

COMBINED STRATEGIC SCRUTINY AND CUSTOMER FOCUS SCRUTINY COMMITTEES

Date: Thursday 28 July 2022

Time: 5.30 pm

Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting.

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer (Committees) on 01392 265115.

Entry to the Civic Centre can be gained to the rear of the Customer Service Centre, Paris Street.

Membership -

Councillors Allcock, Asvachin, Bennett, Branston, Ellis-Jones, Foale, Hannaford, Harvey, Holland, Knott, Jobson, Leadbetter, Lights, Mitchell, K, Mitchell, M, Moore, J, Oliver, Newby, Read, Snow, Sparling, Sutton, Vizard, Wardle and Warwick

Agenda

1 Appointment of Chair for the Meeting

2 Apologies

3 Minutes

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12)

To approve and sign the minutes of the meeting held on 6 June 2022.

4 Declarations of Interest

Councillors are reminded of the need to declare any disclosable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion of the item. Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

5 Local Government (Access to Information) Act - Exclusion of Press and Public

It is considered that the Committee would be unlikely to exclude the press and public during the consideration of any of the items on this agenda but, if it should

wish to do so, then the following resolution should be passed:-

“RESOLVED that, under Section 100A (4) of the Local Government Act 1972, the press and public be excluded from the meeting for the particular item(s) of business on the grounds that it (they) involve(s) the likely disclosure of exempt information as defined in the relevant paragraph(s) of Part I of Schedule 12A of the Act.”

6 Exeter Development Fund Overview

Scrutiny is being asked to perform a critical friend role for the Council's Executive in examining and highlighting the merits and risk associated with the City Development Fund ahead of the full Business Case being presented to the Executive for consideration later this year.

To Note the sessions are as detailed below -

Session 1	Introduction – 30 March
Session 2:	What is the economic case for pursuing a City Development Fund to support delivery - 27 April
Session 3:	Governance/Fund Management/Governance and Risk - 6 June
Session 4:	The Business Case - 28 July
Session 5	Summary and Way Forward - 8 September

7 Exeter Development Fund

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- 22)

Session Four: The Business Case

Introduction and summary

Karime Hassan, Chief Executive & Growth Director and Roli Martin, Head of Finance and Strategic Project Manager, and Elaine Anning, Operations Director, Exeter City Futures Team

A presentation will be made (attached to the agenda) and will cover an analysis of the business case and the way the Exeter Development Fund is intended to work.

Members are particularly invited to review the Strategic (*page 30*) and Economic (*page 70*) cases of the outline Business Case of the Exeter Development Fund for further discussion at the meeting. Please see a link to now available on the Exeter City Futures web site - <https://www.exetercityfutures.com/the-city-owned-development-fund-for-exeter-takes-a-step-forward/>

Date of Next Meeting

The next scheduled meeting of the Combined Strategic Scrutiny Committee and Customer Focus Scrutiny Committee will be held on **Thursday 8 September 2022** at 5.30 pm in the Civic Centre.

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COMBINED STRATEGIC SCRUTINY AND CUSTOMER FOCUS SCRUTINY COMMITTEES

6 June 2022

Present:

Councillors Allcock, Asvachin, Bennett, Branston, Foale, Hannaford, Harvey, Holland, Knott, Jobson, Leadbetter, Mitchell, K, Mitchell, M, Moore, J, Oliver, Read, Snow, Sparling, Sutton, Vizard, Wardle and Warwick

Apologies:

Councillors Ellis-Jones, Lights and Newby

Also present:

Democratic Services Officer (HB)

In attendance:

Councillor Morse	Portfolio Holder City Development
Councillor Denning	Portfolio Holder Council Housing Development and Support Services
Councillor Pearce	Portfolio Holder Communities and Homelessness Prevention
Councillor Williams	Portfolio Holder Recycling and Waterways
Councillor Wood	Portfolio Holder Climate Change

Roli Martin	Project Manager Exeter City Futures
Ian Piper	Chief Executive Ebbsfleet Development Corporation

17 **Appointment of Chair for the Meeting**

RESOLVED that Councillor Hannaford be appointed Chair of the meeting.

18 **Minutes**

The minutes of the meeting of the Combined Strategic Scrutiny and Customer Focus Scrutiny Committees held on 27 April 2022 were taken as read, approved and signed by the Chair as correct.

19 **Declarations of Interest**

No declarations of discloseable pecuniary interest by Members were made.

20 **Exeter Development Fund Overview**

Members noted that Scrutiny was being asked to perform a critical friend role for the Council's Executive in examining and highlighting the merits and risks associated with the City Development Fund ahead of the full Business Case being presented to the Executive for consideration later this year.

The sessions are as detailed below:-

- Session 1 Introduction - 30 March 2022
- Session 2: What is the economic case for pursuing a City Development Fund to support delivery - 27 April 2022
- Session 3: Governance/Fund Management/Governance and Risk - 6 June 2022
- Session 4: The Business Case in Detail - (Date TBC)

21 Exeter Development Fund

The Chair welcomed Roli Martin, Project Manager of the Exeter City Futures Team (ECF), who would set out the Governance case for pursuing a City Development Fund to support delivery, along with Ian Piper, Chief Executive of the Ebbsfleet Development Corporation, as an external witness to the meeting.

Ebbsfleet Garden City

Ian Piper referred to his background in working for a number of Development Corporations including London Docklands, Forward Swindon and Plymouth Development Corporation and spoke on the creation, in 2015, of Ebbsfleet Garden City and of its ambitions, governance, finance and achievements. It was located just off the M25 and A2, straddling the Boroughs of Dartford and Gravesham. The presentation is attached to the minutes.

He summarised the value of a Development Corporation and the necessary parameters for success as follows:-

- specialist, focussed expertise;
- the right sort of independence;
- the right sort of 'control';
- set ambitious but realistic expectations - regeneration takes time, patience, and expertise;
- try to provide a long term (5-10 year) funding envelope; and
- go on the journey together. It is your vehicle, set up by you, to achieve your vision.

He responded as follows to Members' queries:-

- with a plan of building 15,000 homes of differing tenures, approximately 12% of the land was covered by historic outline planning permissions which limited the variety of tenures to come forward in these areas. Of the 3,000 homes provided to date, 30% were affordable but did not include social housing. Developers who had been granted outline permission were reluctant to change the tenures originally planned;
- limited data was available from developers on the origin of purchasers but it was estimated that 50% were local with a significant proportion of the remaining 50% originating from the outer, southern London boroughs;
- factors such as location, accessibility etc. were impacting on the 30,000 target of new jobs when the Enterprise Zone was first initiated;
- the provision of high quality homes was a priority of the Corporation but challenging in respect of the major house builder developments for which outline permission had been granted. Operating with a planning committee and

increasingly owning land, it was in a better position to ensure higher quality homes;

- there was no precise data on the number of first time buyers, but there was a good mix of family homes and many younger families sold properties in the London Boroughs to buy family homes in Ebbsfleet;
- there was a significant demand for homes in Ebbsfleet from Dartford and Gravesham Boroughs helping to reduce their waiting lists;
- unlike some Development Corporations, Ebbsfleet had to purchase land at market value;
- a large number of the residents commuted to London for work;
- the Planning Committee comprised two Board Members of the Corporation, a representative from each of the three Councils, reflecting their political balance, and two independents. Other than the two Board members, the other Members had to be approved by the Secretary of State. There was a positive relationship with the two Districts and consultations took place to ensure compliance with their Local Plans. Historic planning permissions were adhered to. The Planning Committee operated under Nolan principles and mirrored the operation of local authority planning committees - question time etc. and was open to the public;
- there were 11 Board Members, all appointed by the Secretary of State, with currently three vacancies. The Board included the two District Leaders and the Kent County Council Portfolio Holder. Prior to Covid, it had been televised live but recorded during the Pandemic and was also open to the public to attend;
- the Ebbsfleet Development Corporation Community Board was an important and successful part of the structure. It was promoted through the usual communication channels and traditional methods such as notice boards. Members participate in community building projects. A recruitment campaign was to be launched soon as a refreshed membership is valuable. Welcome packs were provided to new residents;
- relationships with the changing rota of Ministers varied, whilst there was day to day contact with civil servants;
- the staffing levels had varied over time and an increase in numbers was possible with significant regeneration proposals. Projects included work with the Highways Agency on the A2, Southern Water on water treatment works and the Ebbsfleet Central development with 3,000 further homes to be provided next to Ebbsfleet International Station. Balance was required between revenue and capital to ensure staffing levels were appropriate;
- the Corporation provides infrastructure for development sites and it ensures robust development agreements in respect of developments on its own land;
- existing/historic planning consents did not include carbon reduction targets but are to be included in future developments within Corporation owned land. Other controls - building regulations, national and local planning policies applied to earlier developments;
- Nolan principles apply to the Board and Committee Members, including Register of Interests. A Board Member stood down because of a conflict of interest;
- risks include uncertainty over on-going funding - the initial five year commitment was now an annual funding provision which hinders forward planning - market downturn, although this applies to all, and, currently, increased material costs and supplies;
- in bringing forward the "Garden City Principle", the implementation framework endorsed by the two Districts sets out an ambitious agenda of environmental enhancements and supporting the natural environment. There are seven city parks and, ultimately, 43% of the area will be open space. Negotiations with developers through Section 106 agreements also seek to enhance their developments and residents were recently offered 1,500 trees as well as house plants. A Green City Trust is to be established as a legacy body to maintain the

open space areas and environmental improvements. The body is an alternative to the smaller scale management agreements associated with housing developments as it was not considered appropriate for residents to pay for the wider Ebbsfleet environment;

- appeals to the Secretary of State require an independent arbitrator and therefore not the sitting, sponsoring Minister;
- the Corporation is not self-financing. The original Business Case proposed 75% of expenditure to be repaid but was considered unrealistic and had been reduced with targets now agreed with the Secretary of State's Department;
- to date, significant infrastructure has been delivered with 3,000 homes towards the 15,000 target with support given to upgrading the electricity capacity. Each new project requires a Business Case with benefits to be shown;
- the Director of Finance undertakes the role of a local authority Section 151 Officer. Previous experience has shown that the influence of a Section 151 Officer can be restrictive;
- Kent County Council commissions transport services where possible but the Corporation has no control over public transport. Traditional local authority services are undertaken by the respective local Councils and the Corporation works closely on these aspects;
- as with other Councils, and as a planning body, representations are made by the Highway and Education Authorities for infrastructure and other contributions as part of developments. Dartford has a Community Infrastructure Development (CIL) mechanism but Gravesham does not. This will be an important element in bringing forward Ebbsfleet Central; and
- regulations may change as part of the Government's Levelling Up proposals.

The Chair thanked Mr Piper for his presentation.

Governance, Fund Management and Risk

Roli Martin set out the key points within the Commercial Case and Management Case with his responses to Members' queries set out in italics. The presentation is attached to the minutes.

The City Development Fund was proposed as a possible alternative solution to the business as usual approach by developers through joint ventures with private sector and Government agencies as part of the Levelling Up White Paper and Government objectives of building back better with regard to Climate Change and Net Zero. The programme's overall rationale was to break the cycle of the traditional mode of development and achieve adequate public sector control through a partnership approach. Backed by the then Secretary of State for Housing, Communities and Local Government, Robert Jenrick, Liveable Exeter had been granted through the One Public Estate a £200,000 grant and, subsequently, £800,000 to develop a Business Case for the Development Fund.

Commercial Fund

- Three options presented for the Fund Structure with Fund versus Lender considerations set out;
- A fund structure of:-
 - Top Company (Top Co.) - the top entity, which is 100% covered by the Sponsors and is responsible for managing the activities of the overall fund;

- Development Company (Dev. Co.) - the Development entity is 100% funded by Top Co and is responsible for developing or contracting development to build all portfolio assets; and
 - Invest Company (Invest Co.) - the Investment entity is 100% funded by Top Co. and is responsible for collecting rental income and maintaining all assets held.
- Assets and cash flow
 - *whilst there is volatility in interest rates, a 6% estimate for debt repayments is considered appropriate;*
 - *any purchase of land will be at market value and may be necessary where private land straddles local authority/partner land as identified for one of the Liveable Exeter sites. A compulsory purchase order may be one approach. The risk of market increase in land value applies also to the private sector and risk can be offset by control over wider assets; and*
 - *the Fund structure is conceptual and there is no similar model elsewhere in the country and includes a 60 year model for repayment.*
 - Funding and finance structure with alternative funding sources, savings opportunities and ways of repaying;
 - *different ways to repay include, bullet (final payment), partial bullet and annuity then annuity; and*
 - *the 6% interest rate is set to incentivise the private sector to invest.*
 - Procurement strategy
 - *it will be important to avoid the more prescriptive routes of procurement where stringent sets of selection criteria are set and to prevent an unbalanced private sector investment; and*
 - *there can be an opportunity to reduce costs associated with the Community Infrastructure Levy (CIL), given the portfolio incorporates a range of public amenities. Any decisions on CIL contributions rests with the Planning Authority not the Delivery Vehicle.*
 - Specific Risks;
 - *priority repayment to creditors rather than shareholders is a risk within the Delivery Vehicle. Short term commercial debt is taken at a Top Co. level and fed into Dev. Co. for construction/land acquisition purposes. On completion, Top Co. takes long term commercial debt for purchasing the completed assets from Dev. Co., Dev. Co. repays Top. Co. and Top Co. repays the loan. Meanwhile, Invest Co. repays the long terms debt over the long term using net rentals from the purchased properties held for rent;*
 - *the model sets a 35% provision of affordable housing at an 80% market rate which is necessary to seek Homes England support with view to reducing the waiting list, but does not incorporate social housing. The City Council remains the responsible landlord through membership of Top Co. which, in turn owns Invest Co;*
 - *previous Government support has generally been for infrastructure so, to mitigate its risk, smaller contributions would be appropriate and can be achieved through the individual Liveable Exeter schemes;*
 - *Government support also predicated on development of brown field sites rather than green hills;*

- *figures can be provided on the maximum affordable housing provision possible. A zero return would impact on manoeuvrability;*
- *composition of the three entities within the Funding Structure will be determined when Articles of Association are drafted and approved and, similarly, the overall Delivery Vehicle will be guided by the desire to adhere to ethical investments - large scale infrastructure funds come from five/six major investors. The Delivery Vehicle is not based on a Development Corporation approach but seeks a new model driven by robust skills, a sustainable development pipeline and with the right outcomes. This framework is under development and will emerge later as the Business Plan progresses; and*
- *a risk register is included within the Business Case setting out the specific risks of funding, skills and capacity and local support and agenda, allocated through the different construction phases and completion.*
- Accountancy Treatment
- *the commercial vehicle will transfer income to Top Co. with surplus cash used to fund further development through re-cycling back into city projects. It would hopefully disrupt the market and challenge the mind-set of the private sector to encourage the development of new, sustainable communities and desirable neighbourhoods to live and work;*
- *option for pooling capital receipts from sale of car parks, brownfield sites is included in the developing Fund model to produce further surplus, although the former needs to be balanced against the loss of income; and*
- *Marsh Barton, with a mix of land ownerships and brownfield sites, land at peppercorn, as well as open space and good transport links to the city centre is identified as a suitable feasibility study for place shaping. Southgate, with links to the Quay, and Water Lane were also potential early areas to bring forward. As Government equity funding of £1.8 billion is for the whole of the country, the development of the conceptual model is to demonstrate viability for individual Liveable Exeter sites rather than a city wide approach. The process will also be informed by the emerging Exeter Local Plan.*

Management Case

The Fund v a Typical Development Corporation

- *to achieve the regeneration of Exeter akin to the objectives in the One Public Estate, the Fund will acquire, manage and dispose of land, carry out building operations, ensure provision of services, acquire finance packages and undertake all actions to achieve its objective;*
- *ownership of the Fund is through the Board, including partners who have committed land and other resources. Partners will be committed to the direction of travel;*
- *the Fund will not have any of the local authority's planning functions transferred to it and the Fund will adhere to the Local Plan; and*
- *potential future challenges which could adversely affect the Development Fund were a collapse in the housing market, high interest rates and Hinkley Point and other employers drawing from the local labour market. A high level risk register setting out risk management arrangements had been developed in line with HM Treasury's Green Book Guidance on appraising policies.*

The Fund's Role

- *the principle tenants were publicly owned, impact driven, locally retained profits and professionally run;*
- *all partners to undertake their own business case; and*
- *the essential element was the involvement of at least two public sector partners as only one public sector partner was outdated. A modern and innovative approach was required.*

The Board (Top Co)

- *Devon County Council are represented on the Board and the NHS, through the RD&E/North Devon Trust, had significant land holdings and consultations are ongoing with the latter;*
- *the role of the Secretary of State in relation to Board appointees will be checked;*
- *the makeup of the Board, with 5 out of 10 public sector representatives, is for illustrative purposes. It will be populated by public sector representatives, including the City Council, which will ensure robust lines of accountability;*
- *there is potential for key workers provision as a microcosm within the overall Fund.*

Councillor Morse, the Portfolio Holder for City Development, emphasised that the ongoing work on the City Development Fund was conceptual and that it would be important to reflect the drivers within the emerging Exeter Plan (Local Plan).

Councillor Hannaford, Chair for this meeting of the Joint Committee, suggested that a key consideration was whether Exeter was to accept Development Fund flagship status for replication nationwide. He reminded Members that the fourth joint scrutiny session would examine the Business Case and undertook to ensure it was circulated fully with all appendices, including electronically, adding that it may prove necessary to go into Part II should there be commercially sensitive material. He also referenced the need for social housing provision as an ideal within any formula. Roli Martin advised that a data room would be available to all Members to directly access the Business Case with appendices. Roli also urged Members to study the Benefits Realisation Arrangements which included a detailed benefits register prepared to Green Book Business Case standards

The Chair thanked Roli Martin for his presentation.

The meeting commenced at 5.30 pm and closed at 8.33 pm

Chair

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Exeter Development Fund

July 2022

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- 05 What is the ask?
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➤ Business as Usual

- What do developers build?
- Who determines what is build and when from an overall mixed use scheme design?



➤ How is the associated community infrastructure delivered?

- Developers only want to deliver housing.
- Responsibilities are assumed to be discharged through CIL & S106 payments.
- These don't meet the scale of the infrastructure requirements.
- Housing is usually just delivered to meet the legislative minimum standards.



➤ How is the fund different?

- Currently planners are met with proposals that “aren’t bad enough to refuse.”
- The differential to “the quality we aspire to deliver” is what the Fund seeks to address.
- Achieved over a longer timeline, to deliver communities and returns over 50+ years.



➤ How do we seek to address this currently?

- The viability is challenged on brownfield developments.
- This is largely due to brownfield land costs (decontamination cost, demolition & clearance etc).
- Access to government funding is limited to bidding for piecemeal funding pot (Brownfield Land Release Fund etc).
- This is costly, time and resource consuming and with a significant degree of risk.



➤ What is the ask?

- Leveraging public sector assets enables us greater access to finance by attracting government equity and private debt.
- Having a vehicle in place to deliver the programme builds confidence.
- The governance structure of the Fund attracts the equity required to deliver the aspirations.



➤ Outcomes

- Over a the 50+ year appraisal period there will be an ask of government to deliver supporting infrastructure.
- This structure just asks for this upfront in the form of equity to provide preventative interventions.
- We avoid the deficit in infrastructure delivery as seen with existing developments.
- The Fund is a vehicle designed to attract the substantial funding required to deliver Liveable Exeter, as intended.





Exeter CityFutures

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