



Transformational Change in Exeter

Creating a New and Sustainable City



Foreword

We are the music-makers
And we are the dreamers of dreams

- Ode, Arthur O'Shaughnessy, 1874

The hardest part of having a dream is turning it into reality. It is one thing – indeed, the easy thing - to have grand ambitions not only to rid Exeter of its congestion but also its dependence on the national and therefore fragile energy system. It is quite another to have to make it happen. The ambition of Exeter City Futures and our City Council is astonishing. Nevertheless, unless there is a means to turn their dreams into reality, these will be no more than two paving stones of good intention on the road to hell.



A fund to finance renewable energy generation across Greater Exeter could be a blueprint for those that follow

It is a project in which I and Hawksmoor Investment Management are thrilled to have even a marginal involvement. This stage is about laying the foundations for one of the UK's great infrastructure projects of the coming decade. The challenges are immense: politically, legally, physically and financially. For the last of these, the timing could not have been chosen better. The investment world is changing in a way more meaningful and dynamic than I have witnessed in over 30 years. Moreover it is changing for the better. Very recently a dream such as this would have been alien to investors. Now the appetite for sustainable development has never been greater.

The world of international finance can appear distant, mysterious and mercenary. Belatedly it is realising that times are moving on. Baby Boomers, at the top of the demographic tree, risk being forever blamed by following generations for the legacy of the pollution of our small blue planet. A planet, I add, that is likely to be the only one on which any of us will ever live. The Boomers, maybe drawing inspiration from Sir David Attenborough, are starting to claw back the past 50 years of carbon emission and plastic pollution. The generations

following – Generation X, the Millennials and Generation Z – have a collective desire to leave a more sustainable planet for their children and grandchildren.

The investment world has little choice than to adapt to the changing demands of its current and future customers. And adapting it is. The traditional concept of 'ethical' investment – the exclusion of companies deemed to be sinful – has now spawned the much wider concepts of sustainability, responsibility and environmental awareness. These are becoming bedrocks of 21st Century capitalism.

Arguably, the easiest example of this is fossil fuels. The seminal event was the signing of COP 21 in Paris in late 2015, the agreement of the world to limit temperature rise to less than two degrees Celsius. To meet these targets many now believe the era of hydrocarbon power has been brought much closer. The burning of fossil fuels, for power or transport, is no longer seen as 'sustainable'.

Auto manufacturers, led by China, are scrambling to be the first to bring electric vehicles to the mass market. The UK has joined France in committing to a 2040 target, by which time all new cars and light vehicles will be powered by either electric or hybrid engines. An electric vehicle fleet also requires power from which to charge the batteries. The National Grid estimates that meeting the 2040 target will require an increase of a third in the capacity of the UK's transmission system. The additional power, of course, will be from renewables.



Congestion is one of the greatest challenges Exeter faces

This is the context in which Exeter now seeks funding. It may be counter-intuitive to associate the development of Exeter with the infamous scene of a dead whale calf on Blue Planet II, but the two are inextricably linked. The backlash against plastics (and other pollutants) is precisely the same force that will drive the funding of our city's future. International finance has realised that there is a better way.

A project that could have been dismissed as pie in the sky or the stuff of dreamers is now of its age. A fund to finance local and renewable energy generation across Greater Exeter, together with the sustainable (r)evolution of our transport system, has significance way beyond our corner of Devon. It will be the blueprint for those that follow: local sustainable initiatives, national expertise and international finance.



Jim Wood-Smith

Chief Investment Officer

Hawksmoor Investment Management

Exeter, April 2018

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Introduction

Hawksmoor Investment Management and Exeter City Futures jointly held an event in late 2017. Attendees represented the City Council and the public sector, planning, professional services, developer and infrastructure organisations in Exeter. The event canvassed ideas and solutions for transformational change in the city over the next two decades and discussed potential reforms to financing, planning and delivery methods that could be employed to achieve the shared, ambitious long term placemaking aspirations for our growing city.

While the purpose of the event was to share ideas and solutions to the various challenges faced by the city in the housing and infrastructure spaces, the event was very much a first step in bringing our local and regional investor and business communities together in developing the vision for the city.



Exeter City's leaders discuss transformational change solutions and potential reforms to financing, planning and delivery methods

Transformational challenges

In 2017 Exeter was named as the fastest growing city in the UK. Our economic region is prospering and the local development framework outlines ambitious plans for growth.

To stimulate and sustain economic development Exeter needs to be a vibrant place with a distinct identity and a heart. It needs to focus on attracting and retaining the most talented individuals by offering a fantastic quality of life in the very best kind of environment. This placemaking goal is essential to create the momentum and investment needed to grow sustainably, inclusively and equitably for citizens. To achieve this, we need to deliver transformational change in the city and build growth strategies focused on better financing, innovation, responsible planning and better use of data analytics.

Finance and delivery

Traditional methods for the financing and delivery of housing and urban growth, led by the private sector developer market agendas, are not always sympathetic to challenges of city plans and do not always deliver outcomes the city needs - where financial profit alone is the motivation. Profits made from development typically exit the city cash-flows rather than being available for reinvestment into optimising local infrastructure services. This leakage of value coupled with constraints on public sector capacity and the pace of financing for infrastructure delivery presents an acute challenge for Exeter's transformation plans.

Planning and delivery

Without a significant change in the way it manages growth and development, Exeter will be compromised in its attempts to deliver clean, inclusive growth. The level of housing numbers required to meet population and growth targets will unarguably lead to an urban sprawl which conflicts with road network constraints, neighbouring regions space aspirations, energy grid capacity and health and wellbeing.

These are the challenges that stand in the way of delivering on the placemaking aspirations of the city's leaders. Our speaker sessions seek to address some of these challenges and spark the debate on how best to realise the city's vision.

A photograph of a speaker, a man in a dark suit and glasses, standing and gesturing towards an audience. The audience consists of several men seated in a room with a large ornate mirror on the wall and arched windows in the background. The text "Speaker Bios" is overlaid in white on the image.

Speaker Bios



Karime Hassan

Chief Executive and Growth Director, Exeter City Council

Karime was appointed Chief Executive and Growth Director of Exeter City Council in 2013. He joined Exeter City Council as the Director of Economy and Development in February 2011, following eight years as Corporate Director at East Devon District Council. During his time at East Devon he set up the Exeter and East Devon Growth Point, managed the strategic development proposals for the growth area and established regeneration programmes for Exmouth and Seaton.

Topic

Vision of Transformational Change in the City



Glenn Woodcock

Director, Exeter City Futures

Glenn has 25 years of experience in senior management positions across Venture Capital, Software product development and banking. He has been responsible for growing Oxygen House's investment strategy and overseen the growth of the company for ten years. Glenn has led many investments and he holds a number of directorships at investee companies including, Low Carbon and Sparx.

Topic

Exeter City Futures Work on Transformational Change



Jason Eis

Executive Director, Vivid Economics

Jason Eis is the Executive Director of Vivid Economics, and an expert in national and city level economic planning, with a focus on energy, transport and land-use. He has devoted much of his work to the role of innovation, and the ways in which to promote vibrant innovation ecosystems. In addition, he has experience in developing project level business cases and financing strategies involving the blending of public and private finance.

Topic

Exclusive Insight into their Economic Report on the Region



Jonathan Kitchen

Partner, Michelmores

Jonathan is a Partner at law firm Michelmores. With over 12 years' experience, his legal work extends to dispute resolution for regional, national and international clients with a particular focus on financial services and investment matters. He is keen to bring sustainability to the fore in business, realising the vital role the professional community can play in making the Greater Exeter area a sustainable region for the benefit of all of its citizens.

Topic

Legal Challenges around Transformational Change



Jim Wood-Smith

CIO Private Clients,
Hawksmoor Investment Management

Jim began his investment career in 1986 with Barclays Trust Company, where he trained as a fund manager and an analyst. He subsequently worked in and managed the research departments of Gerrard Vivian Gray, Greig Middleton and Gerrard. His migration to the South West started in 2005 when he joined Christows (subsequently Williams de Broë), splitting his time between Exeter and the City.

Topic

How sustainability is changing
Corporate & Investor Behaviour



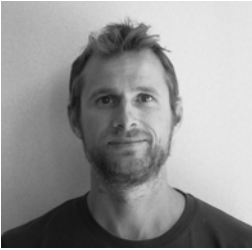
Mark Edworthy

Group Managing Director, Burrington Estates

Mark has been involved with property development, construction and financing for more than 20 years. A Bachelor of Engineering in Chemical Engineering from Loughborough University, he spent his first five years at Mobil Oil in down-stream fuels marketing and project engineering before taking a one year full time MBA at the Cranfield School of Management on one of two academic scholarships from the Ford Motor Company.

Topic

Development Funding Challenges



Roli Martin

**Head of Strategic Partnerships,
Exeter City Futures**

Roli is the Head of Strategic Partnerships at Exeter City Futures and commercial finance all-rounder. Roli is an ICAEW qualified chartered accountant and an expert in managing the relationship between public sector and commercial finance, having spent 15 years in professional practice. For 5 years he led a Deloitte infrastructure advisory team with a focus on Energy, Transport and local government accounting and finance.

Topic

**Sustainability Transformation: from Concepts to
Investible Business Models**



Sessions

Overview

Our event was fortunate enough to have seven speakers, passionate about their field of expertise and a view on how we can all help shape the future of Exeter as a sustainable and prosperous city. Speaker topics ranged from a view from the top of the City Council, to real estate, legal and economic factors, through to innovative financing structures. Full and comprehensive detail of those speaker sessions is available to download [here](#), with the summary key messages shown below in this section.

Agenda

Time	Speaker	Topic
9:00 - 9:15am	Karime Hassan CEO, Exeter City Council	Introduction, Vision of Transformational Change in the City
9:15 - 9:35am	Glenn Woodcock Director, Exeter City Futures	Exeter work on Transformational Change
9:35 - 9:55am	Jason Eis Executive Director, Vivid Economics	Exclusive Insight into their Economic Report on the Region
9:55 - 10:15am	Jonathan Kitchin Partner, Michelmores	Legal Challenges around Transformational Change
10:30 - 10:50am	Jim Wood-Smith CIO Private Clients Hawksmoor Investment Management	How sustainability is changing Corporate & Investor Behaviour
10:50 - 11:10am	Mark Edworthy Group Managing Director Burrington Estates	Development Funding Challenges
11:10 - 11:20am	Roli Martin Head of Strategic Partnerships Exeter City Futures	Sustainability Transformation: from Concepts to Investible Business Models
11:20 - 11:40am	Glenn Woodcock Director, Exeter City Futures	Final think-tank on how to fund/funding opportunities

Exeter City: The Next Stage Of Our Journey



Karime Hassan
Chief Executive and
Growth Director, Exeter
City Council

The next stage of our journey is a new phase of city development to balance what is happening on the periphery. That journey will take us from a county town to a knowledge based city that shapes the vision now and beyond 2018. The City already has some great programmes in place, on which we can build:

- Planning policy to meet Exeter's long term housing and employment need
- Exeter and East Devon Growth Point has a dense program of developments ranging from the University's Streatham Campus through to the Clyst Honiton bypass
- Greater Exeter Strategic Plan looks forward to 2040 and aims to:
 - Champion a joined-up vision and aspiration for the area
 - Meet the area's housing needs in the right places
 - Secure economic growth and increased prosperity
 - Provide transport and infra improvements needed to support sustainable growth
 - Conserve and enhance the area's environment

However, achieving the GESP aims is a tall order without tackling the challenges inherent in the programme and limitations of the city's planning, delivery and financing environments that currently operate without a holistic approach and shared objectives in the infrastructure community.

Exeter City Futures: Place-making as a shared goal



Glenn Woodcock
Director, Exeter City
Futures

The existing relationship between planning, developers, finance and place-making objectives is breaking. The way in which city developments are delivered continues to be the same as it has always been done. As a result, we cannot expect any different outcomes. Indeed, if Exeter is to truly transform and adopt an inclusive, sustainable, data-aware approach to infrastructure growth and housing density, the way in which the infrastructure programme is financed and delivered has to change. If not, the city will continue to experience the same challenges we all experience from day to day: congestion (the slowest peak time traffic speed in the UK), declining health and wellbeing, lack of access to renewable energy resources.

The professional services community and the council have unique opportunity to pool ideas and resources and reshape the city, with place-making as our collective goal. From a financing perspective, this may require a City Fund to be set up with a clear mandate and into which we can all contribute resources and expertise.

Sustainability in Exeter – Transformational Change: The economics of sustainable cities



Jason Eis
Executive Director,
Vivid Economics

The economics of sustainable cities relies on a number of factors, both independently and interdependent, for real success. While sustainability is at the heart of being a ‘great’ city-region, the sustainable transformation can be considered through the lens of mobility – urban form and connectedness:

- Urban form lies at the heart of a sustainable city, but solutions are not one-size fits all, and solutions need to be catered to the nature of the urban area and existing built environment.

For example:

- What are the target groups to live/work in new development areas?
 - Which housing typologies and scales of new development are envisioned?
 - What sort of programme is needed to attract which groups of people?
- Urban sprawl has enormous hidden costs to both the public and to private citizens. More broadly, good public transport correlates strongly with city competitiveness, productivity and quality of life. Differences across cities based on urban form and effectiveness of public transport are starkly apparent in economic terms, meaning that connectedness is also key to success. However, this is also a new story, with rapidly emerging technologies changing the way cities improve connectedness. For example through electric vehicle and other autonomous travel offering efficiencies. Innovation in 'green' technologies also offers greater spillover effects, such as creation of innovation in other sectors

For Exeter, these opportunities are already available today such as mobility as a service and a greater concentration of knowledge intensive business services. However, achieving better urban form and mobility is not automatic:

- Effective cities require coordination to implement long-term integrated urban development plans that can be both costly and complex
- Coordination of three distinct investment processes is particularly critical: (i) public investment in infrastructure; (ii) enterprise investment in productive capital; and (iii) household/private investment in housing
- Greater fiscal autonomy and local fiscal responsibility can be critical to ensure a foundation of sound public investment
- Fundamental tax reform, that reinforces sustainability is critical – land and development taxes, differentiated service costs, congestion charging, etc.
- Regulatory reforms are also important to provide the right incentives to private developers, including density standards, maximum parking requirement, etc.
- Effective financing models, including municipal (green) bonds, and partnerships



Jonathan Kitchin
Partner, Michelmores

Legal Challenges around Transformational Change

Cities, and Exeter in particular, are under transformation already. Locally, we are already seeing the results of that, with, for example, the advent of net Energy Positive Buildings and associated Property, Construction & Planning lawyers to meet new and emerging legal challenges.

Their legal perspectives encompass, broadly:

- Progressive planning policy
- Sustainable supply chains
- Retrofitting
- EPC
- Green Leases
- Economics & Commercials

In response to this the legal community see some next steps for local engagement:

- Partnership with Oxygen House
- Exeter City Futures Accelerator Programme
- City Cohorts
- Greater Exeter Commuter Hubs



Jim Wood-Smith
CIO Private Clients
Hawksmoor Investment
Management

All Change Please: Sustainability in Corporate and Investor Behaviour

Ethical investments throughout history have the following similar traits in their creation and process:

- Negative Screening
- Positive Impact
- Sustainability

Negative screening

Avoiding the sinners such as:

- Tobacco companies
- Oil
- Weapons etc

Positive impact

Companies that do good, such as:

- Alternative Energy
- Medical
- Water Treatment
- Pollution Control
- Safety Equipment
- Waste Management
- Social Housing

Sustainability

Equally, there are those who ARE good and seek to transform corporate behaviour, by, for example recognising that the long-term interests of all stakeholders in a business are mutual and by developing Environmental, Social and Governance best practice.

Yet anomalies in this criteria set do exist. For example, Unilever is consistently voted the world's most sustainable business, yet it tests its products on animals. This is because elsewhere it tackles the Palm Oil deforestation problem by:

- Stopping sourcing from suppliers who deforest
- Then engage and re-educate
- No deforestation
- No development on peat
- No exploitation of people or communities

Elsewhere, there are some worldwide key initiatives in place that champion sustainable corporate behaviour:

- Climate change and corporate behaviour
 - Task Force on Climate-related Financial Disclosures
 - UN Directives led by Mark Carney and Michael Bloomberg
 - Companies must report climate change risk
 - Paris Agreement is transforming corporate attitudes to carbon
- Electric Vehicles
 - UK and France to phase out ICEs by 2040
 - National Grid estimates UK needs a 30% increase in capacity, from renewables
 - Volvo to go 100% electric, Jaguar Land Rover is following
 - Mercedes investing \$1bn into US electric production
 - Johnson Matthey share price +20% on battery break-through

The end game, therefore, is:

- Sustainability is a 'core' risk for both companies and investors
- Sustainability has started to affect company funding
- Companies that ARE good and DO good will get a lower cost of capital



Mark Edworthy
Group Managing
Director
Burrington Estates

Development Funding Challenges - How do we attract capital and developers?

We are lucky to live and work in Exeter - If we get smart and get with the trends we can attract the new wave of capital and provide aspirational lifestyle. The city needs brave project shaping / packaging developers to lead the way with equity funding support. The following is a discussion, from a developer perspective, of some key factors that impact success and the pathway to achieving the place-making goals in Exeter.

Why is development funding so hard?

- Projects are two to five years
- Competitive environment
- Difficult and slow planning and regulatory environment
- Hugely complex
- Things go wrong very regularly
- Bids take long time and are expensive

Lack of risk Equity

- Lack of equity is key issue for start ups
- Equity void between friends and family and institutional equity
- Solution needed for middle market especially regionally
- The city needs risk-taking entrepreneurs

- Too many good people in well-paid-no-risk jobs
- To be a developer you need to be:
 - Brave
 - Determined
 - Visionary
 - Good and taking knocks and “no’s”
 - Slightly mad

To attract capital we need

- Economic and political consistency
- Smart infrastructure investment
- For me focus on internet connectivity
- Listen and understand the new trends e.g. retail is shrinking
- Get with the pace of change
- Be winners! Winners attract winners
- Provide aspirational environment
- Cater for the new world order

To attract developers we need

- Economic and political stability
- Good opportunities
- Supportive local authority and regulation
- “More localism”
- Help with sourcing finance
- Make the low risk alternatives less easy

We need to urbanise

- Huge national trend to be building residential accommodation in city centres
- Private rented schemes / villages are the future

Sustainability Transformation: from Concepts to Investible Business Models



Roli Martin
Head of Strategic
Partnerships
Exeter City Futures

The development model in the UK and in Exeter is under strain and, arguably, broken. With the city's new housing vs additional congestion deadlock, we need a new approach to developing city-wide infrastructure that tackles energy, transport, housing, procurement, financing and affordability with a clean, joined up approach.

Every council has a unique opportunity to make use of their assets and buying power. Exeter is no different.

It has:

- Property assets
- Energy estate
- Transport estate

This means huge purchasing power and, critically, a large overall asset base. But often departments operate in silos and don't make the best use of that overall position. This means a holistic approach is required. A holistic, council-led, pooled approach can:

- Prevent developers cherry picking developments that are purely profitable as opposed to projects that hold value for the city and its residents. Provide control over investment strategy and cash flows and hence converge the otherwise disparate levers of ownership and outcomes the city wants
- Provide control over the investment strategy and cash flows and thus deliver the outcomes that the city wants.
- Optimise use of the large public-sector asset base
- The city will not miss out on the synergies and aggregate benefits of delivering a large portfolio of development projects at scale.

The solution may lie in a public sector controlled, professionally operated fund:

- The City incorporates a new entity (LLP) whose purpose is to finance and manage the program of investments that bridge the infrastructure gap and deliver on the City's Vision.
- The entity is capitalised by the City's property asset base and obtains debt finance from a variety of sources, including an anchor financier in the shape of a long-term bond issued to a pension fund and/or Homes England.
- The bond uses the property asset base as security for the bond investor.
- The fund then provides a single source of finance and project management giving the city the platform and the power to make its own investment decisions that deliver on the outcomes for Exeter, that the citizens have been asking for.
- The City Fund uses any profits to finance and deliver projects that have higher social benefit that would not usually get the funding they need if left to the private sector or in traditional partnership models seen across the country in other councils.
- The City Fund has the benefit of being able to deliver projects and much needed infrastructure (e.g. bicycle lanes) far more rapidly than traditional delivery processes.
- The City Fund would be established in accordance with a set of principles agreed by the city that ensures that the financing mechanism meets the needs and values of the city and its residents.
- The projects that deliver on the vision and social impact in the short term achieve effective place-making for Exeter and hence create a more stable and investible city in the longer term.

The City Fund would allow the public sector to tap into the resource and expertise of the local professional investment and developer community, whilst controlling the finance through ownership and hence ensuring the delivery of both outcomes the city has asked for and genuine social impact.



Next Steps

Exploring sustainable financing options

As of March 2018 Exeter City Futures is proud to have been formally adopted as part of Exeter City Council's transformation plans for the city. In addition to this strengthened partnership we will be moving this agenda forward by inspiring Exeter City Council to think about our existing development model and explore sustainable funding mechanisms in the city that enable the development of projects/infrastructure with higher social benefit.

We will be discussing those sustainable financing options with Exeter City Council at a committee scrutiny meeting on June 28th. Delegates will be kept up-to-date with any further advancements.

