

16th June 2023

Dear Julie Masci

I am writing to raise my serious concerns about Exeter City Council's handling and relationship with Exeter City Futures CIC (ECF) and the Exeter Development/City Fund. I consider that this relationship and project has

1. failed to deliver on its stated outcomes,
2. provided poor value for money over the period since its inception to date,
3. has put the council in a potential high risk position which has not been properly recognised or managed and
4. displayed weak governance, accountability and transparency which again poses a significant risk to the council.

I raised a concern about Exeter City Futures with the auditors last year¹, but was told the sums involved were not material since they were less than £1m threshold and were considered an intra group transfer. I have since been told by the auditors at the audit and governance committee that matters of concern do not have to reach this materiality threshold. So I am raising my concerns again, in writing to you and copying in relevant parties.

It is important that the following are considered in the round:

- funds directly granted by the City Council to ECF,
- the funds awarded to ECF by third parties - including those awarded by the City Council (noting ECC also acted as accountable body)¹, Devon County Council and Government, and
- the value of support in kind that the City Council has given to ECF through the secondment of staff, most latterly the Chief Executive and Growth Director for two days a week and supported in this role by the Director for Transformation working up to three days per week, for a 12 month period from January 2022.²

I understand that ECF is to be wound up, so these matters are urgent, particularly because the high risk activity is set to continue and the Council continues to be responsible for funds that have been allocated to ECF work.

Failure to deliver on its stated outcomes and provided poor value for money over the period since its inception to date.

The most significant output from ECF was the production of the NET ZERO EXETER 2030 PLAN in 2020 which is high level aspiration rather than a delivery plan. However, much of its work prior and since is the development of the 'Exeter Development Fund'³ (also known as the Exeter City Fund), which has the aim of

¹ [\(Public Pack\)Agenda Document for Audit and Governance Committee. 28/09/2022 17:30 \(exeter.gov.uk\)](#)

² [statement-of-accounts-2021-2022-unaudited.pdf \(exeter.gov.uk\)](#)

³ [Exeter Development Fund - Exeter City Futures](#) direct link [Exeter-Development-Fund-EOI-2021.pdf \(exetercityfutures.com\)](#)

transferring the city's public assets into a fund, against which commercial investment can be raised for property development. It was considered that a number of the City's institutions would transfer assets to this fund (including Devon County and Exeter City Councils among other bodies).

Council Funding of ECF CIC - Accountability for grants and financial transactions: I am concerned that financial decisions have been made without sufficient accountability and are inconsistent.

The amounts paid by the City Council to ECF CIC do not seem to align with the sums agreed by the Executive and Council:

In 2016⁴ a sum of "£50,000 be allocated as a working budget to facilitate the start-up and promotion of the Exeter City Futures Programme." The decision record notes no further allocation of funds to ECF.

In 2019 Council approved the funding of the ECF Programme Director - City Transformation post for a further period of 2 years; and "approve the setting aside of the sum of £99,364 for each year from the business rate windfall to pay for the Program Director- City Transformation post for a further two year period commencing from April 2019." So a total of **£198,728** over 2 years. I understand this was spent on a director who was seconded to ECF, rather than paying ECF directly and doesn't feature in for example the 2020 ECF accounts⁵.

The Council's accounts show that between 2016-2021 the authority incurred expenditure of a total of **£354,632** for the 'promotion and delivery' of ECF - greater than the approved amounts above.

An analysis of the Council's published payments above £250⁶, accounts and those of ECF show a confusing picture not consistent with the Council's accounts (assuming all the expenditure listed in the accounts was transferred to ECF CIC directly). The total amount awarded to Exeter City Futures CIC or under an Exeter City Futures cost code published by the Council appears to be **£438,283.28** since March 2016 to date - well above the approved amounts and different from the accounts (notwithstanding later comments about grants).

While the Council and ECF operate different year ends (March vs December), which makes comparison difficult, the ECF accounts show a significant shortfall in these sums with no accruals noted (which is how an agreed grant might well be shown). Global City Futures and Oxygen House' accounts don't seem to mirror one another and ECF's in terms of the payments and related party loans that have been made with ECF.

Central Government grants for Exeter City Futures and the City Development Fund

In 2019 Exeter City Futures Community Interest Company (ECFCIC) bid for and was awarded a grant of £200,000 from Central Government for the Exeter City Fund. At the Strategic Scrutiny meeting it was reported⁷:

⁴ Decided at meeting: [09/02/2016 - Executive](#) Accompanying Documents: [Exeter City Futures - Community Interest Company Final 27012016 Scrutiny Committee - Resources.pdf](#)

⁵ [application-pdf](#)

⁶ [Council data - Council spending - Exeter City Council](#)

⁷ [Agenda item - Questions from Members of the Council Under Standing Order 20 - Exeter City Council](#)

“Devon County Council managed the overall One Public Estate Programme and awarded the Funds via ECC. ECFCIC provided quarterly grant claims (backed by invoices), ECC paid the ECFCIC the invoice and then reclaimed from DCC. It was important for Members to note that the Government tend to require that there is a Section 151 Officer to take responsibility for grant funding and therefore do not allocate the funds directly. The £200,000 was received from the One Public Estate and in order to prepare the master plan for the St David’s Station site which was one of the strategic sites in the Liveable Exeter vision. The governance structure had been set up and included Exeter University, Exeter College, Devon County Council, Network Rail, and Exeter City Council. It should be noted that Network Rail were obliged in respect of the franchise with Great Western Railway (GWR) to deliver a number of parking spaces currently allocated in the front of the Station, which offered a challenge to deliver viability on this project. Work on the masterplan paused until such issues were resolved, which has meant that funding of £147,000 remained outstanding.”

At the same meeting it was confirmed that in 2020 ECF bid for £840,000 from Central Government and £840,000 was awarded:

“The full £840,000 was awarded over two years. The accountable body was Exeter City Council and the Council received £380,000 on 1 March 2021 and £470,000 on 15 February 2022. The funds were being paid over to ECFCIC in arrears on the production of an invoice. This was the Exeter City Fund, which Scrutiny will be looking at shortly. This was a significant sum which would be used to model the cost of delivering the entire Liveable Exeter programme in order to get to the Net Zero agenda. The One Public Estate were with the Exeter Development Fund testing an initiative that might be nationally replicated, and although a final decision had yet to be made on the Fund being used in Exeter, there was the opportunity for modelling of the viability of this development to help achieve these big ambitions, and help the City Council access that funding.”

Of these grants, the ECC s151 Officer has confirmed funds remain unspent as follows.

	Grants Received	Amount remaining	Notes
One Public Estate	£200,000.00	£147,000	Held by DCC and reclaimed by ECC
DLUHC	£840,000.00	£805,000	over 2 years Trache 1 £380k.
	£1,040,000.	£952,000	

With regard to grant arrangements, the DLUHC grant was included in a supplementary budget and approved by Council on 20 July 2021⁸ and the remaining by Council on 19 July 2022. There has been no other formal grant acceptance by the Council of this large grant. The expectation is to carry this forward at Council on 18 July 2023. There has been no grant acceptance or budget approval sought for the One Public Estate Funds on behalf of ECC or as accountable body.

I understand the financial report for the expenditure has been made to DLUCH, via Avison Young, on behalf of DCC for the One Public Estate grant. DCC report that the amount allocated to ECF and claimed to Q4 20/21 is £195,502.93.⁹

⁸ [Report - Overview of General Fund Revenue Budget 2020-21 - Q4 FINAL.pdf \(exeter.gov.uk\)](#)

⁹ [Exeter Development Fund - Freedom of information \(devon.gov.uk\)](#)

No contract or grant award with ECF has been put in place by ECC for involvement in delivery of these grants prior to the work now stopping. ECC has recorded some expenditure in its published payments as “to further the promotion and delivery of ECF” which was mainly paid to Global City Futures. I do not know if there was a grant or contract with related third parties that seem to be involved in the ECF delivery: Global City Futures (a related third party that has received funds (£34,9152.74) from the Council on behalf of ECF), Bloom £63,198.19 (which it has been explained to me is paid a fee of 5% of contract values for consultancy recruitment) and others. It is not clear why the payments went directly to third parties rather than to ECF and then be accounted for through its accounts, which should be expected if it was leading on this project.

While there is nothing in the various accounts which gives any impression that anyone/entity has taken money out of any of these entities, there is however a lack of transparency about:

- a. What has happened to those unspent grant funds and what liability there maybe to either Council because of this unfinished work?
- b. The basis for the award of funds/contracts,
- c. the reasons for the discrepancies described above,
- d. relationship with related parties,
- e. if/how the funds were used for their intended purposes, and
- f. What the outputs of the work funded by the grants and otherwise.

Risk to Council

At a time of high financial uncertainty due to diminishing Council funding and a highly volatile financial situation caused by the COVID pandemic, the pursuit of the City Development Fund project has potentially placed the Council at significant risk in the last two years.

The secondment of key Directors produced no outcomes nor any substantive outputs of value and distracted from the Council focusing on the city recovery and work on its own financial sustainability (an identified risk). This lack of properly recognising, articulating and managing the risks displayed is in the Council’s own risk register, yet the ECF/City Development Fund project was pursued as a priority by the Council leadership.

Despite the project being running for some time and the Central Government grant in 2019, by July 2020 the Exeter Development Fund had not been identified as a risk itself on the Council’s risk register¹⁰.

In December 2021 “work to be undertaken with One Public Estate on the Exeter City Fund concept”¹¹ was included in the Council’s Risk register as a MITIGATION to the risk of “Failure to deliver the Liveable Exeter Programme”, rather than identifying this as a risk in itself. Indeed the minutes record that the project was not considered a significant risk in and of itself, let alone its impact on the main risk:

“Risk 8 - the Corporate Risk Register highlights significant risks to Members, in terms of either financial loss or reputational damage. The Government have awarded funding via Exeter City Council to Exeter City Futures to develop an Exeter City Fund proposal. This is currently not identified

¹⁰ [\(Public Pack\)Agenda Document for Audit and Governance Committee, 22/07/2020 17:30 \(exeter.gov.uk\)](#)

¹¹ [\(Public Pack\)Agenda Document for Audit and Governance Committee, 01/12/2021 17:30 \(exeter.gov.uk\)](#)

as a corporate risk and the City Fund proposal would be reported to Executive, with a business case made.”

However, the inclusion of the City Fund - as a mitigation - was to reduce the substantive risk to amber.

The November 2022 Audit and Governance Committee minutes report:

“Risk 6 – in relation to the Brownfield Release Fund, One Public Estate and the Department for Levelling Up, Housing and Communities (DLUHC) which will have time limits on their availability, but which may be negotiable. He explained the funding process, and stated it was important to mitigate any risk of how the funds used would be repaid. He would raise a point with the risk owner relating to the Exeter Development Fund, where an inability to offer funding for the infrastructure had not been identified as a risk” The March meeting risk register does not address this point.

At the March meeting, the risk register item for Liveable Exeter increased to red (16)¹² *“Exeter City Fund is still being looked at by scrutiny committee and members will need to take a view on whether the fund is the appropriate mechanism to fund the green construction ambition of the City Council. Presently there is little comfort that can be drawn from national government on funding for housebuilding and regeneration or the quality of development desired by the city council in pursuance of the net zero agenda. The City Fund was an attempt to find such a mechanism. If this approach is not acceptable to members, there is no obvious alternative that has been identified. Further consideration needs to be given to the resources available for the Council to continue to play a lead convening role for the City in relation to Net Zero 2030.”*

Again the nature, likelihood and potential impacts of the risks of pursuing the project have not been set out. Indeed this high and complex risk project is being consistently pursued as the only option. There has been no serious analysis of alternative options for either delivering Carbon Net Zero 2030 or developing the housing delivery plan (Liveable Exeter) through mechanisms such as a development corporation or disaggregating the regeneration sites and seeking ‘traditional’ funding streams (Government and developers). The carbon emissions for the project have not been considered or stated, even though the programme has been cited as central to achieving Exeter’s Net Zero 2030 Commitment. The City Development Fund has consistently been presented as viable and the only option for the growth of the city. Such an assertion, at a time when securing the financial security of the council and significant medium term cuts to the Council’s budgets, is reckless at best.

Governance

Council Scrutiny: The City Fund outline business case was presented in draft form to the combined Customer Focus and Strategic Scrutiny Committees. There was some attempt at scrutiny of this proposal in 2021 at four of these joint meetings¹³, however this was singularly unproductive especially as the committee was presented with an out of date high level business case.

A task and finish group has been set up since, but only met once in the previous Council year; it is intended this group conclude its consideration of the concept prior to the Executive considering the proposal. The

¹² [\(Public Pack\)Agenda Document for Audit and Governance Committee, 08/03/2023 17:30 \(exeter.gov.uk\)](#)

¹³ [Agenda item - Exeter Development Fund - Exeter City Council](#) (all scrutiny meetings here [Browse meetings - Combined Strategic Scrutiny and Customer Focus Scrutiny Committees - Exeter City Council](#))

work presented by ECF for the City Development Fund is in its draft form, poor quality, out of date and not credible for presentation for scrutiny, let alone being able to form any conclusions with regards to recommendations to Executive and Council for its further investment.

Regardless, Councillors have been told officers will continue to seek support from Homes England and Government for alternative ways of funding the programme. Councillors have also been told *“DLUHC Garden Communities capacity funding is being used effectively to help unlock sites, but this funding is not sufficient and is at risk of being scrapped.”*

This significant investment by the Councils and others seemed unable to move the project on from its often stated ‘conceptual stage’ to a meaningful and robust business plan, yet arrangements - facilitated by the Government funding - are in effect, attempting to implement it without any scrutiny or accountability.

Council Governance: Governance by the Council of ECF as a connected company has been weak, with no report back from its Board representatives or oversight of those Board Roles. Councillors were the Board representatives on ECF for various periods then the CEO was also chair before becoming ECF’s CEO, via secondment¹⁴.

The Council’s Chief Executive and Growth Director and a further Director were seconded to ECF for the whole of 2022 (at a cost to the council in the region of £113,000) however there has been no progression of this initiative, no published outputs, no assessment of progress, no updated Exeter Development Fund business plan. No stated performance indicators for these secondments were given by the Leader of the Council, despite my asking for these at a scrutiny meeting.

There has been no updated business plan or proposal presented to ECC for scrutiny or report to the Executive at the end of the period of secondment of the two officers, nor an update on expenditure or cost to the Council.

Protection of assets for community benefit.

Finally, as a Community Interest Company, ECF is bound to deliver community benefit and has a statutory asset lock (as reported in its annual report to the CIC regulator).

If ECF is to be wound up, the Council must ask the CIC, both as a member and a funder:

- a. what assets have been identified - such as project outputs and projects such as the Exeter Data Mill, Net Zero plan 2030, and
- b. what will happen to them?

In particular the Net Zero Plan 2030 is considered a material consideration in planning terms and the ownership of this by the City Council needs to be reinstated.

¹⁴ [9 June 2008 - 9 June 2023 - Exeter City Council](#)

Conclusion

It would seem that the Council's leadership was determined that ECF and the City Development Fund should be successful, despite the increasing risks and increasing expenditure of public money and failure to deliver any meaningful or credible outputs.

As well as looking at the issues to date described above, I believe that a review of the housing delivery project (known as Liveable Exeter), its delivery, governance and funding is urgent and that any further funds from any source should not be spent on, or used for the promotion of, the City Development Fund.

Yours sincerely

Cllr Diana Moore
Green Party
Co-Leader Progressive Group

To note: I discussed the draft of this letter with Exeter City Council's S151 officer to check my understanding and cover various points of accuracy.

CC: Exeter City Council

Bindu Arjoon Chief Executive Officer,
David Hodgson S151 Officer.
Ian Collinson; ECC Director.
Cllr P. Bialyk. Leader

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