporated, it is not proposed that it will be active for the short to medium term and so will be dormant. Proposals to activate Exeter City Homes Ltd will come back before members with its own individual business case.

9.26 **Exeter City Living Property Company Ltd** is intended primarily to be a commercial property company that will acquire new commercial property and ground rent/service charge investment opportunities from Exeter City Living to rent out for a surplus in the open market and to manage these commercial properties over the long term. It is a private company limited by shares of which 100% are held by ECG. Its surplus profits can be re-invested into the ECG to help subsidise more homes. As with Exeter City Homes Ltd, this company will not be active for the short to medium term and so will be dormant. Proposals to activate Exeter City Living Property Company Ltd will come back before members with its own individual business case.

### **Board Membership**

9.27 Initial director appointments to the boards of each company of ECG were made as part of, and subsequent to, the incorporation of ECG in June 2018. These appointments were for incorporation purposes only and will be replaced in accordance with paragraph 9.27 below.

9.28 The Council's Shareholder Representative will be granted the ability to appoint an Interim Managing Director, until the position is permanently placed. The Shareholder Representative will also be granted the ability to appoint the Non-Executive Directors.

### **Finance**

9.29 High level financial modelling is set out in the Business Case. Detailed financial information is included in Appendix E, which is in Part II.

### **Legal & Democracy**

9.30 Over the past two years, the Council has had legal support from Ashford's LLP on a range of legal issues including choice of corporate vehicle, governance and vires, powers to dispose of land, State aid, and statutory powers to loan and invest, employment law, Teckal and procurement.

9.31 The advice from Ashford's LLP is that the Council has the necessary statutory powers to create and operate ECG for the purposes of providing mixed tenure development.

9.32 The proposed governance and operational arrangements, as set out in this report, are drafted in accordance with the legal advice received.

### **Consultation and Co-operation**

9.33 Consultation and co-operation with residents and the wider community is central to the development of individual estate modernisation schemes. Officers from the Council's housing teams are working closely with residents and communities to support them through the process, ensure they have a say in the look and feel of their new homes, and help them to understand what Exeter City Group Ltd is, and what it means for them.

9.34 Residents impacted by estate modernisation will be asked for their views on the specification of service for future housing management arrangements. This specification will define what ECG expects from organisations bidding to provide housing management services. The specification will also determine the cost of these services.

9.35 Local Ward Councilor's will be consulted at the point that a development site within their ward is identified for potential development via Exeter City Group Ltd.

## 10. How does the decision contribute to the Council's Corporate Plan?

10.1 The Council's Corporate Plan identifies an action to set up a new vehicle for delivering housing and commercial developments.

10.2 The outcomes of ECG will assist with the Council's other Corporate Plan aims including:

- continuing to make energy savings and generate renewable energy;
- addressing future investment requirements for Council Housing Stock;
- working with Exeter City Futures to tackle congestion, achieve energy independence and progress a Smart City Agenda; and
- development Plan (Greater Exeter Strategic Plan).

## 11. What are the ECG risks and how can they be reduced?

11.1 The risks highlighted in the table below are a summary of a more comprehensive risk register. These are the key programme risks for Exeter City Group Ltd.

Risk	Likelihood (1= v unlikely 4 = highly likely)	Impact (1 = Minor impact 8 = Major impact)	Mitigation	Post Mitigation Likelihood	Post Mitigation Impact
Delay in sites being brought forward in time to facilitate tenant relocations.	3	7	Early engagement with Exeter to identify and appraise potential opportunity sites. Develop asset management strategy.	2	4
Reduction in	2	7	Run	2	5

sales prices and rental values so fewer affordable homes can be provided.			sensitivities to test resilience to market downsides. Ongoing monitoring of market conditions.		
Risk that operating costs, voids and bad debts are higher than forecast leading to viability challenges and reduced or no surpluses generated.	3	6	Incentivise managing agent to perform well with KPIs, tight variation controls and strong contract management. Maintain stock in good standard with active marketing to attract tenants.	2	4

## 12. What risks are there to the Council and how can they be reduced?

12.1 The risks highlighted in the table below are a summary of a more comprehensive risk register. These are the key programme risks for the Council.

Risk	Likelihood (1= v unlikely 4 = highly likely)	Impact (1 = Minor impact 8 = Major impact)	Mitigation	Post Mitigation Likelihood	Post Mitigation Impact
Legal challenge relating to 'State Aid' under Section 123.	2	7	Clear governance, processes and guidance to prevent 'State Aid' challenges.	1	5
Changes in market conditions leading to cash flow issues, inability to	3	7	Run sensitivities to test resilience to market downsides. Ongoing	2	5

finance loans and possible insolvency.			monitoring of market conditions.		
Incorrect balance between influence and too much control by the Council.	3	8	Clear governance, processes and guidance to have an important influence but not slow company processes and its flexibility to respond to the market.	2	6

**13. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

13.1 The purpose of ECG is to increase the choice, quality and quantity of housing across the City, developing homes that are exemplar in terms of energy performance, climate resilience and healthiness. This offers greater housing options to meet a diverse need, promotes health and wellbeing as well as eradicating fuel poverty. ECG will also assist with the modernisation and enhancements to existing housing estates across the city, promoting greater community cohesion, enhanced public safety and improved infrastructure, community facilities and estate landscaping.

**14. Are there any other options?**

**14.1 Do not progress any further work relating to the creation of ECG**

This is an option if the Council does not wish to create ECG, resulting in the companies not being formed, incorporated or trading.

There are three main impacts resulting from taking this approach;

- (i) This approach may hinder the Council's ability to deliver some of its corporate aims. In particular the supply of more homes and, specifically, more affordable homes.
- (ii) Without ECG, the Council cannot afford to build any more Council homes (due to the HRA borrowing cap) and cannot build any open market homes (for sale or rent) as this is outside the legal remit of the Council without having a commercial trading company in place.

- (iii) There is a reputational risk which could result in missing opportunities for partnership / external funding. For example, the Council has been singled out by Homes England and MHCLG as a Local Authority capable of delivering new homes and estate modernisation. Financial grants and project funding have been gifted to the Council due to its positive track record for delivery. There are many Government funded opportunities increasingly available as the Government strives to deliver more homes and it is felt that the Council would be far better placed and seen more favorably for Government investment if it had development delivery vehicles in place. ECG is one such vehicle and it could also be a vehicle to attract other private sector and public-sector partners to enable more housing to be delivered at scale.

**Dave Bartram**  
**Director**

**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report: -**

- Appendix A – Business Case for the Exeter City Group of Companies (May 2018)
- Appendix B – Management Agreement
- Appendix C – Articles of Association
- Appendix D – Stakeholder Representative Delegated Powers
- Appendix E – Part Two Financial Information

Contact for enquires:

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