

COMBINED STRATEGIC SCRUTINY AND CUSTOMER FOCUS SCRUTINY COMMITTEES

28 July 2022

Present:

Councillors Allcock, Asvachin, Ellis-Jones, Foale, Hannaford, Harvey, Holland, Knott, Jobson, Leadbetter, Mitchell, K, Mitchell, M, Moore, J, Oliver, Newby, Sparling, Sutton and Vizard

Apologies:

Councillors Bennett, Branston, Read, Snow, Wardle and Warwick

Also present:

Chief Executive & Growth Director, Democratic Services Officer (SLS) and Democratic Services Officer (HB)

In attendance:

- Councillor Philip Bialyk - Leader of the Council
- Councillor Laura Wright - Portfolio Holder for Culture, Corporate & Democratic Services
- Councillor Duncan Wood - Portfolio Holder for Climate Change
- Councillor Diana Moore - Attending Under Standing Order 44

Roli Martin Head of Finance and Strategic Project Manager - Exeter City Futures

Elaine Anning, Operations Director - Exeter City Futures

22 Appointment of Chair for the Meeting

RESOLVED that Councillor Vizard be appointed Chair of the meeting.

23 Minutes

The minutes of the meeting of the Combined Strategic Scrutiny and Customer Focus Scrutiny Committees held on 6 June 2022 were taken as read, approved and signed by the Chair as correct.

24 Declarations of Interest

No declarations of discloseable pecuniary interest by Members were made.

25 Exeter Development Fund Overview

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

Members noted the sessions held as detailed below:-

Session 1 Introduction - 30 March 2022

- Session 2: What is the economic case for pursuing a City Development Fund to support delivery - 27 April 2022
- Session 3: Governance/Fund Management/Governance and Risk - 6 June 2022
- Session 4: The Business Case - 28 July 2022
- Session 5: *Summary and Way Forward 8 September 2022*

The Chair referred to the opportunity to review the information provided and he invited Members to begin to review the information and formulate any further lines of enquiry when the next meeting of this Combined Scrutiny is held on 8 September.

26 Exeter Development Fund

The Chief Executive & Growth Director by way of background to the recent discussion on the Exeter Development Fund proposition, advised that Exeter was expected to meet a 12,000 home target to meet the five year housing requirement. A proactive regeneration function was not always available to District Councils and the Exeter Development Fund was suggested as an innovative way forward to provide the necessary infrastructure and ensure the quality of place making. This would counter the reactive approach by developers and help achieve quality of provision.

The City Council's strategy for development had changed from an urban extension approach to identifying brownfield sites, with associated infrastructure provision and quality of development. Members of the Exeter City Futures team had put together a Business Case using the premise of the Exeter Development Fund to offer a vision of delivering homes in the city with a locally controlled finance model, as opposed to the current model of funding through national funders, with any profits returned to the developer. The Fund would create a more resilient, self-reliant model controlling the funding as well as an effective regeneration model.

Roli Martin, Head of Finance and Strategic Project Manager and Elaine Anning, Operations Director from the Exeter City Futures team were in attendance. The latter commended the presentation in support of the Business Case which had explored a different mechanism to bring forward sites for housing. She invited Members to consider the following questions:-

- what do developers currently build;
- who determines what is built and when;
- what was required in terms of infrastructure, and
- do the plans that are brought forward initially match up to the realisation of what is delivered on the site.

The Chief Executive & Growth Director referred to the local example of Cranbrook, as where initially, Government funding using a Regional Infrastructure Fund enabled early infrastructure such as a multi-use community centre, primary school and railway station to be built. A developer would not have brought those forward. Subsequent phases have been largely confined to residential development and there has been a failure to deliver a town centre.

The Operations Director continued with her presentation and referred to the inclusion of community infrastructure, which it was assumed would be discharged through either a Community Infrastructure Levy (CIL) or Section 106 payment, but these did not always deliver the community aspirations. The support of local public sector partners was required and nine sites in Exeter, under various public sector ownerships, could be developed with the support of the Fund. Each site had a specific issue associated with it, such as the need for decontamination, demolition or

clearance, the possibility of compulsory purchase and vacant possession, all of which had been factored into the model. The Fund was designed as a vehicle to attract the funding required to deliver the housing at scale and quality with Government support and ensuring the necessary community infrastructure was provided.

The following responses were given to Members' enquiries:-

- whilst the Local Plan identifies mixed use provision, the planning system can be passive and conditions to provide commercial facilities, infrastructure etc. are often ignored by developers. The Business Case looks to provide early infrastructure delivery.
- in changing the unacceptable Business as Usual approach by developers, the City Council will, as an equity holder in the Development Fund, have control and the flexibility to determine how the Fund is delivered. The mix of accommodation is also flexible, with a 35% Affordable Housing offer that still returns a positive internal rate of return. Social housing can be included.
- the proposed model would be paid for by the rents over a longer period. It is unlikely that developers would be looking to spread development over that long a period and unlikely to support a 30% affordable housing provision.
- the model was based on achieving development to passivhaus standard with Net Zero aspirations, with no retrofitting burden. The properties will all be modelled on the same resale price based on the principle that there will be an uplift in the quality of the housing. The Fund will retain the financial return as a long term venture with the value uplifted over the period and the city will effectively be growing its capital assets.
- Right To Buy was not currently included in the model, but could be included.
- the Government was looking to bring forward a new generation of Development Corporations with greater flexibility for local decision making and improved interaction with the private sector.
- service charges are included in the model and would also be capped as long as the Development and assets are controlled.
- public sector participation is necessary as the model is based on using public sector assets. One Public Estate requires at least two public sector partners. The challenge for the public sector is not just for the City Council, but for other organisations. The County Council must ensure the infrastructure and transport network is viable and fit for purpose. A view of prioritising investment will have to be taken if other public sector partners do not wish to join the Fund.
- developers obtain their financing from five or six traditional lenders. Every developer, builder and householder can face a drop in property value and there will be peaks and troughs over the term of any borrowing.
- the modelling is paid for by the One Public Estate with additional funding of £840,000 from the Department of Levelling Up, Housing and Communities to take forward for development at the next stage.
- Exeter City Futures is a Community Interest Company.
- there is a large quantum of housing proposed across all nine sites. The sites contain apartments based on the Exeter Liveable Programme. One, two and three bedroom apartments have been modelled as well as three and four bedroom town houses where there is capacity. However, the sites are highly constrained and in central locations which, although providing good access, may not be appropriate for larger town houses.
- once a flagship site was delivered additional sites could then be brought forward.
- the Water Lane site was unlikely to come forward as a flagship site.

- involvement of financial institutions would be vital with traditional developers able to offer their skill set rather than equity.
- the Fund ownership will assess the model and agree rentals . A 50/50 split between build to sale and rent can be considered as, ultimately, a sale model would include a 150 year lease.
- Exeter University and Exeter College offer training courses for young people to stay and build the city.

Members made the following comments:-

- although the presentation had included detail of the themes, concept aspirations and potential designs there was insufficient detail on the actual business case. Although a link to the document had been sent more information should have been shared and caution should be exercised over any potential strategy using public assets. The document should be reviewed in more detail if Members were required to make any recommendations to the Executive, and a smaller group of Members such as a Task and Finish group could be convened.
- a further review to ensure the Council would retain control through the governance arrangements was needed.
- Companies House do not include a name for the representative of Devon County Council on the Exeter City Futures Place Board. Minutes from the June Board meeting should be circulated.
- the Executive summary was unclear on the level of control and due diligence needed.
- the Fund was needed to disrupt the current model dominated by developers and create a better opportunity to achieve affordable housing and necessary infrastructure.
- the Fund offered an exciting prospect but further scrutiny was required to look at the level of detail to be presented to Executive.
- the suggested flagship site should be identified at the earliest opportunity.

Councillor D. Moore, having given notice under Standing Order No. 44, attended the meeting and submitted the following questions in advance. The questions were answered by the Operations Director:-

Q1. Please can you describe the type of Council assets that the business model assumes might be transferred and also what Council assets are expected to be transferred as part of any pilot?

R) The model of the transfer of assets depends on the nature of the site, including the nature of the pilot flagship site. Some of the sites possess car parks which could be transferred and the Southgate site, for example, includes County Council roads, a City Council car park and low density housing. The Marsh Barton site is quite different and could include some of the County Council roads and some City Council commercial assets. Other partners also hold some freehold assets on the site so it would depend upon the area expected to come forward first.

Q2. If a pilot project is progressed will a Development Corporation (as defined by legislation) be required to be established, and if so what would its geographical remit be, would it just be the pilot site or a larger area)?

R). The geographical area to be brought forward is unknown at present but is likely to be Exeter specific rather than a single or flagship site. Housing would then be brought forward sequentially across the whole area.

Q3. Why would developers engage with this new Fund compared to other finance arrangements such as a low interest rate loan from Homes England?

R) As the Exeter Fund would own the land, it will be for the Fund to determine which developers can be involved.

Q4) *Is the model predicated on capital appreciation or long term revenue release and, if the former, what would be the return to investors?*

R. The return will be based on the percentage of equity investment. The model assumes both capital appreciation, with a standard financial model of 1% appreciation and long term revenue release as well. The latter changes depending on the assumptions in regard to housing tenure.

Q5). Does the model include carbon mitigation measures?

R). This has not been included in the model.

The Operations Director continued to offer responses to Members' questions:-

- the Exeter Development Fund could look to offer key worker housing.
- the success of a flagship site could result in a sequential approach across the remaining sites.
- the timing and number of reviews of the Fund can be determined at a later date.
- a response would be provided on the ability to transfer assets back to the Council.
- Exeter City Living was the Council's development company looking to develop the Clifton Hill site and to build homes in the city centre. A similar exercise was anticipated with the Southgate site, involving County Council and City Council owned land for which a planning brief was being drawn up.

The Chief Executive & Growth Director responded to Members' comments:-

- modelling could be conducted for a smaller site where equity support from the Government would be less and which would provide a better understanding of the various issues.
- housing delivery on the brownfield sites would offer predominantly higher density living apartments or urban living. The city's challenge being to provide 12,000 homes in the next 15 to 20 years allied to the necessary infrastructure.
- the Fund would manage and prioritise necessary infrastructure over and above the level the current planning system was able to provide. It would be a step change in culture with delivery based on Net Zero targets. It was hoped that the consumer and the investment market would also recognise the importance of carbon offsetting and look to achieve targets earlier than those set by the Government.
- two examples of joint ventures were Land Securities and Crown Estate in Princesshay where developers had control but with the City Council benefitting from the end product. Joint public and private sector schemes were an established approach for local authorities with the private sector bringing

capacity, expertise and access to markets. Private sector involvement in the Fund would not water down aspirations.

- the model was backed by One Public Estate but the Planning Inspector would expect at least one public sector partner. The key was public sector partner support before going to One Public Estate as the model was based on public sector collaboration. The Ebbsfleet model, presented at an earlier Combined Scrutiny meeting, was directly funded by the Government and was an example of a new approach. A governance vehicle with funding would be the way forward for Exeter to achieve the city's ambitions.
- the Exeter City Futures team would address the issues raised by Members.

Members suggested convening a Task and Finish Group to explore and seek further information on the concept of the Exeter Development Fund. This could be raised with the Scrutiny Programme Board meeting on 29 July 2022 with the date of the next meeting of the Combined Scrutiny Committee on 8 September used instead for the first meeting of the Task and Finish Group. Thereafter, further dates could be identified for meetings of the Group prior to reporting to a fifth session of the Combined Scrutiny Committee.

The Chair proposed that a Task and Finish Group be convened before a further meeting of the Combined Scrutiny Committee was held. The proposal was seconded and carried and, subject to the support of the Scrutiny Programme Board, the following initial areas for examination were put forward:-

- (1) to further consider the vehicle and governance arrangements to ensure that the City Council had the necessary control in relation to the Exeter Development Fund. An invitation to be made to the Director of City Development be involved and establish whether further work is commissioned from the Exeter City Futures team;
- (2) to determine the commitment of public sector partners with an invitation to potential local partners including the University of Exeter, the NHS Trust (Royal Devon and Exeter Hospital (RD&E), and Devon County Council to determine their commitment and encourage involvement in pursuing the Fund; and
- (3) to consider the identification, timing and modelling for a smaller site or flagship site with a request for the Director City Development to be invited to work with the Exeter City Futures team.

The meeting commenced at 5.30 pm and closed at 8.00 pm

Chair