

Appendix A – Business Case for the Exeter City Group of Companies (May 2018)

Business Case for the Exeter City Group of Companies

MAY 2018

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Appendices

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1 EXECUTIVE SUMMARY

Housing represents one of the greatest challenges facing Exeter residents. It is an issue that links all major themes of the Exeter Core Strategy (2012-2026).

Over the past few years, house prices have risen by 30% in Exeter, putting home ownership in the open market out of the reach of 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 community they know and love.

Despite being one of the most effective cities at 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.

Independent research by the University of Durham indicates in excess of 8,000 general needs homes are required in the city of Exeter alone, in the next 18 years. In addition to general needs housing, changes in government policy have seen too few social and affordable homes built across Exeter and at the beginning of May 2018, the number of people on the affordable housing list for Devon Home Choice was in excess of 1,800 for Exeter. 80% of applicants were requiring 1 or 2 bed homes.

Exeter City Council wants to make sure that the residents of Exeter can continue to live in the city in which they grew up, to enable communities to stay together. At the same time, the council's planning policy seeks to make sure that estate modernisation and new developments give rise to socially mixed communities in the city.

As one of the measures to address the housing challenges the council has set up – Exeter City Group Ltd (ECG). A new wholly council-owned house building and management group of companies, to:

- build and manage more and better 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.

ECG will be able to deliver housing in a more efficient way than could otherwise be done within Exeter City Council (such as the building and long-term ownership of open market and private rented homes) and has the potential to access funding sources not otherwise available to the council for housing purposes. In developing the strategy for ECG, other options were considered by Exeter City Council, such as divesting delivery to other parties such as private sector developers or housing associations, entering into a joint venture with private sector partners or housing associations, creation of a not-for-profit industrial and provident society (or equivalent charitable entity).

ECG represents the best option whereby Exeter City Council is able to maintain democratic control of the new group of companies and whereby the Council is able to ensure that the new companies are focused on maximising the delivery of more and better affordable homes.

Increasing costs of development have meant that fewer genuinely affordable homes are being delivered by private developers and housing associations. ECG will help the council to address this market failure 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 profit that would otherwise be taken by private developers to help address Council priorities for its citizens including more housing. It will also give the Council greater control over the design of new homes and estate modernisation projects, to enable more

cooperative working with residents and communities and ensure that new developments deliver social, economic and physical improvements to local neighbourhoods.

There are also other opportunities such as developing open market homes and 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 the income from these homes to subsidise the building of more social and affordable homes in Exeter for local families.

The companies that make up ECG were incorporated in May 2018, following a Steering Group decision in March 2018. 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 housing services for residents.
3. Investing resources efficiently and to maximise housing and estate modernisation outcomes.
4. Maximising partnerships with public and private sector organisations.
5. Being a strategic delivery partner for Exeter City Council.
6. Building and maintaining financial strength.
7. Engaging with local communities and invest for the long term.
8. Providing social housing. Whenever it is viable to do so.

In the lead up to incorporation of the new companies, the Council has initiated an estate modernisation programme which included a programme of four small housing development sites that it is intended ECG will build out and then either sell to the open market or own thereafter. These projects represent the initial pipeline of developments that form the basis of this Business Case for the EC group of companies.

Over the next 3 years, ECG will aim to deliver five smaller housing developments, replacing 16 poor quality homes and designing and building 115 net additional homes. As per the principles set out above, ECG will work alongside the Council to ensure that projects provide new homes for existing secure tenants let at council rent levels, and thereafter seeking to maximise the proportion of affordable homes that can be delivered on each project, in particular seeking to maximise the number of net additional affordable homes that can be let at social rent values. ECG will deliver to the Council's affordable homes policy wherever this is viable.

Within the period of this Business Case (to March 2019), ECG expects to commence building 43 new homes and over the three years forecast in this Business Case expects to have built 131 homes, 36 of which would be under management. As set out in Sections 4 and 5, ECG expects to commit to the delivery of four housing developments within this Business Case period; the capital investment that will be required to deliver all those projects that will be commenced during the Business Case period, to build new homes and improve the quality of homes for existing residents, is around £8m.

Sound financial management will be critical to the success of ECG, in particular because it is a new company. ECG is beginning with no existing income or assets and will be undertaking major development activity within the first twelve months of being established. As such, it is important that the growth and risks are carefully managed, and that the company has sufficient financial and human resources to do so.

2 INTRODUCTION

2.1 Introducing Exeter City Group Ltd

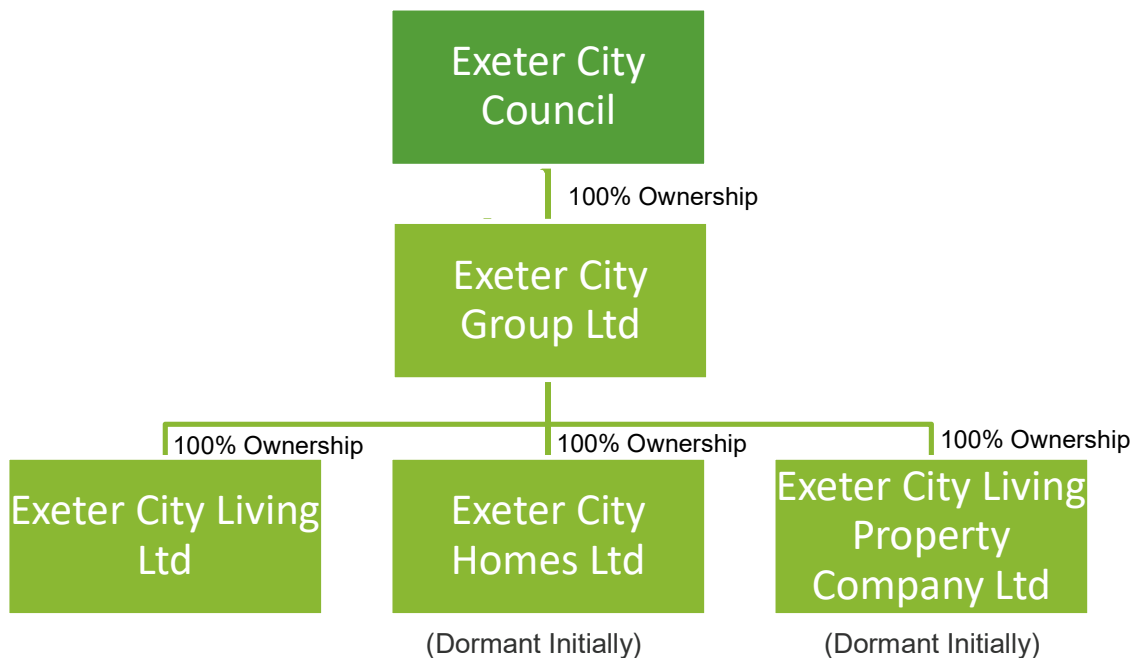
Exeter City Group Ltd (ECG) is a new group of companies that is wholly owned and controlled by Exeter City Council. The Council will appoint a Shareholder Representative who will consult with a nominated Shareholder Representative Group. This Group will make recommendations to the Council regarding ECG's proposed business activities and will monitor the on-going performance of the company. The Group will be made up of Councillors and Council Directors.

ECG will play a key role in helping the Council to deliver the more and better homes the city needs as well as modernisation. This will help meet the current and future needs of Exeter's residents, whilst striving to deliver a higher proportion of affordable homes than is normally achieved by private developers.

ECG will be an active developer and landlord delivering new homes and retaining ownership of some of these properties to lease and will also be building homes to sell. ECG may also acquire land and new homes directly funded and constructed by private developers as part of their Section 106 obligations.

The structure of the EC group of companies is set out below; there are three subsidiaries operating under a parent company, Exeter City Group. Exeter City Homes Ltd and Exeter City Living Property Company Ltd will be dormant until Full Council approval is received for them to operate.

The Council owns 100% of the shares in the parent company. The role of each company is summarised below.



- **Exeter City Group Ltd** is the holding company within the Exeter City group of companies. It is a private company limited by shares, of which 100% are held by the Council.
- **Exeter City Living** 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 will be reinvested back into the group of companies to help subsidise more homes.
- **Exeter City Homes** is intended primarily to be a Private Rented Sector ('PRS') housing company that will acquire new housing 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 homes over the long term. It may also be involved in other property activities, such as holding and renting shops and offices. It is a private company limited by shares, of which 100% are held by ECG. Its surplus will be reinvested back into the group of companies to help subsidise more homes or utilised to support Council services.

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.

- **Exeter City Living Property Company** 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 will be cycled back into the group of companies 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.

2.2 Purpose and Content of the Business Case

This Business Case sets out the objectives, planned activities, deliverables, performance management framework and forecast financial performance for the companies within Exeter City Group, both collectively and individually. Individual Business Cases for the subsidiaries of Exeter City Group are aligned with this Business Case and are provided as appendices.

This 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 ("the business planning period" is considered to be the period from August 2018 to March 2019). Going forwards it is expected that the Business Case will be reviewed and revised annually with the next Business Case to be adopted from April 2019.

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.

It shall be the responsibility of the Boards of each company 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.

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 Shareholder Representative 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 each ECG Board Member 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.

The financial year for ECG is 1st April to 31st March, which is aligned with that of Exeter City Council.

A glossary of key terms used in this Business Case is provided as Appendix D.

2.3 Process of Review and Adoption of the Business Case

Following the production and formal approval of this first Business Case by Full Council, the Board of each company within Exeter City Group will produce a Business Case annually; the next Business Case will be required for the year commencing April 2019. This does not, however, preclude interim editions of the Business Case, when substantial changes are required and need to be re-considered by Full Council.

The process for developing, reviewing and formally adopting the Business Case for the ECG of companies (individually and collectively) is subject to terms of the Management Agreement ('MA') between each of these companies and the Council as the shareholder of the parent company (ECG). Articles of Association define the reserved matters that require shareholder or board level approvals.

The process for formally adopting the Business Case is summarised as follows:

1. The Board of each Company shall prepare the draft Business Case no earlier than six months and no later than two months before the end of each Financial Year, for the following Financial Year.
2. Following an initial approval by the Shareholder Representative, the draft Business Case will be shared with the Council (as shareholder of ECG) for approval in accordance with the MA.
3. In accordance with the MA, the Council has established a Shareholder Representative Group, which will support the Council to scrutinise and manage its interest as a shareholder. A key responsibility of the Shareholder Representative Group is to review the draft Business Case and then recommend the approval of the final Business Case to Exeter City Council's Members.
4. Full Council will receive and formally approve the Business Case on behalf of the shareholder.
5. The new Business Case will then become the Business Case in place of the then current Business Case upon the receipt of the approval.
6. The Shareholder Representative and its Group will meet at least twice a year to review performance of the companies against the Business Case.

2.4 Delivery Commitments

Approval of this Business Case by the Council as Shareholder will be deemed by the respective Boards of Exeter City Group and its subsidiaries as an instruction to:

- Grant the Council's Shareholder Representative the ability to appoint a Managing Director by way of an internal secondment.
- Grant the Council's Shareholder Representative the ability to appoint the Non-Executive Directors.
- Formally seek to commit to and progress those development projects as identified in Section 4.2 including the necessary land and development transactions with the Council, third parties and between companies in the Exeter City group.
- 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 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.
- 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).

The Council for its part reserves the right to delegate the necessary authority to its Officers to execute its will as shareholder for the aforementioned activities, in accordance with the governance and stewardship arrangements put in place for ECG.

3 BACKGROUND

This section presents a précis of key strategic and contextual drivers that have and will continue to underpin the Council's rationale for forming and mobilising the EC group of companies, which collectively constitute a separate, but closely aligned, strategic vehicle for housing delivery, development and management. As such, these drivers are implicit to the shared ethos and aspirations of the Council and ECG.

3.1 Strategic Context

There are two major drivers behind the Council establishing ECG: i) housing need has become so acute, and ii) existing approaches to the building of new housing are increasingly not delivering genuinely affordable homes or the types of homes needed by the city's residents.

Over the past few years, house prices have risen by 30% in Exeter, putting home ownership in the open market out of the reach of 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 community they know and love.

Despite being one of the most effective cities at 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.

Independent research by the University of Durham indicates in excess of 8,000 general needs homes are required in the city of Exeter alone, in the next 18 years. In addition to general needs housing, changes in government policy have seen too few social and affordable homes built across Exeter and at the beginning of May 2018, the number of people on the affordable housing list for Devon Home Choice was in excess of 1,800 for Exeter. 80% of applicants were requiring 1 or 2 bed homes.

The Council's Housing Strategy (2016-2020) identifies key objectives to seek to address these challenges, in particular facilitating the delivery of an excess of 8,000 additional homes by 2026 and addressing poor-quality homes by building replacement homes with the number of bedrooms to meet residents' needs through neighbourhood modernisation.

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 through the planning system. There are a combination of factors driving this, including land availability and values, increases in construction costs and reduced levels of grant for affordable housing.

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.

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. In addition, ECG will deliver the types of homes that the city's residents need rather than those that will deliver the highest profit.

3.2 Market Context

Because the cost of building genuinely affordable housing can in some circumstances exceed 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 of open market homes. This is no different to many Registered Providers and Private Developers developing new housing.

With the Council as shareholder, not extracting profit from the development of the open market housing will enable ECG to reinvest more money back into building more genuinely affordable homes, thereby attaining a higher proportion of affordable homes than would otherwise be achieved by Private Developers.

In this way, the Council through ECG will be able to deliver what the open market is failing to deliver.

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 future affordable housing schemes in the pipeline.

The delivery of estate modernisation projects is particularly challenging. The costs associated with delivery, such as buying back existing leaseholders and non-resident homeowners and replacing homes for the existing community, creates particular financial challenges for these projects.

Evidence from elsewhere in the United Kingdom show 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.

By using ECG to deliver these large projects, the Council is able to meet its estate modernisation objectives and maintain and increase the level of affordable housing; this is the principal way that the Council can deliver these projects in a socially responsible and viable way. This is also an opportunity for the Council to improve the quality of homes on some of its estates, allowing existing tenants to move into homes which are more modern, safe, warm, dry and energy efficient with the right number of bedrooms to meet need.

This is a key need for the Council with its overall planned maintenance costs over the 30-year HRA business planning period, backlog repairs and unaccounted Decent Homes costs totalling over £122 million. These costs exclude any exceptional / extensive works, void works or responsive repair costs that will be required during the intervening period and therefore indicates that there is no 'Do Nothing' option for some of the ageing estates in the Council's portfolio.



3.3 Delivery Issues

ECG will represent a new 'arms-length' organisation with a singular focus on delivering more housing in Exeter, but which at the same time is answerable to the Council through its 100% shareholding. ECG will need to operate in a commercially astute manner and remain a viable entity.

Setting up ECG as a separate business will help the Council to achieve its objectives to deliver more housing and more genuinely affordable housing in the following ways:

- it enables the recycling of receipts within its group structure in order to support the delivery of more housing over the long-term;
- it forces the approach to delivery of the housing programme to be more specifically focussed to generate the cross-subsidy required in order to deliver a maximum proportion of affordable homes;
- it requires the implementation of formalised governance arrangements, Business Cases and funding arrangements that are essential to enable good management of a long-term development programme of this scale;
- it requires the establishment of dedicated organisational structures, processes and systems as are necessary to be able to compete within the housing market, so as to generate the returns required to cross-subsidise delivery of more affordable housing;
- it allows for the treatment of housing schemes as being part of a wider delivery programme, enabling where necessary cross-subsidy between projects (albeit to start off, the business is looking to each project to be viable in its own right);
- it ensures that ECG development activity is aligned to, but separate from the Council's wider activities and financial considerations; and
- it reduces risk and exposure to the Council by ensuring that a dedicated team of professionals, overseen by boards that have company directors and non-executive directors with relevant skills and experience, are retained to focus specifically on the delivery of the new housing.

3.4 Regulatory Framework

ECG enables the Council to explore other opportunities to generate income to help subsidise the delivery of genuinely affordable housing. In particular, local authorities are not allowed to directly hold and manage private rented housing. ECG will allow the Council to choose the most appropriate form of private housing to enable cross-subsidy to generate income to build homes.

It is an aspiration of the Council, furthermore, that ECG build and retain private rented homes to help meet other market failures, including making available good quality, well-managed rental homes with longer and more secure tenancies than are currently available to those that can afford to rent within the open market. This will contribute to the aspiration to help keep communities together and enable those who grew up in Exeter or graduated within the City to stay here. ECG will seek to include this tenure in future schemes and Business Cases where it is viable to do so.

3.5 Access to finance

A strategic driver for the Council in establishing ECG has been to facilitate access to external debt funding to provide new housing.

Whilst many of ECG's objectives relate to socio-economic ambitions (particularly maximising affordable housing), these can only be realised through sound financial management of the company's affairs.

As an independent group of companies limited by shares, ECG will have opportunities to access the wider sources of funding than are open to other equivalent companies or organisations (such as if it were a charitable organisation).

Under the guidance of clear Financial Planning & Funding Principles (set out in detail in Section 5 below), ECG will develop dedicated strategies to determine the group's approach to funding and realising the long-term programme of housing development and regeneration.

ECG will have the opportunity to review, assess and potentially secure sources of funding available to companies such as those within ECG, which might not otherwise be available to the Council.

4 OBJECTIVES

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 housing need.
2. Providing high quality services for residents.
3. Investing resources efficiently and to maximise housing and estate modernisation outcomes.
4. Maximising partnerships with public and private sector organisations.
5. Being a strategic delivery partner for Exeter City Council.
6. Building and maintaining financial strength and deliver more homes.
7. Engaging with local communities and invest for the long term.
8. Providing social housing.

Set out below are the strategic objectives proposed for the ECG companies. These objectives set the framework of intention for each of the companies under the umbrella of the vision. As such, the roles, actions, outputs, outcomes and constraints proposed within this Business Case are underpinned by these objectives.

4.1 Group Objectives

The whole group of company aspirations are to deliver both mixed use and mixed tenure regeneration 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 ECG:

1. Deliver more housing for residents of Exeter.
2. Maximise the delivery of affordable housing at social 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 Neighbourhoods, particularly with regards to secure tenants and homeowners.
4. Ensure all tenants receive high quality services.
5. Optimise opportunities to enhance social value.

4.2 Exeter City Group Ltd

The role of Exeter City Group Ltd (ECG) is to act as the parent company, to coordinate the formation of the group and ensure that resources and infrastructure to support the effective mobilisation are put in place. ECG will need to ensure that the whole business operates on a sound financial basis, so as to maximise the potential for cross-subsidy to deliver more housing.

1. Optimise the deployment of resources efficiently and effectively to realise the target housing outcomes across the group.
2. Recycling revenue and surpluses within the group where required to support mutually agreed objectives or regulatory requirements.
3. Ensure sound financial management of the Exeter City Group including intra-group transactions.
4. Set, oversee and monitor a health and safety framework for the Exeter City Group.
5. Work alongside each subsidiary to set the strategic direction and oversee progress and performance against the annual business plan.
6. Maintain an effective relationship with the Council as shareholder and funder, including managing the interface with the Shareholder Representation Group.

4.3 Exeter City Living Ltd

The role of Exeter City Living Ltd is to develop and construct new high-quality housing for onward disposal either to new homeowners or to the sister companies. Where property, such as retail and offices, is built it will be disposed of to Exeter City Living Property Company. Exeter City Living Ltd will ensure that development schemes are viable in order to secure funding for development from the Council.

1. Deliver an appropriate mix of tenures to provide balanced and viable schemes.
2. Deliver homes and amenities that meet the adopted housing design standards and support place-making.
3. Look for ways to enhance value and reduce costs in order to generate optimal levels of cross-subsidy to facilitate the delivery of more affordable housing.
4. Ensure all activities, including design and construction, are carried out to a high standard of health and safety.

Exeter City Living Ltd will enter into land agreements with the Council to purchase development sites and facilitate the delivery of the new homes. In addition, Exeter City Living Ltd will enter into contracts with Exeter City Homes and Exeter City Living Property Company to sell completed buildings on each scheme.

This is an important part of Exeter City Living Ltd securing the income it needs to repay debt borrowed from the Council and generate a surplus to reinvest within the group. Where schemes include housing for sale, Exeter City Living Ltd will promote these homes on the open market to secure best value to generate income to reinvest into more affordable housing.

Further details of Exeter City Living Ltd.'s proposed activities can be found in Appendix B.

4.4 Exeter City Homes Ltd

Whilst initially dormant subject to Full Council approval to operate, the future proposal is that Exeter City Homes Ltd will purchase completed homes principally from Exeter City Living Ltd and then let high quality, well managed private rented homes that generate a market competitive income to enable cross-subsidy towards the delivery of more housing.

In the early stages of development, Exeter City Homes Ltd will also take responsibility for the management of communal areas of market homes developed by Exeter City Living, this includes ground maintenance together with facilities management of flat developments. In return Exeter City Homes Ltd will obtain service charge income.

1. To develop a commercially focussed strategy to manage properties and private rented homes.
2. Provide high quality, well managed properties and private rented homes that are attractive places where residents want to live/work.
3. To develop operational objectives that are aligned with the aspiration to provide market rent homes that deliver a competitive income.
4. Ensure all activities, including management of properties and landlord obligations, are carried out to a high standard of health and safety.

Exeter City Homes Ltd will acquire ground rent and service charge investment opportunities and homes for private rent from Exeter City Living where these are delivered as part of a scheme. The first phase schemes are not currently expected to include private rented housing; therefore, Exeter City Homes Ltd will be more active in later phases.

Exeter City Homes Ltd will enter into an agreement to acquire the ground rent and service charge investment opportunities from Exeter City Living at market value using debt from the Council. This debt will be repaid through net operating income generated from rents. The property will be managed efficiently whilst maintaining a high standard of quality to maximise the ability to generate cross-subsidy from these activities to assist the delivery of more development.

Exeter City Homes Ltd will procure housing management contractors to provide services across its homes. The quality of services provided by Exeter City Homes Ltd to its residents will be critical for Exeter City Homes Ltd to secure its position in the market and compete with other providers of private rented housing.

4.5 Exeter City Living Property Company Ltd

Whilst initially dormant subject to Full Council approval to operate, the future proposal is that Exeter City Living Property Company Ltd will purchase completed employment/retail units principally from Exeter City Living Ltd and then let high quality, well managed employment/retail units that generate a market competitive income to enable cross-subsidy towards the delivery of more housing.

In the early stages of development, Exeter City Living Property Company will also take responsibility for the management of communal areas of employment/retail units developed by Exeter City Living, this includes ground maintenance together with facilities management of flat developments. In return Exeter City Living Property Company will obtain service charge income.

1. To develop a commercially focussed strategy to manage employment/retail units.
2. Provide high quality, well managed employment/retail units that are attractive places to visit and work.
3. To develop operational objectives that are aligned with the aspiration to provide employment/retail units that deliver a competitive income.
4. Ensure all activities, including management of properties and landlord obligations, are carried out to a high standard of health and safety.
5. To manage other non-residential property to generate an income stream to support delivery of more development.

Exeter City Living Property Company will acquire ground rent and service charge investment opportunities and employment/retail units from Exeter City Living where these are delivered as part of a scheme. The first phase schemes are not currently expected to include employment/retail units therefore, Exeter City Living Property Company will be more active in later phases.

Exeter City Living Property Company will enter into an agreement to acquire the ground rent and service charge investment opportunities from Exeter City Living at market value using debt from the Council. This debt will be repaid through net operating income generated from rents. The property will be managed efficiently whilst maintaining a high standard of quality to maximise the ability to generate cross-subsidy from these activities to assist the delivery of more development.

Exeter City Living Property Company will procure facilities management contractors to provide services across its employment/retail units. These services will be integrated with the services provided to tenants of Exeter City Homes. The quality of services provided by Exeter City Living Property Company to its tenants will be critical for Exeter City Living Property Company to secure its position in the market and compete with other providers of employment/retail units.

5 DELIVERY PLAN

This section sets out the development proposed for the Business Case period (through to March 2019) and notes the potential pipeline of developments that will begin to be realised over the next three years.

5.1 Forecast: Long Term Aspirations

The Council has identified some initial developments that could be delivered through ECG. The following table shows the three-year pipeline of development that could be delivered by ECG. The estimates for the Council Own Build (COB) Wave III programme relate to projects that have been developed to Technical Design stage, with preferred main contractors selected.

The estimate for the Vaughan Road project pertain to the feasibility work completed to date which is at a very early stage in the design process and are therefore represents a very approximate estimate of future delivery.

ECG will work alongside the Council to help progress this pipeline of projects.

Scheme	Start on Site & Funding Drawdown	Practical Completion	Anticipated Sales Period End	Total Homes Forecast (Social / SO)	Demolished Homes Forecast (Social / SO)	Net Total Homes Forecast (Social / SO)
Schemes To Be Built in First Year Business Case (COB Wave III)						
Anthony Road	Sep-2018	May-2019	Nov-2019	3	0	3
Bovemoors Lane	Feb-2019	Feb-2020	Sep-2020	10	4 (4/0)	6 (-4/0)
Hamlin Gardens	Sep-2018	Dec-2019	Sep-2020	21 (0/5)	0	21 (0/5)
Thornpark Rise	Sep-2018	Dec-2019	Jun-2020	9	0	9
Sub-total				43 (0/5)	4 (4/0)	39 (-4/5)
Schemes To Be Designed & Assessed in First Year Business Case						
Vaughan Road	Jun-2019	Nov-2020	Feb-2022	88 (21/10)	12 (12/0)	76 (9/10)
TOTAL				131 (21/15)	16 (16/0)	115 (5/15)

This gives a potential net total additional homes of 115, 5 of which would be social rent and 15 shared ownership (SO). A further pipeline of projects has been developed, which does not form part of this Business Case but forecasts a further 336 net additional homes across five sites.

As per the objectives set for ECG, the company will seek to maximise the levels of genuinely affordable housing that can be delivered through these schemes. Wherever possible, the company will seek to achieve or surpass planning policy on proportion of affordable housing, so long as it is viable to do so.

The actual levels of affordable housing and types of affordable housing that can be achieved on each scheme will, however, vary according to the specific circumstances of each project and viability analysis; if, for whatever reason, planning policy cannot be met, then viability assessments will be submitted with planning applications in the normal way.

5.2 Projected Schemes to be Built in First Business Case Period

During the first Business Case period, ECG intends to formally commit to the schemes considered below. Such commitment would be in the form of entering into land purchase agreements with the Council and entering into main construction contracts with contractors for each project.

- **Anthony Road** consists of 13nr garages which will be demolished to provide 3nr three-bedroom homes with associated soft and hard landscaping. Exeter City Living Ltd. expects to commence construction of this site in September 2018.



- **Bovemoors Lane** consists of 4nr flats and 30nr garages which will be demolished to provide 10nr three-bedroom homes with associated soft and hard landscaping. Exeter City Living Ltd. expects to commence construction of this site in February 2019.



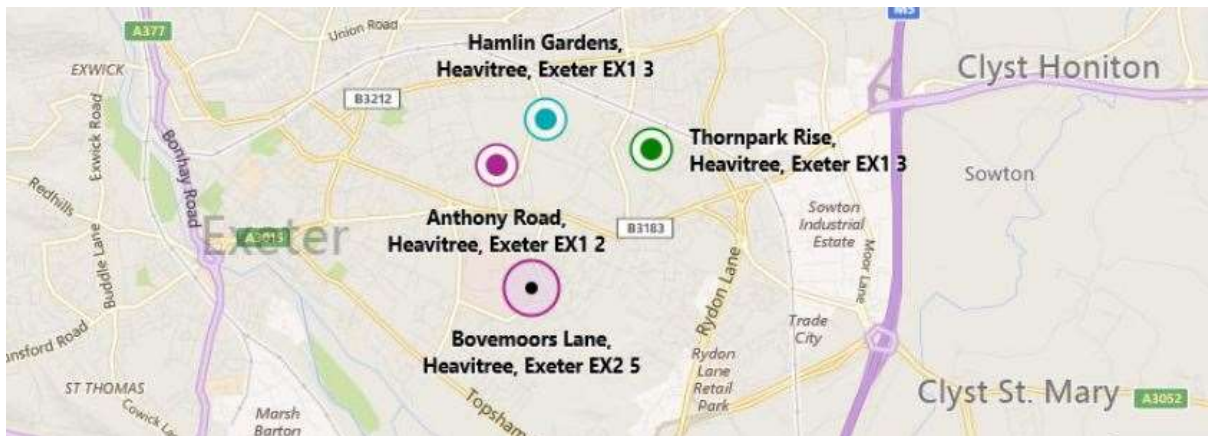
- **Hamlin Gardens** is an existing surface car park which will be purchased by Exeter City Living Ltd to construct a building consisting of 21nr one and two-bedroom apartments together with associated soft and hard landscaping. Exeter City Living Ltd. expects to commence construction of this site in September 2018.



- **Thornpark Rise** consists of 54nr garages which will be demolished to provide 9nr three-bedroom homes with associated soft and hard landscaping. Exeter City Living Ltd. expects to commence construction of this site in September 2018.



The locations of each of the schemes in the table above to be built in the first-year Business Case are identified on this map of the city.



The legal agreements that it is expected ECG will enter into during the first business plan (before March 2019) will commit the company to deliver the identified 43 new homes (in the table below), subject to a number of conditions being met; the conditions include meeting a viability threshold and achieving planning permission. Within the Business Case period (to March 2019), construction of the 43 new homes will have commenced. By the end of the three years forecast in the Business Case, there would be over 130 new homes delivered.

5.3 Schemes To Be Designed & Assessed in First Year Business Case

During the First Year Business Case the proposed development at Vaughan Road will continue to be technically designed and reviewed to ensure that the scheme can be developed with a tenure mix that is policy compliant and viable in line with ECG's funding costs and return requirements.

Vaughan Road is a site consisting of 11nr existing bungalows, 1nr council owned detached home and a closed Devon County Council care home. The proposal is to demolish these and construct three blocks of flat accommodation, believed to be able to achieve a minimum of 88nr one and two bed apartments.



Due to the early stage of this scheme, high level data is included in the financial forecasts later in the next Section. The ECG Boards will be updated as the scheme progresses, and any decisions will remain subject to the requisite Board approvals, and the Council's own internal processes and approvals.

6 FINANCIAL PLAN

6.1 Financial Planning and Funding Principles

As an independent company, ECG will operate commercially. Whilst many of ECG's objectives relate to socio-economic ambitions, particularly maximising affordable housing, these can only be realised through sound financial management of the company's affairs and operating in a business-like manner.

The company will need to find optimal design and development solutions, which in an environmental and socially responsible manner maximise the income from private housing (sale and rent) to generate the necessary cross-subsidy required to maximise the amount of genuinely affordable homes that can be delivered.

Wherever possible, the company will look to secure grant funding and any other sources of income that will further the aspiration to increase the proportion of genuinely affordable housing and ensure that the homes that are built are affordable to the residents of Exeter.

Within the Business Case period, schemes will need to be assessed individually to ensure that they are financially viable, including stress testing. In due course, as ECG builds up assets and working capital, it will become increasingly possible to consider projects in the context of a wider programme, seeking to maximise delivery of genuinely affordable housing across the programme.

ECG will assess schemes in the context of ECG's overall activity to ensure that the forecast costs and projected returns are in line with the agreed Business Case targets and cashflow requirements.

ECG will undertake projects (either through development or acquisition) that are financially viable within the context of the company's overall operations. This requires that all the businesses within the Group remain viable and retain liquidity, noting that liquidity can be maintained across the companies through internal group arrangements, for example, by re-cycling surpluses from one company to another.

The ECG boards will be responsible for ensuring that debt can be serviced and that target returns are generated. It is anticipated that during the Business Case period that most activities of the companies will likely be funded on commercial terms by the Council borrowing from the Public Works Loan Board.

ECG being a new company with no assets, it is likely that the best funding terms will be achieved from the Council; this will be monitored with regular checks against comparable market rates. Where funding is provided by the Council, it will need to be State-Aid compliant and be serviced as agreed with the Council.

The boards will not, however, be limited to seeking funding from the Council and should consider other opportunities for funding where these might provide better terms and contribute to company's objectives. Sound financial management will be critical to the success of ECG.

ECG is beginning with no existing income or assets and will be undertaking major development activity within the first twelve months of being established. As such, it is important that the growth and risks are carefully managed, and that the company has sufficient financial and human resources to do so.

ECG will seek to obtain best value for money from the contracts it enters into; as a new company, this may require the Council providing guarantees to provide confidence to suppliers that will drive better pricing.

Set out below are the parameters that ECG will work within. These will contribute to the delivery of the strategic objectives set out in Section 3:

1. The Boards will be responsible to maintain liquidity for the companies in line with agreed minimum requirements (including any intra-group loans or transfers that may be required).
2. The Boards will ensure that schemes generate sufficient income to repay working capital loans in line with agreed terms.
3. Post Practical Completion of schemes, Exeter City Group will prioritise safeguarding the cashflow requirements of companies within the group and investment in delivery of more affordable housing prior to considering distributing any dividends outside the group.
4. ECG will seek the required funding on the best financial terms (both short and long term).
5. ECG will seek to optimise the use of S106, grant and other similar funding to support the delivery of affordable housing.
6. The Boards will be responsible for making sure that the mechanisms and parameters for re-charging services provided by Exeter City Council will be agreed and implemented and, similarly, that any ECG intra-group re-charges will be set out clearly and monitored.
7. ECG may look to the Council to provide guarantees to stand behind ECG as required to support it as a new company.
8. ECG will seek to enhance value on schemes and through its operations by exploring areas such as third-party income, grant, enhancements to the residential offer, efficient procurement packages etc.

6.2 First Business Case Investment Requirements

Detailed viability analyses have been carried out for the Council Own Build (COB) Wave III projects and Vaughan Road to support the on-going design development work and the submission of planning applications. Delivering the first Business Case activities will require a total investment of £4.35m, this represents the development costs for Exeter City Group Ltd. A more detailed breakdown is provided in the table below.

First Business Plan Ask - £4.35m loan and £1 share capital				
Business Development Programme				
	Year 1	Year 2	Year 3+	Total
	Aug 18-Mar 19	Apr 19-Mar 20	Apr 20-Mar 21+	
1. Amount Borrowed from ECC (Loan)	£4,350,000	£8,500,000	£1,250,000	£14,100,000
2. Amount of Loan Repaid (incl interest)	£256,940	£1,065,410	£2,233,703	£3,556,053
3. Operational Business Costs per annum (including staff etc)	£170,760	£273,994	£387,571	£832,325
4. Construction / Build Costs	£3,668,985	£13,160,437	£4,564,617	£21,394,039
5. Total Costs per annum (Add 2 to 4)	£4,096,685	£14,499,841	£7,185,891	£25,782,417
6. Income from Property Sales (Incl all Vaughan Road flats)	£0	£6,558,584	£19,068,887	£25,627,471
7. Annual Cashflow Position	£253,315	£558,743	£13,132,996	£13,945,054
8. Amount of Loan Outstanding	£4,234,000	£12,220,000	£12,389,000	
9. Overall Trading Position	-£3,980,685	-£11,661,257	£743,996	

Clearly these figures represent a modelling position at a point in time and costs and income can be expected to change as the programme progresses through planning, procurement and construction. Detailed viability reviews, with sensitivity testing, will need to be undertaken at each stage of the process by the Exeter City Group board for each of these projects as appropriate.

The figures in the above graph do not include the potential benefits Exeter City Council will derive from ECG's activities. These are summarised in the table below;

Activity	General Fund	Housing Revenue Account	Total
Revenue Loss (after costs incl. planned maintenance)	£0	-£262,971	-£262,971
Capital Receipts Received (after decants and demolitions)	£0	£2,041,549	£2,041,549
Premium on Interest Received	£503,480	-	£503,480
Existing ECC Costs Transferred Out for Staff & Office Accommodation (Over 3 Year Period)	£770,526	-	£770,526
CIL Income	£655,352	-	£655,352
New Homes Bonus	£423,824	-	£423,824
Dev Co (Post Sales at ECC Discretion and Decision)	£743,996	-	£743,996
TOTAL	£3,097,178	£1,778,578	£4,875,756

6.3 First Business Case Budget (2018/19)

To enable the delivery of the activities set out in this Business Case, ECG will draw down funding from the proposed £4.35m loan. The budget set out below covers how this funding will be spent.

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

The identified staffing costs mainly comprise of re-charges to the company for staff costs incurred by Council officers progressing work for the company. The Boards will make an annual request for draw down of funding based on the anticipated programme of activity and subject to confidence that the schemes and activities to be delivered as set out in this Business Case will generate the returns required to enable the companies to repay this overhead.

7 GOVERNANCE & OPERATIONS

This section sets out the proposed actions that each of the Boards will be tasked with in order to develop the required governance and operational arrangements for the Exeter City group of companies, both individually and collectively, in order that they are furnished as suitably robust and dynamic organisations that can fulfil the Vision for ECG.

It should be noted that all key decisions taken by ECG will be undertaken in accordance with the governance documents for these companies and the Management Agreement (MA) between these companies collectively and with the approved Business Case.

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.

This section is organised into the following sub-sections:

1. Human Resources and Support Services.
2. Supporting Policies, Strategies and Corporate Infrastructure.
3. Professional Registrations.
4. Financial Regulations.
5. Planned Procurements.
6. Key Agreements & Contracts

7.1 Human Resources and Executive Support

7.1.1 Board-Level

Initial Director appointments to the Boards were made as part of, and subsequent to, the incorporation of the Exeter City group of companies in June 2018 in accordance with the approved recommendations to Exeter City Council's Development Company Steering Group.

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

A process for recruiting Non-Executive Directors to join the Boards has been commenced and will be concluded in the first Business Case period for each company. Each Board will consist of the Managing Director and have one independent chair and one additional non-executive director. These posts are:

- 1 Non-Executive Director for Independent Chair for Exeter City Group board and Exeter City Living and Exeter City Living Property Company.
- 1 Non-Executive Director for Independent Chair for Exeter City Homes Board.
- 1 Non-Executive Director for Exeter City Group board and Exeter City Living and Exeter City Living Property Company.
- 1 Non-Executive Director for Exeter City Homes Board.

7.1.2 ECG Resources

ECG will be staffed by a team of people to suit the needs of the company as it grows. The Board will seek to ensure that the ECG delivery team has the appropriate balance between the business skills required to manage a new housing company and the continuity of knowledge, expertise and relationships already developed in the Council's team.

In the initial stages, where roles are required, it is expected that these will be secured on secondment arrangements to allow flexibility as the organisation grows.

An allowance for staff has been included in the budget and the Boards will agree the structure and appropriate appointments in the 2019/20 financial year.

7.1.3 ECG Support

Where supporting services are provided to ECG by the Council these will be recharged at market rates to ECG. All services provided to ECG companies by the Council (directly or via third parties contracted with Exeter City Council) will be subject to a Service Level Agreement between the parties, which will set out the terms of service and payment. This Service Level Agreement should be entered into before end of 2018/19 financial year; it will give confidence to the Boards that ECG will be sufficiently resourced to enable it to deliver the programme and meet its objectives.

7.2 Supporting Policies, Strategies and Corporate Infrastructure

7.2.1 Supporting Strategies & Policies

ECG will need to work alongside, and where relevant within, the existing policy environment of the Council, in particular the Core Strategy and the Council's Housing Strategy. Where it fits with the business requirements and business objectives of the company, then it will need to adopt and/or tailor existing defined Council policies for its own purposes and will need to agree some joint protocols around communication.

Where required, new bespoke policies (such as Procurement, Conflict of Interest, Financial Regulations) and strategies will need to be identified by the respective Boards to support the mobilisation and good management of the ECG companies (both individually and as a group).

To support the efficient progression of this activity and the mobilisation of the new companies, the Council will delegate authority to the Boards to approve proposed policies and strategies on its behalf.

Each of the boards shall maintain and review a schedule of all policies, which shall record any changes made at the point of review as part of a formalised Change Control process.

7.2.2 Corporate Infrastructure

The following elements of corporate infrastructure are to be put in place by end 2018/19 financial year:

- ICT systems for data management and e-mail (which must be fully compliant with all prevailing data protection legislation and statutory guidance);
- insurances as required to support for corporate and delivery activities;
- financial management and banking systems for each company;
- development and financial models; and
- communications/engagement and website and supporting e-communications.

7.3 Professional Registrations

The boards will be responsible to ensure that each company is registered appropriately with statutory and trade bodies, as required to support the effective functioning of these companies.

There will be a range of registrations for the companies to put in place including, but not limited to, VAT registration and VAT group arrangements, Construction Industry Scheme and potentially a landlord association such as the National Housing Federation.

Each respective Board retains responsibility to identify and secure the required registrations over the longer term.

7.4 Financial Regulations

Financial Regulations shall be developed for each of the ECG companies in accordance with the Management Agreement between these companies and the shareholder.

7.5 Planned Procurements

ECG companies expect to undertake the following procurements before the end of the 2018/19 financial year (this list represents a selection but is not exhaustive and further procurements may be undertaken to support the delivery of the Business Case):

- Services to support functions of ECG companies insofar as these are not provided by the Council (e.g. Legal, external auditors, mobilisation support, human resources support, IT support, accountancy services).
- Contractor procurements and associated professional services for the first-year Business Case schemes.

Each respective Board will retain responsibility to plan and deploy the required procurements over the longer term. Where necessary to achieve best value pricing from suppliers, ECG will seek guarantees from the Council to stand behind its contractual commitments.

7.6 Key Agreements & Contracts

The Boards of each company will enter into a range of key agreements and contracts over the business planning 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.

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, 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, S278 Agreements, S38 Agreements etc.
- Service Level Agreements with the Council.

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.

8 KEY PERFORMANCE INDICATORS

ECG will implement and monitor performance against three tiers of Key Performance Indicators (KPIs) as part of its Performance Framework:

Corporate KPIs

- For the ECG companies, both collectively (i.e. pan-group), and individually.
- To be captured & coordinated as part of ECG's delivery resources & support.

Development and Construction KPIs

- For each development scheme up to Practical Completion.
- Performance obligations to be passed through to development & construction supply chain.

Housing & Estates Management (H&EM) KPIs

- For all H&EM services provided to ECG schemes.
- Monitoring by scheme and service provider.
- Performance obligations to be passed through to procured service provider(s).
- Includes tenant consultation to evaluate Tenants' satisfaction.

The resources to be put in place to fulfil the functions of ECG will include an individual (or individuals) with clear overall responsibility for collating and coordinating KPI performance data and evidence and reporting performance to the Board. In addition to KPIs, there will be a series of more detailed operational performance indicators to manage the specific parts of the business, for example, performance indicators in construction contracts and housing management contracts.

Where services provided to (or for) ECG are subject to KPIs within the Performance Framework, obligations and responsibilities associated with collecting, collating and undertaking remedial actions as required to mitigate under-performance will be passed through accordingly to the appropriate party e.g. construction contractors or housing management service providers. Wherever possible, this obligation shall be underpinned through supporting terms of obligation within the respective contract or Service Level Agreement. KPI performance within the context of the Performance Framework will be monitored by each respective ECG Board on a regular basis:

- As a minimum, this will include a quarterly review by the Board of Exeter City Homes.
- Where under-performance is identified or anticipated, the Board may request that an escalation and remediation process is undertaken, which will be coordinated by ECG and will be actioned by the relevant party.
- Where the KPI is subject to terms of service (within a contract or Service Level Agreement), these terms will be observed, and any formal processes of remediation set out therein will be actioned with reference to the specific performance indicators and criteria in the contracts.

The Board will deliver and report an annual summary of KPI performance as part of its formal Business planning cycle. In the first few years of the Business Case period, ECG will be focussed on construction activity with a small amount of housing management at Hamlin Gardens and Vaughan Road. The nature of the KPIs monitored by the Boards will adjust to reflect the core activities being carried out by the companies and the Board may also at its discretion vary the KPIs proposed as part of the Business planning process, subject to the normal process of shareholder approvals for the Business Case.

The KPIs for the Business Case period are included at Appendix C.

9 RISKS

The respective ECG Boards will be individually and collectively required to maintain risk registers, in order to support them to monitor and manage the risks associated with all business activities proposed within this Business Case. These risk registers shall necessarily be kept confidential given that they will be commercially sensitive in nature.

The key risks associated with the delivery of the Business Case will be regularly reported to the Shareholder Representative and incorporated into the annual Business Case update report to Full Council.

In recommending this Business Case to Full Council for approval, the ECG Boards wish to bring to the Council's attention (in its capacity as shareholder) the key, or headline risks associated with this Business Case. There are two main types of such risk:

1. Risks that may impede delivery of the Business Case; and
2. Risks to the shareholder arising from delivery of the Business Case.

The risks that are set out below are not exhaustive but represent the main risks that have been identified by the Boards as those which could hinder delivery of the proposed development programme or represent future financial risks to the Council as funder and guarantor of any funding of the development programme (and thereafter the new housing stock under management).

9.1 Key Risks to the Delivery of the Business Case

The key identified risks that may impede delivery of the Business Case are:

- a) **Inability to meet Exeter's local planning policy aspirations to delivery 35% affordable housing in housing planning applications.**

The proportion of affordable housing that can be delivered on any individual project is dependent on the level of cross-subsidy and/or grant funding that can be generated or obtained to support the construction of affordable homes. If values are not sufficient or costs are too high, then the level of cross-subsidy may not be sufficient to deliver the aspirational level of affordable housing. ECG will need to seek to maximise private values (rent or sale) and minimise overall development costs on projects in order to generate a maximum level of cross-subsidy for affordable housing.

- b) **Market based construction costs increase and increase in build cost inflation runs above current contingency allowed in viability modelling**

This would reduce the level of cross-subsidy available for affordable housing and in the extreme make projects unviable to progress. This could prevent or delay bringing projects forwards and means that expenditure in advance of starting construction may be at risk. This is addressed in viability analysis by including suitable contingencies. This risk can be addressed through appropriate value engineering of projects and reducing the level of affordable housing that can be delivered.

- c) **ECG might be unable to attract and appoint the required resource to manage the business in a commercial manner.**

The Council needs to recognise that in setting up a house building/development company, it is competing with the private sector for specialists who can lead the business and lead the development projects. Consideration needs to be given to how to attract and retain appropriately skilled staff, including offering competitive salaries, offering career progression, investing in people and training for junior staff and creating an interesting place and brand for such staff to work.

- d) **Public Sector regulatory processes lead to programme delays.**

ECG will operate under public sector procurement rules and be liable to freedom of information requests. Amongst other factors, these requirements will increase the bureaucratic burden of the company and is likely to increase operating costs.

- e) **Future financial and/or policy context differs significantly from forecasts in the Business Case**

The Business Case would need to be revised to reflect the changed circumstances.

- f) **ECG might not be able to attract sufficiently skilled non-executive board members**

This may result in a poor level of governance of the activities of the company and might reduce the competency of the governance overseeing the delivery of the Business Case. In order to mitigate this risk, a focused recruitment exercise will take place, which can be bolstered by developing a positive brand for ECG and offering competitive remuneration.

- g) **Insufficient, inadequate or inappropriate resourcing of the early progression of projects causes delays to achieve either vacant possession or relevant authorisations**

This would delay the start of projects and may mean ECG is unable to meet its planned programme as set out in the Business Case.

- h) **Risk the Council is unable to meet the borrowing requirements of the ECG development programme**

As made clear in the Business Case, ECG will be free to borrow from elsewhere other than the Council. Funding terms would likely differ to those that can be secured with the Council and, if interest rates are higher or covenants more challenging, would reduce levels of cross-subsidy.

- i) **Project delays lose support and trust of residents**

The Council and ECG would need to maintain open communication with residents to explain why delays were taking place and to provide assurance around revised timescales.

9.2 Key Risks to the Shareholder's Return

The key risks to the shareholder's return arising from delivery of the Business Case are:

a) Insufficient, inadequate or inappropriate resourcing of the early progression of projects causes delays to achieve either vacant possession or relevant authorisations

From the Council's perspective, this would delay delivery of the projects and delay the timing over which it would recoup costs associated with bringing projects forwards and may lead to escalations in costs.

b) Inability to generate sufficient sales (where sales are required) in a timely manner causes projects to become unviable after funding has been provided

This can be addressed by including robust contingencies in viability analysis, by procuring appropriately skilled marketing and sales agents to generate sales and by managing projects to limit the levels of peak debt on projects.

c) Weak management of construction leads to delays and/or cost over-runs, causing projects to become unviable after funding has been provided

This can be proactively addressed by ensuring that ECG recruits appropriately qualified staff to ensure robust contract management of construction activities and by incentivising contractors.

d) Projects become unviable because of increases in interest costs

This can be addressed by including robust contingencies in viability analysis, by procuring appropriately skilled marketing and sales agents to optimise sales and by managing projects to limit the levels of peak debt on projects.

e) Net income assumptions within the Business Case are overestimated either because gross income is not realised, and/or operating costs are higher than predicted

This can be addressed as part of future operational management by reducing overheads and streamlining operations alongside improving the business approach to private rental activities.

Appendices

Appendix A	Key Inputs and Assumptions
Appendix B	Exeter City Living Business Case
Appendix C	Key Performance Indicators
Appendix D	Glossary
Appendix E	Financial Statements

Appendix A – Key Inputs and Assumptions

KEY INPUTS AND ASSUMPTIONS

ECONOMIC ASSUMPTIONS

RPI	2.5%
CPI	Starting with 0.5% in 2017 to 2% from 2020
Market sales inflation	3% per annum
Build cost inflation	As per Cost plan
Management and maintenance cost inflation	RPI

DEVELOPMENT ASSUMPTIONS

Loan type (e.g. bullet repayment, amortising)	Repayment
Debt Term	25 years
Interest rate	4.86% at Year 1
Grant	0%
Surplus target	1-20% on costs (these will be reinvested to deliver more genuinely affordable homes)
Contingency	5-10% (to be assumed within cost plans and any remaining upon project completion will be reinvested to deliver more genuinely affordable homes)
Corporation Tax Rate	Circa 17%

OPERATING ASSUMPTIONS

Voids	Affordable homes 1%
Bad debts	2% for Affordable homes
Management and maintenance costs	£500 per Affordable home per annum
Lifecycle costs	£500 per home with efficiency discount for first 3 years
Social Rent	£360 / month per flat
Affordable Rent	80% of market rate
Market Rent	Open market rate
Ground Rent	Nominal - £250 / annum / flat.
Service Charges	£650 / annum / property.
Debt term	25 years
Interest rate	4.86%
Loan type	Repayment

Appendix B – Exeter City Living Business Case

EXETER CITY LIVING BUSINESS CASE

This Business Case aligns to the Exeter City Group Business Case, which covers the period of August 2018 – 2020/21 with a detailed focus on activities during the remainder of 2018/19 (“the business planning period” is considered to be the period from now 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.

Purpose and Objectives

Exeter City Living is a development company responsible for building new homes. It is a private company limited by shares, of which 100% are held by Exeter City Group Ltd.

Exeter City Living will lead the development and construction activities for the Exeter City group of companies. It will develop new high-quality housing across a range of tenures.

Its objectives are to:

1. Deliver an appropriate mix of tenures to provide balanced and viable schemes.
2. Deliver homes and amenities that meet the adopted housing design standards and support place-making.
3. Look for ways to enhance value and reduce costs in order to generate optimal levels of cross-subsidy to facilitate the delivery of more affordable housing.
4. Ensure all activities, including design and construction, are carried out to a high standard of health and safety.

As part of the Exeter City group of companies, it must also contribute towards the following group objectives:

1. Deliver more housing for residents of Exeter.
2. Maximise the delivery of affordable housing at social 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 Neighbourhoods'.
4. Ensure all tenants receive high quality services.
5. Optimise opportunities to enhance social value.

Key Activities

Exeter City Living will work closely with the Council to:

- secure planning approval for the schemes.
- procure well qualified and experienced contractors.
- secure sale agreements with other parts of the Exeter City Group.
- promote the project and generate best value from the sale of homes on the open market.
- manage development and construction within budget and programme.

Exeter City Living will enter into land agreements with the Council to purchase development sites and facilitate the delivery of the new homes. In addition, Exeter City Living will enter into contracts with Exeter City Homes and Exeter City Living Property Company to sell completed buildings on each scheme.

This is an important part of Exeter City Living securing the income it needs to repay debt borrowed from the Council and generate a surplus to reinvest within the group. Where schemes include housing for sale, Exeter City Living will promote these homes on the open market to secure best value to generate income to reinvest into more housing.

Throughout the design and construction process, Exeter City Living will maintain a high level of quality and health and safety, taking account of relevant guidance and legislation.

This Business Case focuses on the activities required to deliver the first phase schemes; however, Exeter City Living will continue to work beyond these schemes to plan and deliver a future pipeline of developments in the Council's programme.

In addition to the core development activity, Exeter City Living may enter into short term lease agreements with the Council for properties that have been acquired from leaseholders. This programme will assist the Council in securing vacant possession of the estates whilst also generating short term rental income for Exeter City Living.

Governance & Operations

Exeter City Living will be subject to the group-wide governance & operational arrangements and programme of activities for mobilising these arrangements, as determined in the Exeter City Group Business Case.

Performance Indicators & Risk

Exeter City Living will be subject to the group-wide arrangements for performance management, risk management and reporting, as determined in the Exeter City Group Business Case.

First Business Case Budget (2018/19)

To enable the delivery of the activities set out in this First Business Case, Exeter City Living will draw down funding from the proposed £4.35m loan. The budget set out below covers how this funding will be spent.

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

The identified staffing costs mainly comprise of re-charges to the company for staff costs incurred by Council Officers progressing work for the company. The Boards will make an annual request for draw down of funding based on the anticipated programme of activity and subject to confidence that the schemes and activities to be delivered as set out in this Business Case will generate the returns required to enable the companies to repay this overhead.

Appendix C – Key Performance Indicators

KEY PERFORMANCE INDICATORS

As set out in Section 7, Exeter City Group Ltd will monitor a series of Key Performance Indicators (KPIs). These will reflect the nature of activities being carried out by the organisation to ensure that the Board is focussing its attention on the primary risk areas.

The table below shows the KPIs that the Board will measure, when these will be when these are expected to be of relevance and how the KPIs relate back to Exeter City Group's objectives.

Performance Indicator	Measurement	Period when KPI will be Monitored
1. Corporate		
1.1 Achieve target financial returns	Ongoing monitoring of performance against target financial metrics.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to operations.
1.2 Resident satisfaction with new homes	Surveys of residents following move in to new property and ongoing (annual or bi-annual). Monitoring of complaints.	From practical completion of schemes.
1.3 Positive relationship with Exeter City Council	Annual review of working processes and relationships. Monitor speed and efficiency of decision making.	Ongoing
1.4 Positive relationship with stakeholders including neighbouring residents	Monitor complaints and Freedom of Information requests. Annual survey of key stakeholder groups.	From Aug 2018 to Mar 2019 when ECG takes on the schemes.
2. Development And Construction		
2.1 Deliver target number of new homes	Monitor planning applications and construction against objectives set in Business Case.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to completion.
2.2 Deliver target number of replacement and new affordable homes	Monitor planning applications and construction against objectives set in Business Case.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to completion.
2.3 Construction delivered on time	Contractors monitored against contract milestones. Monitor delivery against forecast programme in Business Case.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to completion.

Performance Indicator	Measurement	Period when KPI will be Monitored
2.4 Contractor quality performance in line with contract. New homes built in line with Exeter City Council's design standards	Monitoring construction and practical completion by Employer's Representatives to ensure quality and design standards are delivered.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to completion.
2.5 Construction contract performance against budget	Change controls monitored Contractors performance against agreed price Monitoring and reporting of cost against budget during procurement and construction.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to completion.
2.6 No fatal incidents on site. Minimise H&S incidents and hazards	Transfer to responsible contractors. Monthly reporting from contractors on health and safety incidents including RIDDOR.	From start on site through to completion.
2.7 Construction is delivered with consideration for neighbouring communities	All qualifying sites to secure the Considerate Constructors kite mark.	From start on site through to completion.
2.8 Defects and Building Control	Minimal defects and monitor period to rectify defects Confirmation that buildings comply with Building Regulations, built to specification and tested for post Grenfell fire standards.	From Aug 2018 to Mar 2019 when ECG takes on the schemes, through to completion.
3. Housing Management		
3.1 Void level at or below target	Transfer to Housing Management contractor(s) Quarterly reporting on performance indicators in housing management contracts.	From occupation of schemes.
3.2 Bad debts at or below target	Transfer to Housing Management contractor(s) Quarterly reporting on performance indicators in housing management contracts.	From occupation of schemes.
3.3 Arrears at or below target	Transfer to Housing Management contractor(s) Quarterly reporting against performance indicators in housing management contracts.	From occupation of schemes.

Performance Indicator	Measurement	Period when KPI will be Monitored
3.4 Customer satisfaction with overall service	Transfer to Housing Management contractor(s) to report against performance indicators in housing management contracts.	From occupation of schemes.
3.5 Cost management	Cost reporting by Housing Management contractor – compare against sector benchmarks.	From occupation of schemes.
3.6 Health and Safety	100% gas, fire (including post Grenfell guidance and standards) and electrical safety checks complete and no issues outstanding.	From occupation of schemes.
3.7 Customer satisfaction with repairs	Transfer to Housing Management contractor(s). Report against performance indicators in housing management contracts.	From occupation of schemes.

Appendix D – Glossary

GLOSSARY

Affordable Housing – Affordable housing is social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices.

Agreement for Lease - A binding agreement between a landlord and prospective tenant to grant and/or to accept a lease in the future. It does not grant possession to the proposed tenant at the time it is entered into, but binds the parties to enter into the lease at some future date

Assured Tenancies - a legal category of residential tenancy to an individual (or individuals jointly) in English land law. Statute affords a tenant under an assured tenancy a degree of security of tenure.

Board - A board of directors is a group of individuals that are appointed as, or appointed to act as, representatives of the shareholder, with the responsibility to establish corporate management related policies and to make decisions on major company issues.

Cash Flow Forecast – A plan that shows how much money a business expects to receive in, and pay out, over a given period of time.

Constitution - Just like all other Councils in England, Exeter City Council has a constitution. Its Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these decisions are efficient, transparent and accountable to all local people.

Council level rent – this is the rent that is determined by the target rent formula and applied to Council housing (also known as social rent and target rent). This rent level excludes service charges.

Construction Industry Scheme - A scheme created by HM Revenue & Customs (HMRC) for tax from contractors and subcontractors. The scheme is designed to minimize tax evasion within the construction industry.

Financial Liquidity – A measure of the extent to which an organisation has cash to meet immediate and short-term obligations, or assets that can be quickly converted to this.

Financial Regulations - Rules that govern the levels of delegation within a company at which different financial responsibilities, decisions and actions may be taken

Financial Viability - The ability to generate sufficient income to meet operating payments, debt commitments and, where applicable, to allow growth while maintaining service levels.

Grant Funding - Grants are non-repayable funds or products disbursed or gifted by one party (grant makers), often a government department, corporation, foundation or trust, to a recipient, often (but not always) a government body, non-profit entity, educational institution, business or an individual.

Holding Company - A company created to buy and own the shares of other companies, which it then controls.

Homes England - The non-departmental public body that funds new affordable housing and regulates social housing in England. It was established by the Housing and Regeneration Act 2008 as one of the successor bodies to the Housing Corporation, and became operational on 1 December 2008.

Intermediate (Affordable) Rent – The practice of renting property at a subsidised rent from a Housing Association or Registered Providers. Typically, Intermediate / Affordable Rent is no more than 80% of the local private market rent in an area.

Key Performance Indicator - A Key Performance Indicator (KPI) is a measurable value that demonstrates how effectively an organisation is achieving key business objectives. Organisations use KPIs to evaluate their success at reaching targets.

Land Assembly - The process of forming a single site from a number of parcels of land, usually for eventual development or redevelopment.

Lease - A contract by which one party conveys land, property, services, etc. to another for a specified time, usually in return for a periodic payment.

Management Agreement (MA) – A form of shareholder agreement between the Council as shareholder and each of the Exeter City Group companies. The MA plays an important role in setting out the governance framework for Exeter City Group.

National Housing Federation – A trade body that represents independent non-profit housing associations in England.

Parent Company Guarantee - A parent company (or other group company) of the relevant company grants a guarantee in favour of the contract employer or other agreed party which guarantees the performance of the company under the contract.

Performance Framework – The suite of rules, processes, indicators and responsibilities that make of the performance management regime for Exeter City Group.

Practical Completion – the point in the construction process at which works are generally considered to be practically complete is when there are no outstanding defects (except for minor items or snagging) and the building can be put to its intended use.

Private Rented Sector - A classification of United Kingdom housing tenure as described by the Ministry of Housing, Communities and Local Government. It includes homes made available for rent by private landlords.

Procurement – The act and process of buying goods and services.

Public Works Loan Board - A statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. PWLB's function is to lend money from the National Loans Fund to local authorities, and to collect the repayments.

Registered Provider - Registered providers include local authority landlords and private registered providers (such as not-for-profit housing associations and for-profit organisations). They are defined in section 80 of the Housing and Regeneration Act 2008.

Section 38 Agreement – An agreement that can be used when a developer proposes to construct a new estate road for residential, industrial or general-purpose traffic that may be offered to the Highway Authority for adoption as a public highway.

Section 106 Agreement - An agreement between a developer and a local planning authority about measures that the developer must take to reduce their impact on the community. A section 106 agreement is designed to make a development possible that would otherwise not be possible, by obtaining concessions and contributions from the developer. It forms a section of the Town and Country Planning Act 1990.

Section 278 Agreement - Under section 278 of the Highways Act 1980, a local highways authority can enter into a legal agreement with a developer (in order to facilitate development) for the developer to either pay for, or make alterations or improvements to, the highway.

Service Level Agreement - A contract between a service provider (either internal or external) and the end user that defines the level of service expected from the service provider. SLAs are output-based in that their purpose is specifically to define what the customer will receive.

Set-Up Loan Facility – financial assistance offered by a lending institution to help a company that requires capital. The Set-Up loan facility is lending made available for the purposes of setting up and mobilising Exeter City group companies.

State Aid - State aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union (EU). The definition of state aid is very broad because 'an advantage' can take many forms. It is anything which an undertaking (an organisation engaged in economic activity) could not get on the open market.

Tenancy Agreement - A contract between the tenant of a property and the landlord of the property. The tenancy agreement gives certain rights to both parties, for example, the tenant's right to occupy the accommodation and the landlord's right to receive rent for letting the accommodation.

Third Party Income – Potential sources of income that may be generated through business activities undertaken outside of the core activities proposed within the Business Case, but which are allowable within the wider governance and operational parameters for Exeter City Group.

VAT - VAT is an abbreviation for 'value added tax'. VAT is a tax that is added to the price of goods or services.

VAT Group - A body corporate with regard to Value Added Tax obligations. A body corporate is a group of several persons who are treated as one person in law. This would include, inter alia, companies limited by shares or guarantee, private companies, unlimited companies and Limited Liability Partnerships

VAT Registration – The process of listing a business with the government as active in production and sales. Once a company is VAT registered, it will become eligible for the return of VAT to HMRC.

Warranty - In contract law, a warranty has various meanings but generally means a guarantee or promise which provides assurance by one party to the other party that specific facts or conditions are true or will happen.

Working Capital – The cash available for day-to-day operations of an organisation.