

## Business Plan

## Financial Year 2020 / 2021

Version 1.5

9<sup>th</sup> June 2020

**CONFIDENTIAL**

# Contents Page

1.0 Executive Summary

2.0 Performance against last year's Business Plan (2019 / 2020)

2.1 Operational & Delivery

2.2 Financial Performance

3.0 Overview of Business Plan for 2020 / 2021

3.1 Approach

3.2 Summary of Business Plan

3.3 Exeter City Living Sites

3.4 HRA Developments

3.5 ECC Sites

4.0 Loan Arrangements

5.0 Management Report setting out the business objectives for the next three Financial Years

6.0 Risks

## **Appendices**

A Key Inputs and Assumptions

B Financial Statements

## 1.0 Executive Summary

This past year Exeter City Living has focused on building for future years. Time and resources have been utilised to build processes, protocols and capabilities in development management, whilst significant resource has been deployed to undertake feasibility & due diligence work on numerous sites in order to build a strong development pipeline.

With our work on the original 'COB Wave 3' sites (Anthony Road, Thornpark Rise, Hamlin Gardens & Bovemoors Lane), Clifton Hill and Vaughan Rd, we are in the process of delivering (either as ECL developments, or projects for / with the HRA) a total of 179 new homes, of which 114 are Affordable. This compares favourably to the Business Case for the creation of Exeter City Living which identified that at the end of our second year of trading we would be working on 131 new homes, 36 of which would be Affordable.

Fundamental to this 2020/2021 Business Plan is Exeter City Living's focus on delivering with purpose. A key objective for this year is to further upscale Exeter City Living's development ambitions to address the needs and aspirations of Exeter City Council, specifically in relation to:

- Delivering a positive return of development profit within a development delivery timeline
- Upscaling development ambitions and working with the HRA to deliver more homes of mixed tenure to meet the diverse housing needs of the City
- Delivering some sites with Build to Rent new homes to support the activity of Exeter City Homes (the Residential Property Subsidiary Company within the Exeter City Group) – in order to create a long term revenue income for the Council
- Being a vehicle to deliver the Council's ambitions around the Climate Emergency and Net Zero ambitions, and as set out in the Liveable Exeter and Net Zero Exeter 2030 Plans
- Contribute to Exeter City Council's Covid 19 recovery initiative.

No additional loan is being requested for 2020/2021. This Business Plan seeks to utilise the already approved loans to :

- a) Complete the Thornpark Rise development and sell the new homes to the HRA.
- b) Continue with design and then on-site construction works at Clifton Hill
- c) Continue pre-construction activities during the year at Vaughan Rd (ECL element of the development)
- d) Undertake more detailed feasibility and initial / planning submission activities on a number of new sites, in order to better understand the viability of the projects, with the intention to seek loans to develop such in future Business Plans (sites include ; Belle Isle; Exeter Canal Basin; Bonhay Meadows; Exeter Golf & Country Club; Glasshouse Lane and Arena Park)
- e) The above a) to d) could result in over 380 new homes in Exeter through ECL funded developments.
- f) Continue providing Development Agency services to the Housing Revenue Account and Exeter City Council, in order to progress project delivery for the HRA & Council on a number of schemes, bringing Development Agent income into the ECL business.

- g) Progress the Car Park projects for ECC, on the basis of cost reimbursement from ECC during the feasibility stage this financial year.
- h) Continue to build the ECL team to increase capacity and capability in order to deliver this Business Plan and pipeline of future developments.

The main risk for management in FY 2020/2021 is the impact of Covid19 and BREXIT on construction costs, contractor engagement / delivery, sales values and the general housing market. This is being closely monitored and exposure to fluctuations in cost and sales values are being managed.

CONFIDENTIAL

## 2.0 Performance against last years' Business Plan (2019/2020)

### 2.1 Operational & Delivery

As set out in the 2019/2020 business plan, this past year Exeter City Living has focused on building for future years. Time and resources have been utilised to build processes, protocols and capabilities in development management, with a greater strength in depth across the team and roll-out of standardised practices / documentation on our schemes.

A significant amount of feasibility / appraisal & due diligence work has been undertaken to ensure that a strong development pipeline portfolio has been built over the past year, with many new schemes coming forward in this (2020/2021) Business Plan. The portfolio of potential projects range from brown field car park sites, Joint Developments with the HRA, Joint Ventures with other Developers and development on land acquired from the private/charitable sector.

Good progress has been made on schemes during 2019/2020, which can be summarised below :

#### a) ECL Led Schemes

**Anthony Road** : The three new homes has been successfully completed. A sale to the Housing Revenue Account (HRA) has been agreed.

**Thornpark Rise** : Works have progressed well on site through the year, with the 9 new homes due for completion in Q2 of 2020/2021. The sale of these homes has been agreed with the HRA.

**Clifton Hill** : During 2019/2020, the design team were appointed on the scheme, initial designs developed, public consultation undertaken to inform the design, designs further progressed, and a Planning Application submission is due in Q1 of 2020/2021. This scheme will include 44 new homes in Exeter city centre, 11 of which will be Affordable Homes. The HRA have already agreed to purchase the affordable social rent homes.

#### b) HRA Schemes

**Bovemoors Lane** : Working as Development Agent on behalf of the HRA, we have managed the procurement of the Main Contractor, commencement of works on site and ongoing management of site progress & Contract Administration. Site works are progressing well and completion of the 10 new Affordable Homes is expected in Q3 of 2020/2021.

**Hamlin Gardens** : As Development Agent we are currently managing the procurement of the Main Contractor for the 21 home scheme, which is expected to start on site in Q2 2020/2021

#### c) HRA and ECL Collaboration Schemes

**Vaughan Rd** : Following stakeholder engagement and consultation exercises and development of a detailed design, a planning application was submitted in October 2019 which gained approval in March 2020. In 2019/2020 Business Plan this project was categorised as a scheme to be designed and assessed for progression (subject to viability). The scheme comprised 88 homes including 21 social and 10 shared ownership homes with the balance being for open market sale. Anticipated start on site was April 2020 with practical completion planned for March 2022 and sales from June 2022.

Funding approval and loan drawdown requests for construction were scheduled for inclusion in the 2020/2021 business plan. Projected expenditure throughout 2019/2020 business year was £1.6m.

During 2019 following extensive viability appraisal work and as a consequence of the Housing Revenue Account (HRA) wishing to develop 500 new council homes over the next 10 years, a decision was reached that the Vaughan Rd site proved suitable as a joint development between the HRA and Exeter City Living. Working alongside the HRA a joint development scheme was drawn up comprises 92 homes and submitted for planning approval. This comprised 32 homes to be developed by Exeter City Living for open market sale and 60 homes to be developed by the HRA as affordable council homes. Exeter City Living acting as Development Agent for the HRA for their 60 new homes and developer for the 32 open market homes. Planning Approval was granted in February 2020.

The Main Contractor tender price is due to be returned in Q2 of 2020/2021 with start on site planned for the ECL element in Q1 of 2021/2022 and sales anticipated from Autumn 2022.

#### d) Other Schemes

In addition to the above, Exeter City Living has provided Development Agency & consultancy services to ECC in order to help progress early activities on projects such as the Wonford Health & Wellbeing Centre, the New Exton Road Depot project, and the Exeter & East Devon Garden Communities (Liveable Exeter) delivery plan.

**With our work on the original 'COB Wave 3' sites (Anthony Road, Thornpark Rise, Hamlin Gardens & Bovemoors Lane), Clifton Hill and Vaughan Rd, we are in the process of delivering (either as ECL developments, or projects for / with the HRA) a total of 179 new homes, of which 114 are Affordable. This compares favourably to the Business Case for the creation of Exeter City Living (May 2018) which identified that at the end of our second year of trading we would be working on 131 new homes, 36 of which would be Affordable.**

## 2.2 Financial Performance

The financial performance of the business for 2019/2020 has been influenced by three main factors:

- i. **Staff costs** : The commitment to explore opportunities and develop a strong pipeline has involved employing considerable resource to undertake the initial feasibility and due diligence work on over 20 schemes throughout the year. This resource has been required to meaningfully consider and assess the many opportunities available. The scale and magnitude of opportunities has been greater than forecast when drafting the 2019/2020 Business Plan in December 2018, which has resulted in higher than expected staffing costs. The change in role on a number of schemes from being ECL led to providing Development Agency services to the HRA has also changed the staffing model and resource requirement.
- ii. **Sales** : The 2019/2020 Business Plan included forecasts for house sales income from Anthony Road and part of Thornpark Rise. The Anthony Road homes are now completed and awaiting sale, whilst the Thornpark Rise scheme has an agreed sale arranged with the HRA. Sales figures for both sites will be included in the 2020/2021 Business Plan figures.

- iii. **Developments** : The single largest impact on the financial performance figures for 2019/2020 has been the shift in development delivery. As Hamlin Gardens, Bovemoors Lane and a large part of Vaughan Rd have moved from ECL led schemes, to HRA led schemes, this has significantly altered the development costs and borrowing requirement of Exeter City Living during 2019/2020. The income from Development Agency services has been included in the figures, however the overall delivery strategy has reduced the need to borrow the amounts expected, which has skewed the figures when compared against the original 2019/2020 business plan.

The table below summarises the costs / expenditures & incomes in the approved Business Plan 2019/2020 and the actuals achieved for the FY 2019/2020 :

Item	Approved Business Plan	New Forecast (Actual)	Variance	Comments
Operational Costs: Staff & Interims, Office & IT, HR Legal & Finance	£571,094	£640,835	£69,741	Additional Development consultant costs (£44k) due to additional site viability works & Bovemoors, Hamlin Gardens and Vaughan Road now being carried out under Development Agency Basis. PA still employed via agency and only one employee (MD - still under secondment from ECC); Office relocation & refurbishment costs (£7k); Additional Legal Services and Finance Costs (£19k)
Development Costs	████████	████████	████████	Bovemoors, Hamlin Gardens & original forecast for Vaughan Road all carried out under Development Agency Role for HRA, so costs do not flow through ECL.
Servicing Debt & Principle	£506,624	£342,315	-£164,309	Forecasted additional loans delayed due to planned projects changing to HRA projects
<b>Total</b>	████████	████████	████████	
Unit Volume	8	0	(8)	3 homes at Anthony Road awaiting sale, subject to an agreed offer to sell to the HRA at a reduced value due to the market slow down resulting from the Pandemic. 5 homes at Thornpark Rise are now subject to a sale of the whole 9 homes to the HRA and have not reached build completion.
Income	£2,000,000	£99,373	-£1,900,627	The turnover shortfall relates to the unit shortfall
<b>Profit Before Tax / (Loss)</b>	████████	████████	████████	
Borrowings	£9,178,163	£9,234,657	-£56,494	Second Loan draw down later than Plan and hence first capital repayment of new loan not due
<b>Surplus (Deficit) Loan Balance</b>	£73,971	£5,145,864	-£5,071,893	Cash at bank balance full value of loan draw down

### 3.0 Overview of Business Plan for 2020/2021

#### 3.1 Approach

2019/2020 was our second year of trading and the focus of the year was on consolidating the development projects that Exeter City Living had commenced during their first year of trading and working towards a sustainable future pipeline of new developments. The key objectives for 2019/2020 were to build on ECL's processes, protocols and capability in development management; building strong and collaborative working relationships with council departments; building a brand and marketing position; and ultimately building confidence so that the City can entrust Exeter City Living to help deliver the development ambitions and requirements of the Council over the coming years.

There was a distinct change in the direction of ECL during the second year when the borrowing head room for the Housing Revenue Account (HRA) was lifted and there was an opportunity to change house tenures from open market sale to affordable homes. This resulted in the first two developments of ECL being sold to the HRA for council housing stock at Anthony Rd and Thornpark Rise and ECL's role changing from Developer to Development Agent for the delivery of new council homes at Bovemoors Lane and Hamlin Gardens. The Vaughan Rd development approach was changed to a joint development between ECL and the HRA with ECL acting as developer for the market sale homes and Development Agent for the HRA's affordable housing development.

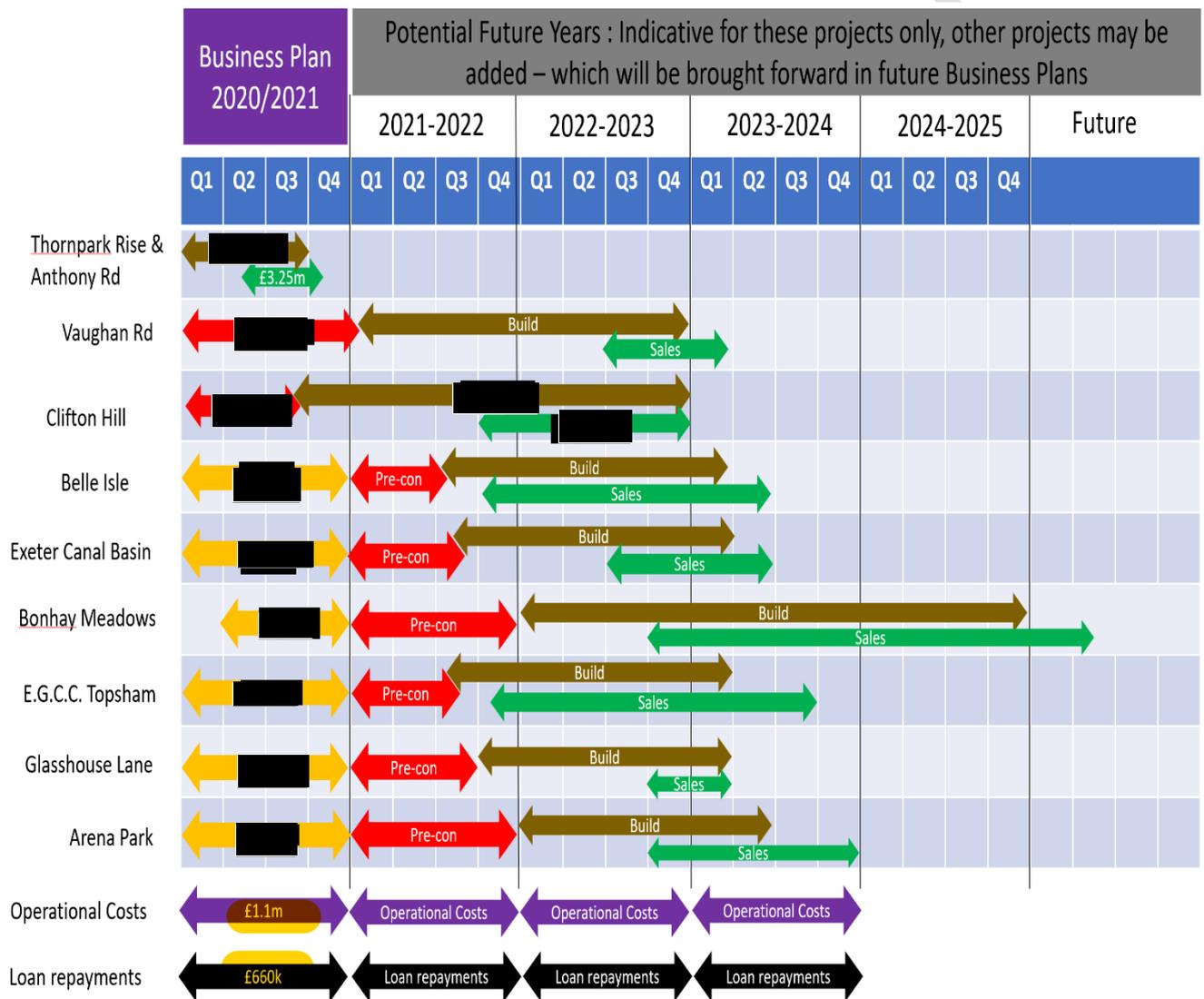
Exeter City Living's approach for 2020/2021 is delivering with **purpose**. A key objective for this year is to upscale Exeter City Living's development ambitions to address the needs and aspirations of Exeter City Council, specifically in relation to:

- Delivering a positive return of development **profit** within a development delivery timeline
- **Upscaling** development ambitions and working with the HRA to deliver more homes of mixed tenure to meet the diverse housing needs of the City
- Delivering some sites with **Build to Rent** new homes to support the activity of Exeter City Homes (the Residential Property Subsidiary Company within the Exeter City Group) – in order to create a long term revenue income for the Council
- Being a vehicle to deliver the Council's ambitions around the Climate Emergency and Net Zero ambitions, and as set out in the Liveable Exeter and Net Zero Exeter 2030 Plans
- Contribute to Exeter City Council's Covid 19 recovery initiative.

A more recent priority of the Council since the Covid 19 Pandemic has been the need to secure a balanced budget to safeguard the future services of the Council. This has placed a greater emphasis on ECL's role in creating wealth in the form of capital land receipts to the Council, profit from development gains and longer-term revenue from a Residential Property Company (Exeter City Homes Ltd). It has also enlarged ECL's purpose in the role it can play in the economic recovery of the City and the City Council's recovery initiative. In order to achieve the aspirations, the ongoing growth of Exeter City Living and other subsidiaries within the Exeter City Group may require a review of the Group structure and governance to ensure it remains fit for purpose.

### 3.2 Summary of Business Plan 2020 / 2021

The detailed figures and financial information for Business Plan for 2020/2021 are contained within the Financial Statements in Appendix B, however the diagram below illustrates the business plan in summary – with figures rounded for simplicity of illustration. This diagram aims to identify how the FY 2020/2021 Business Plan sits within the overall timeline for the development & sales of the projects contained within the Business Plan :



Key :



The overall Business Plan cost and revenue headings for FY 2020 / 2021 can be summarised as :

Category	Costs	Income	TOTALS
Staff & Interims	£866,477		£866,477
Office & IT	£104,779		£104,779
HR, Legal & Finance	£139,739		£139,739
Developments		£4,876,929	
Servicing Debt & Principal	£661,275		£661,275
<b>Total</b>		<b>£4,876,929</b>	

Further detail supporting the above summarised costs and incomes is contained in Appendix B.

Please note, the 'Income' section is the total of the housing sales on the previous page (circa £3.25m), plus income from Development Agency to the HRA (circa £279k), income from Development Agency on the New Exton Rd Depot (circa £70k), plus ECC income for works on the car park schemes (circa £1.2m)\*

\*These ECC costs will be recoverable should the car park schemes proceed to development.

### 3.3 Exeter City Living Sites

We have included below a table which identifies the delivery programme for the sites and the number of homes created on site (including tenure mix). This is for ECL led schemes only, which doesn't include for Development Agency services provided to help HRA & ECC deliver their project needs (eg Hamlin Gardens, HRA element of Vaughan Rd – 60 homes, Bovemoors Lane, etc).

#### Summary table of new homes:

Scheme	Start on Site	Practical Completion	Anticipated Sales Period End	Total Homes Forecast (Affordable)	Potential Project Profitability (excl interest & operating costs / overheads)
<b>Sites to be built from 2020/2021 Business Plan funding :</b>					
Clifton Hill	Autumn 20	Summer 22	Autumn 22	44 (11)	■
Thornpark Rise	Dec 19	Aug / Sept 20	Sept 20	9 (9)	■
<b>Sub-total (A)</b>				<b>53 (20)</b>	■

#### Sites to be assessed further, design works commenced and /or pre-construction works progressed from 2020/2021 Business Plan :

Site	Potential Nr Homes
Vaughan Rd (ECL element)	■
Mary Arches Car Park	■
Exeter Arena	■
Belle Isle	■
Bonhay Meadows	■
Exeter Canal Basin	■
Glasshouse Lane	■
Cathedral & Quay Car Park	■
Magdalane Road Car Park	■
EGCC Topsham	■
<b>Sub-total (B)</b>	■

<b>Overall Total [A + B]</b>	■
------------------------------	---

As can be seen from the table on the previous page, in addition to the core sites of Thornpark Rise, Clifton Hill and Vaughan Rd, it is the intention to undertake feasibility and design progress works on a large number of additional sites during the Business Plan year.

The works on these additional sites will be substantively undertaken by consultants employed on a project by project specific basis (such as Architects, Engineers, Project Managers, Quantity Surveyors, etc). Monies have been set aside in the Business Plan to cover the costs of the consultants and other third party services such as Development Appraisals, land valuations, environmental surveys, and the like, as may be required. It is the intention that many of these sites will be progressed to Planning Application stage, where viable / possible.

### **3.4 HRA Developments**

The 2020/2021 Business plan includes £279k of income for Exeter City Living providing Development Agent services for the HRA, managing the delivery of Vaughan Rd (HRA element – 60 homes), Hamlin Gardens (24 homes) and Bovemoors Lane (10 homes). In total this service will help the HRA provide 94 new Affordable homes into the HRA stock.

During the year 2020/2021 we will have the capacity, expertise and processes / tools available to help the HRA deliver further projects on their ambitious housing development programme, should they wish to call upon us to supplement their own team to provide additional capacity and construction specific capabilities.

### **3.5 ECC Sites**

Similarly to the Development Agent role provided to the HRA, Exeter City Living are providing Development Agent services to Exeter City Council to assist with progressing projects on their behalf. Our 2020/2021 Business Plan includes for the resource capacity and availability to assist the Council with projects such as Wonford Health & Wellbeing Centre, the 'New Exton Road Depot' project, and any other opportunities which may arise to support the Vision and plans for the City.

## 4.0 Loan Arrangements

Exeter City Council provided a loan agreement to Exeter City Living in the sum of £5.0m at the end of March 2020 (as approved in the 2019 Business Plan). The loan was drawn down to ensure sufficient funding for Operational costs for projects underway and the potential site acquisition at Barnfield Road, which has since fallen through. Our Cash Balance is therefore positive and funding our current operational costs and the feasibility work for potential new projects.

We do not anticipate a need for a further loan draw down in the 2020/2021 financial year, in addition to the existing loan drawdowns funding the progress of Thornpark Rise and Clifton Hill during 2020/2021, we also seek approval to spend the existing loan arrangements on the necessary expenditures to continue the pre-construction activities for the ECL homes on the Vaughan Rd development, and secure the conditional acquisition of the schemes listed below (a to f) and take them through the Planning process – this will enable these schemes to be developed in sufficient detail to ensure they are commercially viable and formulate the exact loan requirements for 2021/2022 and beyond. The exact figures and future funding requirements will be brought forward in the 2021/2022 Business Plan for those sites which Exeter City Living wish to progress beyond the planning stage.

Initial feasibility work has been undertaken on all the projects listed below, in order to provide the Board at Exeter City Living with the required level of confidence that – subject to the conclusion of various technical and financial matters – these projects can deliver against the aims of ECC, the profit margins acceptable to ECL and are a worthwhile investment of ECL loan monies to develop them further. It is the intention that in 2020/2021 the following projects to be progressed through further feasibility & design works, to acquisition on a subject to planning basis:

- a) **Belle Isle**: Take through further feasibility works and Planning with circa [REDACTED] spend in year (Fees to Planning [REDACTED]; land deposit [REDACTED])
- b) **Exeter Canal Basin WSA**: Take through further feasibility works and Planning with circa [REDACTED] spend in year (Fees to Planning [REDACTED])
- c) **Bonhay Meadows**: Take through further feasibility works and Planning with circa [REDACTED] spend in year (Fees to Planning [REDACTED])
- d) **Exeter Golf & Country Club Site Topsham**: Offer to acquire site made subject to planning and awaiting vendor's decision. Potential spend through Planning [REDACTED] and refundable deposit on exchange (circa [REDACTED])
- e) **Glasshouse Lane**: Secure Option agreement and take through further feasibility works and Planning with circa [REDACTED] spend in year (Fees to Planning [REDACTED])
- f) **Arena Park**: Take through further feasibility works and Planning with circa [REDACTED] spend in year (Fees to Planning [REDACTED])

The above list of sites may be subject to change as the opportunities / projects are progressed. Any change in sites for works upto planning submission will be determined by the Board of Exeter City Living Ltd, based upon initial consideration of the viability to expend monies on other / different projects. Any proposed changes or substitution of projects will be agreed with the Shareholders Representative before being implemented.

The following projects are to be progressed with further viability works and if viable through to Planning, subject to indemnity by ECC. These sites are included on the basis that the costs will be covered by & reimbursable from ECC for the works planned this financial year:

- i. Cathedral & Quay Car Park: Fees to Planning [REDACTED]
- ii. Magdalane Road Car Park: Fees to Planning [REDACTED]
- iii. Mary Arches Car Park: Fees to Planning [REDACTED]

The above listed costs associated with these sites will be recoverable by ECC should the sites proceed to be developed, either by ECL or a third party.

**Summary of loan position :**

Loans Approved	
2018/2019 Business Plan	£4.35m
2019/2020 Business Plan	£5.00m
2019/2020 Clifton Hill Opportunity Paper	£15.64m
<b>Total</b>	<b>£24.99m</b>

Loan Drawdowns to date	
During 2018/2019	£2.2m
During 2019/2020	£2.15m + £5m
2019/2020 Clifton Hill	£0m
<b>Total</b>	<b>£9.35m</b>

**New Loan Requested for this Financial year :**

None. The works planned in this Business Plan for FY 2020/2021 can be delivered within the existing loans approved for Business Plan 2018/2019 and 2019/2020. The £9.35m already drawdown against the first two Business Plans can fund the on site works and project development work on the sites as identified in this section and also as shown in the diagram 4.1 below.

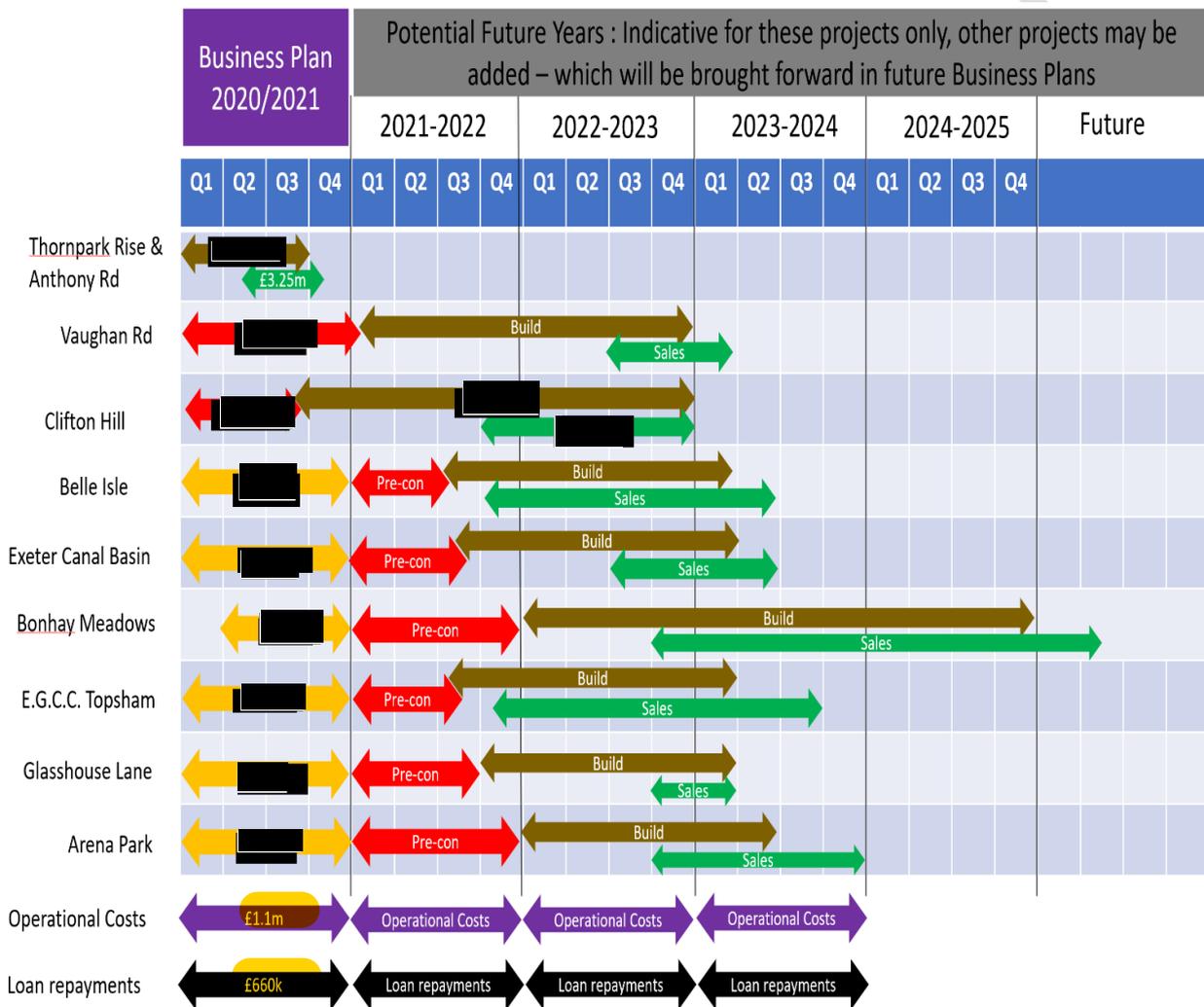
**Future loan requirements :**

Should Vaughan Rd progress as planned and all the projects listed as a) to f) on the previous page be viable, at this stage it is estimated they would require additional loans in the region of circa £3.5m in 2021/2022 and a further circa £10m in 2022/2023. However, this is only an indicative estimate of magnitude at this stage. Full development appraisals and formal requests to progress these projects (including formal identification of the loans required) are expected for the viable schemes in the 2021/2022 Business Plan (or indeed earlier by submitting formal Opportunity Papers during the year if progress and market conditions favour such an approach).

It is expected that the Clifton Hill loan will be drawdown in 2021/2022. Cash flow requirements and incomes on this project and others are notionally being factored into the overall development programme financial modelling to inform the loan figures potentially required for Vaughan Rd and sites a) to f) mentioned above.

With reference to the diagram below (& contained in section 3.2), the existing loan arrangements will cover those items which have actual monetary figures included.

**Diagram 4.1 :**



## Teckal Status

Exeter City Living's status as a Teckal company allows Exeter City Council to award contracts directly to ECL without a procurement process, it is therefore important for both parties that Teckal status is retained. Within the Management Agreement between Exeter City Council and ECL, entering into a contract or a variation to the terms of business which has the potential to compromise the status of the ECL as a Teckal compliant company is a Reserved Matter for the Council (Schedule 3, Reserved Matter for Council, 1.10 and 1.11).

According to government guidance the test for Teckal status is that 80% of the activities of ECL be carried out for Exeter City Council, it is understood by ECL that this 80% is measured against turnover in the first instance (over a 3 year period if available and if not using reasonable projections). Should ECL not pass the 80% test, all contracts awarded to ECL by Exeter City Council would be subject to challenge – though challenges are unlikely to be made when projects are considerably progressed beyond procurement.

ECL seeks confirmation from ECC via approval of this Business Plan, that the shareholder is satisfied the proposed contracts herein do not compromise the status of the company as a Teckal compliant company.

## 5.0 Management Report setting out the business objectives for the next three Financial Years

The Management Agreement requires the Business Plan to include a Management Report setting out the business objectives for the next three financial years.

The three year plan based on the COB Wave 3 sites, Clifton Hill, Vaughan Rd and the sites listed a) to f) in Section 4.0 is identified below (years 3, 4, & 5 on the table below). This is a summary of the information contained in Appendix B in relation to the financial matters over the next three years :

	Business Plan 2020/2021			Business Development Programme			TOTAL
	Year 1 Aug. 18 - Mar 19	Year 2 Apr 19 - Mar 20	Year 3 Apr 20 - Mar 21	Year 4 Apr 21 - Mar 22	Year 5 Apr 22 - Mar 23	FUTURE	
1 Amount Borrowed from ECC (FY 18/19 approved loan)	£2,200,000						£2,200,000
2 Amount Borrowed from ECC (FY 18/19 & FY 19/20 approved loan)		£7,150,000					£7,150,000
3 Amount Borrowed from ECC (FY 19/20 approved loan Clifton Hill)				£3,500,000			£3,500,000
4 Amount Borrowed from ECC (FY 19/20 approved loan Clifton Hill)				£6,500,000			£6,500,000
5 Amount Borrowed from ECC (FY 19/20 approved loan Clifton Hill)				£5,500,000			£5,500,000
6 Amount Borrowed from ECC (FY 19/20 approved loan Clifton Hill)				£143,478			£143,478
7 Amount Borrowed from ECC (FY 21/22 potential loan)				£3,356,522			£3,356,522
8 Amount Borrowed from ECC (FY 21/22 potential loan)					£4,500,000		£4,500,000
9 Amount Borrowed from ECC (FY 21/22 potential loan)					£5,000,000		£5,000,000
10 Amount of Loan Repaid (incl interest)	£78,048	£308,643	£661,275	£1,683,759	£2,670,984		£5,402,709
11 Operational Business Costs per annum	£289,663	£640,835	£1,110,996	£1,162,312	£1,182,570		£4,386,375
12 Construction / Build Costs							
13 Total Costs per annum							
14 Income from Property Sales							
15 Annual Cashflow Position (Cash in Bank)							
16 Amount of Loan Outstanding	£2,121,504	£9,234,657	£9,032,114	£27,316,541	£31,072,256		£31,072,256
17 Overall Trading Position							
18 Gross Profit							
19 Operational Business Costs per annum (as above)		£640,834	£1,110,996	£1,162,312	£1,182,570		£4,096,712
20 Operating Profit							
21 Interest		£240,397	£458,733	£968,186	£1,738,783		£3,406,098
22 Profit / (Loss) Before Tax							

Please note the above includes notional amounts for the construction costs, loans and sales values / income on the sites listed a) to f) in section 4.0. This is included for illustration & consistency with the original Exeter City Living Business Case, at this stage. It is expected that the detailed costs, required loan / funding for construction and the anticipated sales for these sites will be within the 2021/2022 Business Plan.

The change in business focus to generating 'Profit for purpose' for ECC is reflected in the above figures and the nature of developments being planned - with profitability in the 3 year look ahead being significantly greater than the 3 year look ahead in previous Business Plans.

In these uncertain times of Covid 19 we are continually assessing the impact of the economy on the finances of our developments (whether they are Covid 19 related, BREXIT related, etc) these significant ‘events’ can have large impacts on land values, forecast capital returns, sales, etc. We constantly strive to be as agile and recession proof as we can, looking for opportunities to de-risk the land transfer, capital cost or sales process / values (an example being the ability to ‘flip’ market sale housing to Affordable if needed ). It is this dexterity and collaboration with the Council & HRA that will allow sites to be progressed with a higher level of confidence than would otherwise be possible in these times of economic instability.

Within the Business Plan activity planned for 2020/2021, the Council will receive the following income from ECL during the business year :

Activity	
Capital Receipts (Land)	£2,739,376
Premium on Interest Received	£202,760
<b>TOTAL</b>	<b>£2,942,136</b>

In addition to the above capital receipts and ECC Premium (profit) on interest received, it is notable that other benefits will accrue to the Council through Exeter City Living developing schemes, such as CIL, New Homes Business and ECC ‘incomes’ received from ECL for seconded staff, office accommodation, Service Level Agreements for ‘in-house’ ECC services, etc. It is not possible to quantify these for the scale of development being considered in this business plan, however they are not incidental and will have a positive impact on the finances & economy of the city.

Further to the financial modelling and development of the sites identified in this business plan, it is ECLs intention to add additional sites over the coming years. Whilst these exact sites cannot be confirmed at this stage, it is anticipated that the objectives for the next three years can be summarised as :

- FY 2020 / 2021 :** A year of controlled growth at Exeter City Living, with a new focus on providing ‘profit for purpose’ to support the Council’s longer term economic, social and environmental aspirations . The pipeline presented in this business plan introduces City Council sites to the previous development pipeline of projects to ensure a balanced portfolio of developments with the new profitable sites cross-subsidising the original less profitable sites.
- FY 2021 / 2022 :** This year will see completions and sales at large sites (including Clifton Hill and Vaughan Rd), with development activity in earnest on numerous sites across the city. Exeter City Living on-site presence will ramp up during this year, with potentially 200+ homes being on site during the year.
- FY 2022 / 2023 :** During this year, a significant number of homes on site during 2021 / 2022 will reach completion with total sales expected during the year of circa ██████ – portraying the magnitude & scale of development. We expect further projects will be progressed through the pipeline in the year preceding 2022/2023, so that a pipeline of projects is in place to continue delivering new homes in Exeter in 2023/2024 and beyond.

## 6.0 Risks

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

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

The risks that are set out below are not exhaustive but represent the main risks that have been identified by the Board 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 on the development programme.

### 6.1 Key Risks to the Delivery of the Business Plan

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

- a) Inability to meet Exeter's local planning policy aspirations to deliver 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 by open market sales and/or grant funding that can be generated or obtained to support the construction of affordable homes. If values are not sufficient (due to site location) or development costs are too high, then the level of cross-subsidy may not be sufficient to deliver the aspirational level of affordable housing. Exeter City Living will 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. There may also be the opportunity to work collaboratively with the HRA team to explore alternative ways of delivery on site in order to maximise the benefit to the Council. This is particularly pertinent for Vaughan Road and Arena Park.

**b) Market based construction costs increase above current contingencies allowed in viability modelling (particularly considering Covid 19 and BREXIT)**

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 forward and mean that expenditure in advance of starting construction may be at risk (ie Feasibility and Pre-Construction stages). This is addressed in viability analysis by including suitable contingencies and by constantly monitoring the construction market – looking at cost sensitivities and also considering alternative construction methods to avoid materials with high cost increases. We also monitor the contractor procurement market and are continually exploring alternative construction management methods. Additionally this risk can also be addressed through appropriate value engineering of projects where possible without reducing the sales value.

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

The business recognises that by operating a house building/development company, it is competing with the private sector for specialists who can lead the business and lead the individual development projects. Ongoing consideration is given as to how to attract and retain appropriately skilled staff, including secondment of staff from other organisations, 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 increased costs and programme delays.**

The business operates within the public sector procurement rules and is also liable to freedom of information requests. Amongst other factors, these requirements could increase the bureaucratic burden on the company and could increase operating costs whilst also creating the opportunity for programme delays in order to accord with procurement regulations. The team are knowledgeable in the requirements of public sector procurement and include such requirements within their programming & project timelines. Additionally, we have also employed the expertise of ECC legal department to advise on detailed procurement matters if / when required.

**e) Future financial and/or policy context differs significantly from forecasts in the Business Plan (particularly as a result of Covid 19 and/or BREXIT)**

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

**f) 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 ECL is unable to meet its planned programme as set out in the Business Plan. To address this risk, ECL is suitably resourced and staffed internally to manage the workload contained within the FY 2020 / 2021 Business Plan.

**g) Risk the Council is unable to meet the borrowing requirements of the ECL development programme**

ECL are able to borrow from elsewhere other than the Council, if required. Funding terms might differ to those that can be secured with the Council and, if interest rates are higher or covenants more challenging, would make developments more viably challenging.

**h) Project delays result in losing the support and trust of residents**

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

## **6.2 Key Risks to the Shareholder's Return**

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

**a) Inability to generate sufficient sales/income in a timely manner causes projects to become unviable after funding has been provided – potentially caused by reductions in sales values post Covid 19 and / or BREXIT**

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.

Additionally, as stated in earlier sections of this Business Plan, in these uncertain times of Covid 19 we are continually assessing the impact of the economy on the finances of our developments (whether they are Covid 19 related, BREXIT related, etc) these significant 'events' can have large impacts on land values, forecast capital returns, sales, etc. We constantly strive to be as agile and recession proof as we can, looking for opportunities to de-risk the land transfer, capital cost or sales process / values (an example being the ability to 'flip' market sale housing to Affordable if needed). It is this dexterity and collaboration with the Council & HRA that will allow sites to be progressed with a higher level of confidence than would otherwise be possible in these times of economic instability.

**b) Lack of discipline in construction management process 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 ECL recruits appropriately qualified staff & Consultants to ensure robust contract management of construction activities. Whilst Contract Management requires the consultants employed by ECL to perform their duties correctly, it does also involve ECL being a responsive client and a client which avoids changes to the contract / specification which lead to delays or additional costs.

**c) Net income assumptions within the Business Plan 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.

CONFIDENTIAL

## Appendix A

### Key Inputs and Assumptions

CONFIDENTIAL

## KEY INPUTS AND ASSUMPTIONS

### ECONOMIC ASSUMPTIONS

<b>RPI</b>	<b>2%</b>
<b>CPI</b>	<b>2%</b> from 2020
<b>Market sales inflation</b>	<b>0%</b> per annum
<b>Build cost inflation</b>	As per Cost plan
<b>Management and maintenance cost inflation</b>	<b>RPI</b>

### DEVELOPMENT ASSUMPTIONS

<b>Loan type (e.g. bullet repayment, amortising)</b>	Repayment
<b>Debt Term</b>	<b>25 years</b>
<b>Interest rate</b>	<b>5%</b>
<b>Grant</b>	<b>0%</b>
<b>Surplus target</b>	<b>1-20%</b> on costs
<b>Contingency</b>	<b>5%</b> (to be assumed within cost plans and any remaining upon project completion will be reinvested to deliver more genuinely affordable homes)

**Appendix B**

**Financial Statements**

CONFIDENTIAL