Exeter CityFutures

Exeter Development Fund

ECC Scrutiny Committee

Session 3: Governance, Fund Management & Risk

6 June 2022

Contents

Exeter
Development Fund

COMMERCIAL CASE

Commercial Analysis and Structure of the Fund

Option 1

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

Option 2

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

Option 3

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

Fund versus Lender Considerations

Fund Structure

Top Co

The Top entity which is 100% owned by the Sponsors and is responsible for managing the activities of the overall Fund.

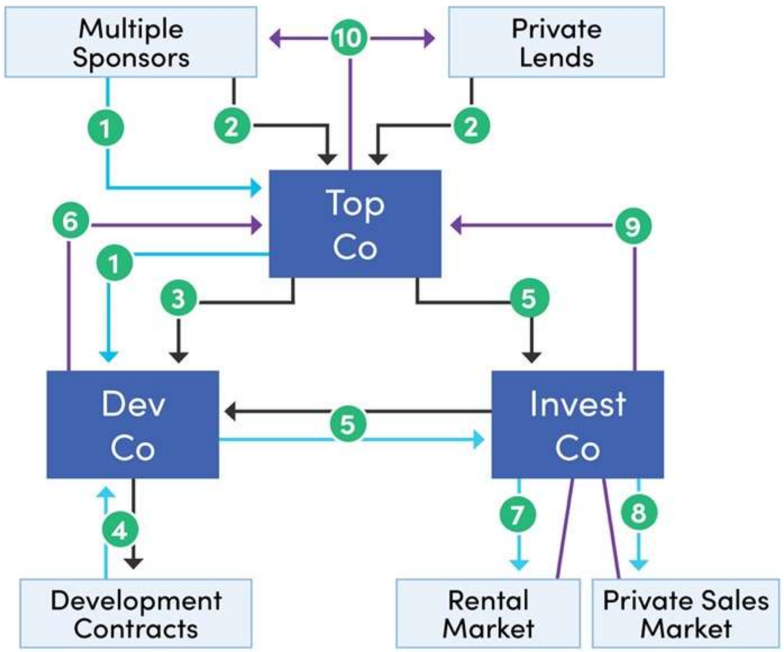
Dec Co

The Development entity is 100% funded by Top Co and is responsible for developing or contracting development to build all portfolio assets.

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



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

Funding and Finance Structure

Top Co – Responsibilities

- Equity Funding
- Private Sector Funding

Repayment Structures

- Bullet
- Partial Bullet then Annuity
- Annuity

Key considerations for debt financing - Loan to Value & Interest Coverage Ratios

Alternative Funding Sources/Saving Opportunities

- Selling some of the Portfolio's assets to the private market in early years to generate a cash injection
- Borrowing facilities from the public sector (e.g. PWLB)
- The opportunity to reduce the costs associated with the Community Infrastructure Levy given the Portfolio incorporates a range of public amenities.

Procurement Strategy and Route

Phase 2 Work Procurement

Fund Procurement: Advisors, Developers and Professional Services

Legal and Commercial Considerations:

- Legal structure of the Fund
- Transfer of property into the Fund
- Transfer of property within the Fund
- Fund specific issues
- Procurement
- Subsidy control
- TUPE

Specific Risks

- Risk 1: Funding Risk
- Risk 2: Skills and Capacity
- Risk 3: Local Support and Agendas

Fund Risk Allocation:

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

Accountancy Treatment [1/2]

Cash Inflows/Outflows and Balances

For simplicity, no minimum cash balance has been modelled in the finance case in respect of cash flows to the Fund i.e. the commercial vehicle will sweep out all Cash at Bank / Free Cash Flow to the Fund.

Treatment of Investment Properties

- Assets created are treated as investment properties and held on Invest Co's balance sheet.
- No depreciation of assets is assumed.
- All acquisitions are assumed to occur at the start of a period
- A revaluation is conducted as a 1% per annum of the carrying book value.
- Once established, the Fund will be required to conduct remeasurements of asset values in accordance with applicable accounting standards and in agreement with its relevant external auditor.

Accountancy Treatment [2/2]

Treatment of Land

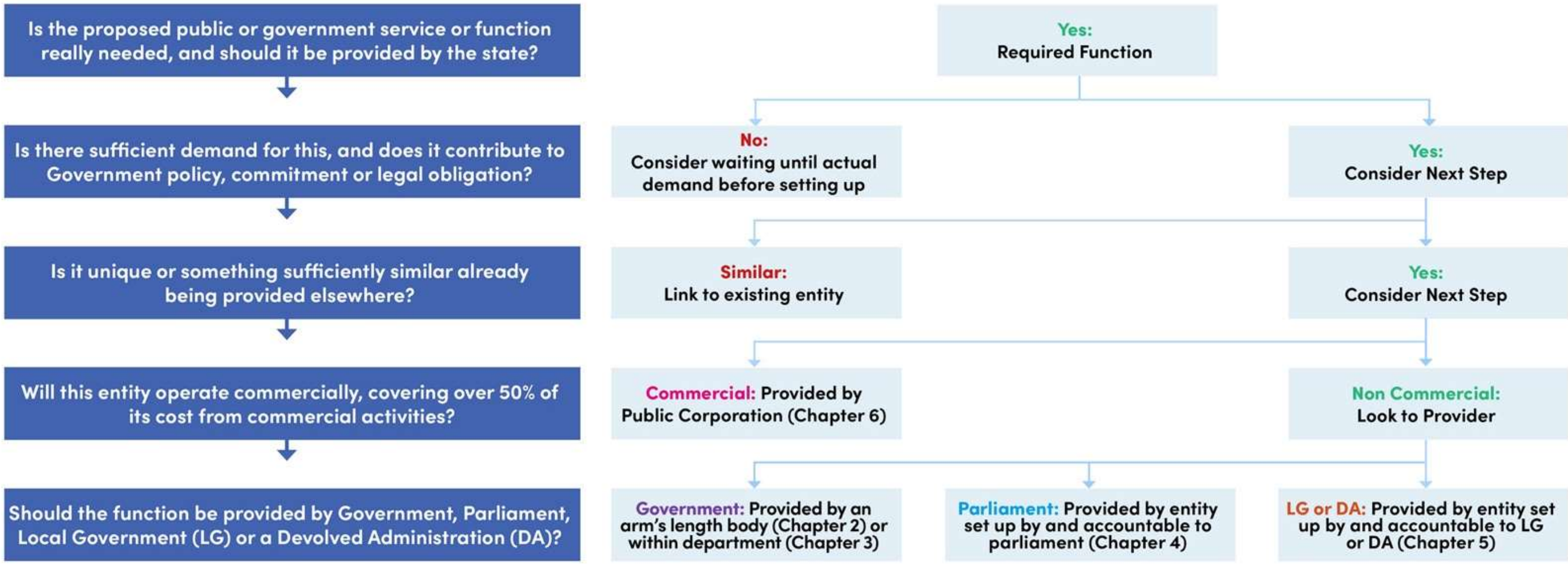
- Dev Co acquires land via loans from Top Co.
- Preparation Costs incurred by Dev Co are capitalised with the value being added to the land.
- Dev Co sells the land to Invest Co.
- A revaluation is conducted as a % per annum of the carrying book value.
- Once established, the Fund will be required to conduct remeasurements of land values.

Exeter Development Fund

MANAGEMENT CASE

Fund Management Structure, Governance, Risk, Roles & Responsibilities

The Fund vs a Typical Development Corporation



The Fund vs a Typical Development Corporation

A typical Development Corporation's objective is to 'secure the regeneration of its area' and this is to be achieved through:

- Bringing land and buildings into effective use
- Encouraging the development of existing and new industry and commerce
- Creating an attractive environment
- Ensuring that housing and social facilities are available to encourage people to live and work in the area.

Therefore, in order to achieve the regeneration of Exeter akin to the objectives in the OBC, the Fund will:

- Acquire, hold, manage, reclaim and dispose of land and other property
- Carry out building and other operations
- Seek to ensure the provision of water, electricity, gas, sewerage and other services
- Negotiate and acquire finance packages from private and public sources
- Carry on any business or undertaking for the purposes of its objective
- Generally do anything necessary or expedient for the purposes of its objective or for purposes incidental to those purposes.

However, the Fund will not have any of a local authority's planning functions transferred to it.

The Fund's Role

Publicly Owned

Professionally Run

Impact Driven

Locally Retained Profits

Main Levers to Achieve This:

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

Exeter CityFutures

Exeter Development Fund

The Board

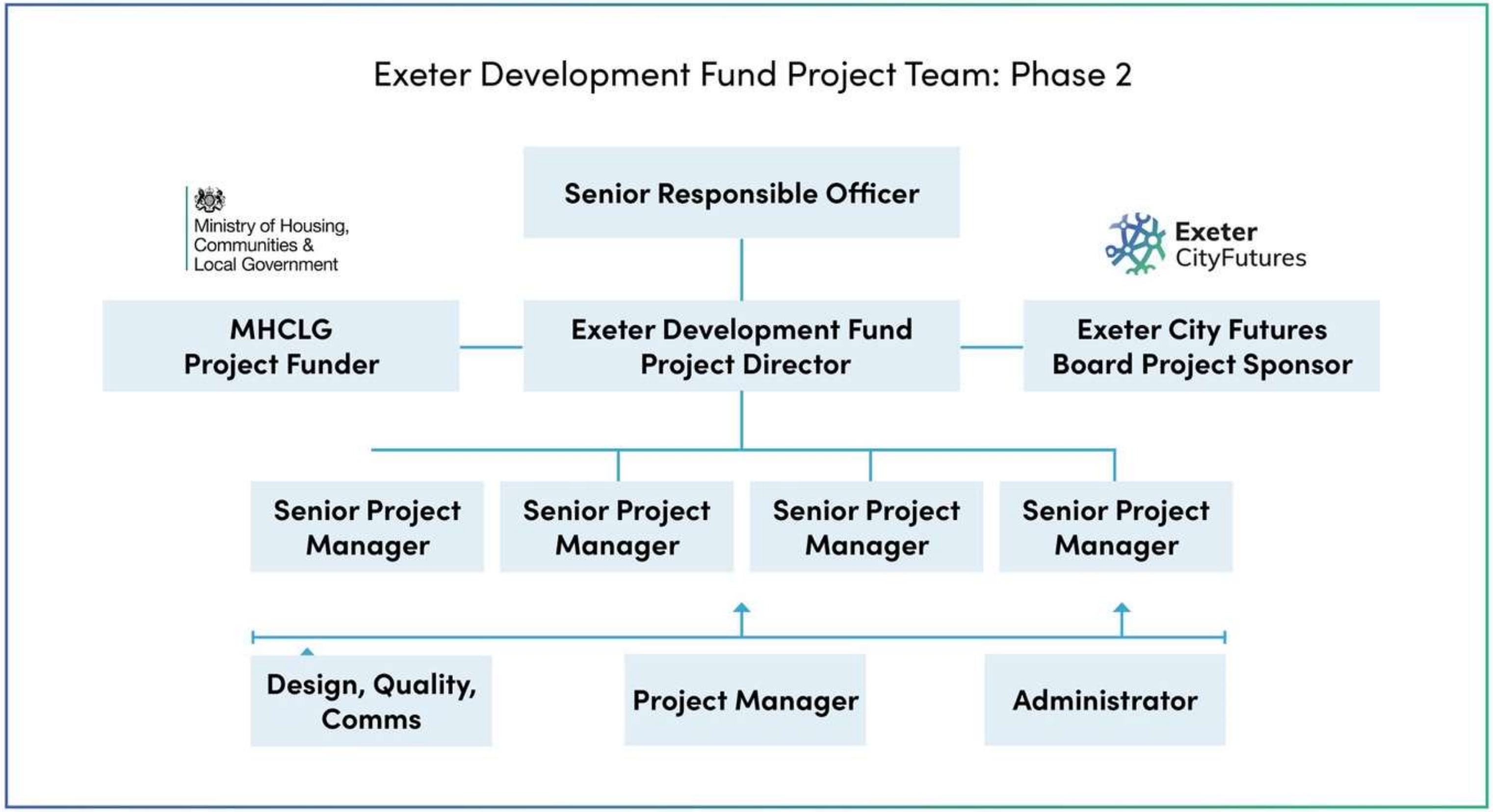
Board Appointed by the Secretary of State:

- Chairperson
- Deputy Chairperson
- Other Members (10 including 5 public sector representatives)

Key Roles and Responsibilities

- **Senior Management Team:**
  CEO and CFO
- **Operational Team:**
  4 FTEs: Finance/Fund and Development Directors, Project Management and Administration

Management into FBC: "Phase 2"

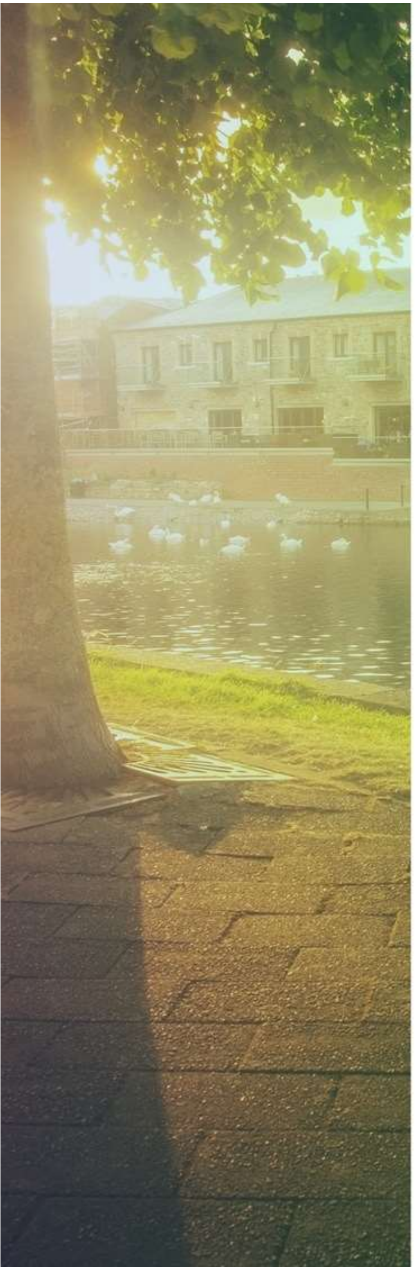


Key Activities in Phase 2:

- Phase 2 Project Initiation
- Business Case Update (Furtherance of Detail): What are the key elements to update? How/Who responsible?
- Full initial flagship Pilot Scheme (Full Test Bed for all aspects, focusing on feasibility and deliverability)
- Associated procurement of advisory services to augment the initial flagship pilot site readiness: feasibility, legal, regulatory, planning
- Provision of Financial Model Development on the basis of initial flagship pilot sites and the Fund structure
- Development of the Fund's Target Operating Model
- Market engagement (developer, finance, housing associations, Homes England)

Change Management Arrangement and Partner Culture Mix

- Departure from BAU. Careful thought needs to be given to collaborative demands, ambitious placemaking goals and requirement for 'patient' investment.
- Certain regulatory processes will likely not be circumnavigated by even the most cooperative Fund Target Operating Model.
- Partner mix will likely change over time. The Fund could come to life with only two partners, others coming on-line as land becomes available to contribute.
- Cultural values must be aligned to the Strategy and Objectives of the Fund, as well as the structure. Critical to gain staff input once appointed as part of a periodic refresh of the cultural values and connection to day-to-day behaviours.



Benefits Realisation Arrangements

- The Fund has a detailed benefits register prepared to Green Book Business Case standards and linked to the economic case appraisal (covered in Session 2).
- Development of a Benefits Realisation/Performance Management Tool. In consultation with stakeholders to ensure that the financial, other tangible and intangible benefits arising are tracked and feedback to the Board.
- The benefits register will continue to operate beyond the OBC as a live document, and will be carried forward to the FBC as Phase 2 develops.

Risk Management Arrangements

- A high-level risk register has been developed in line with Green Book Guidance during this phase of work: proof of concept.

- A workshop was held with key stakeholders (both senior management and political representatives of the partner organisations) and outputs from this have been captured.

- This analyses risks as follows:

  - Outline Risk Category
  - Sub-Category
  - Reference to link back to original Stakeholder Risk Workshop
  - Description of Risk
  - Likelihood of Risk Crystallising
  - Impact of Risk Crystallising
  - Risk Rating (Likelihood x Impact)
  - Risk Quantification
  - Risk Ranking

Exeter CityFutures Exeter Development Fund

Project Assurance

Benefits Realisation Strategy & Plan

A comprehensive performance management process will be a broad approach which encompasses both strategic objectives and operational outputs. This is synonymous with a Benefits Realisation or Management Process and we term it "Benefits Realisation" (BR).

A series of workshops will take place with each of the partners and onward into executive appointment stage to develop the benefits register, roadmap, (reflecting the timings of realisation) dashboards and assigned ownerships.

Post Implementation Review Plan

By conducting a thorough and timely PIR, key lessons can be learned and applied to future projects. Since PIR should be open, objective and cover a range of strategic and operational aspects, it is a useful tool to assess the size and nature of the gap between initial objectives and vision and the reality.

Independent resource should be secured to consult with stakeholders and help form a true and fair reflection of the positives and negatives arising from Fund programme completion and "rain check" on the effectiveness of not just the BR process, but the collaborative status of stakeholder relationships and communications, which will be so critical to the effective operation of the Fund.

Exeter
CityFutures

info@exetercityfutures.com

www.exetercityfutures.com