

Appendix 3: Financial Analysis

Gemma Bell, Director of Finance and Assets

Part 1: Viability and Funding Envelope

1 Definitions

NOTE: the following definitions are not identical to the legal definitions in the Development Finance Agreement (DFA). They have been simplified in order to convey the core principle that has been established.

Balancing Payment: The allocation and payment of any unspent Developer Contingency on a 50:50 basis between CBC and the Developer. This will be paid at the completion of Construction.

Conditions: The activities and specified outputs that must be achieved in order for CBC to provide funding to the Developer. Each condition is assessed and must be agreed as satisfied by CBC and the Developer.

Construction Contracts: The contracts procured by the Developer for the construction of the Innovation Centre and the Mobility Hub.

Developer Contingency: The amount of money agreed between the parties as a contingency to effectively manage the Construction Contracts. This will be funded by CBC and controlled by the Developer. The level of Developer Contingency will be agreed through the Viability Test.

Client Variation Budget: The budget for sole use by the Council to make changes to the contract, if deemed necessary.

Developer Return: The fee CBC pay the Developer for undertaking their development obligations.

Internal Rate of Return (IRR): A measure of investment performance based on Net rental income. Note that this is an entirely different calculation to Net Internal Yield.

Net Initial Yield (NIY): A measure of investment performance based on Gross rental income. Note that this is an entirely different calculation to Internal Rate of Return.

For example: if £1m was invested into a development and the annual rent generated was £100k then the NIY would be 10%. However, if there were annual costs of £40k to manage the land or buildings then the net return would be £60k and IRR on the same investment would be 6%.

Financing Costs: The costs CBC will incur in financing the development. This includes any loan interest payments that are required.

Maximum Commitment: The total amount that CBC can be required to pay the Developer to complete their development obligations after the Development Funding Agreement becomes unconditional. This includes all Project Expenses and the Developer Return.

Project Expenses: All costs incurred by the Developer in undertaking their development obligations.

Viability Model: The agreed financial analysis and modelling tool used to establish if the development proposals meet the Viability Test

Viability Test: The specific outputs that are required by CBC to confirm the financial expectations when modelled immediately prior to starting construction are acceptable. The Viability Test is one of the Conditions.

Development Surplus: The surplus that CBC will make by undertaking development activity on its land. This is distinct from the investment return CBC will make by virtue of funding the development (as measured by IRR and NIY).

2 Overview of the Financial Viability Model in the Development Agreement

2.1 The Development Agreement approved by Full Council in April 2022 included a model to assess the financial viability of the Council's investment in the West Cheltenham development. Viability is assessed for each development plot, including the Innovation Centre and Mobility Hub.

2.2 The Viability Model is designed to show the development surplus for each plot. The accumulation of Development Surplus from each Plot that CBC develops provides CBC with the Minimum Return and Development Surplus that are defined in the Development Agreement.

2.3 In the case of the Innovation Centre and Mobility Hub, the long-term investment costs and returns are also included when assessing viability, reflecting the fact that the Council will be the funder of these buildings.

2.4 The financial models included in the Development Agreement also apply the following conditions to the modelling of viability for the Innovation Centre and Mobility Hub:

- The Innovation Centre and Mobility Hub are not expected to return a Development Surplus. This does not alter or jeopardise the Minimum Return that the Council will generate from the development of the rest of the site;
- The Developer's Return for the delivery of the Innovation Centre and Mobility Hub is set at 10%; and
- The model for the viability of the development of the Innovation Centre and Mobility Hub was set out in the format used in Section 2 of this appendix to determine the Maximum Commitment.

2.5. This appendix outlines further detail of the total funding envelope the Council would propose to invest in the development and how the viability of the investment will be assessed. This will form the basis of the Development Funding Agreement for the Innovation Centre and Mobility Hub. This appendix also outlines the options available to the Council to fund the investment.

3. The Council's total funding envelope for the Innovation Centre and Mobility Hub

3.1. The Council have been asked to approve a funding envelope of £95m for investment in the delivery of the Innovation Centre and Mobility Hub. This is made up of development costs, financing costs and a client contingency budget. At the point that the Development Funding Agreement becomes unconditional the development costs become fixed and any increase in costs subsequently become the developer's risk. The financing costs remain the Council's exposure and the use of the client variations budget also remains within the Council's control.

The table below includes a breakdown of the £95m.

| | Funding Envelope £ |
|---|-------------------------------|
| Construction Costs | £63,151,668 |
| Other Costs | £1,115,625 |
| Professional Fees | £6,883,532 |
| Developer's Return | £7,683,448 |
| Total Contingency | £8,699,142 |
| <i>Inflation & Design Development Contingency @ 11%</i> | <i>£6,946,683</i> |
| <i>Developer Contingency @ 2.5%</i> | <i>£1,752,459</i> |
| Site Wide Cost Contribution | £2,000,000 |
| Total Development Costs | £89,533,415 |
| Financing Costs (PWL 50 yr loan @ 4.25%) | £3,866,162 |
| Funding Contingency | £600,423 |
| Total Costs (not to exceed £94m) | £94,000,000 |
| Client Variations Budget | £1,000,000 |
| TOTAL FUNDING ENVELOPE | £95,000,000 |

3.2. In establishing an appropriate funding envelope for Council approval, a number of factors have been considered when estimating the total costs:

- Construction and Other Costs - Construction costs are currently based on Quantity Surveyor estimates of the designs. The designs are relatively well developed but do not yet have the certainty of a Planning Permission or the detail (RIBA stage 4) that would be required for a construction contractor to price the work. Fully 'market tested' figures will not be available until this stage is complete. The potential for the tendered construction cost to significantly deviate from the estimates and alter the viability of the project will remain relatively high until this is concluded. Construction contractors are known to vary their tender prices significantly depending on how keen they are to win a particular contract; timing of the procurement process will be important in defining the final figure.
- Professional Fees - Professional Fees are currently based on a percentage of Total Costs, as is usual for initial viability models. Current and forecast expenditure is within

this assumption.

- Developer's Return – at 10% of costs excluding the site wide contribution in line with the requirement of the Development Funding Agreement;
- Contingency – the current model includes many figures that are estimates and subject to change. In particular, as the design develops, more accurate pricing can be obtained. It is therefore important to allow a suitable design development contingency. An appropriate Developer Contingency needs to be established and, to some extent, this will depend on the terms HBDXF are able to negotiate when procuring the Construction contractor. The Developer Contingency has been set at an appropriate level to reflect the risk the Developer is taking in agreeing the Maximum Commitment at the point the agreement becomes unconditional.
- Site wide cost contribution – this is the contribution to site wide delivery costs such as planning and primary infrastructure.
- Financing costs - The sourcing and cost of providing the finance is exclusively CBC's responsibility and risk. The total cost includes the financing costs estimated to be incurred by the Council for the four year build period. This assumes that a PWLB maturity loan is taken out to fund the full £94m total development costs once development begins. In order to manage the current uncertainty around interest rates, a £600k contingency has also been included. This represents a possible increase of 15 bases points above the estimated 4.25%.
- Client Variations Budget - In addition to the total costs of £94m, a Client Variations Budget of £1m is also included in the model above. This is the contingency fund which will be controlled and managed by the Council through the construction process.
- No Balancing Payment has been considered in the modelling. Should any unspent Developer Contingency give rise to a Balancing Payment, this would be of direct benefit to the modelled position and be shared in line with the Development Funding Agreement.
- The above modelling has been reviewed by the CBC Project Team and agreed most recently in March 2023 as part of the GATE 1 review required under the Development Agreement.
- From the above inputs, it is clear that there remain a number of high level estimates within the Viability model that are likely to alter over the coming months as the project progresses. Cumulatively, these changes are able to make significant changes to the outputs of the model. However, at the time of undertaking the Viability Test, the majority of the key cost assumptions above will be fixed and pre-let agreements will be signed covering 75% of the available floor space. Thus, there will be a much higher level of certainty in the viability outputs when the final Viability Test is undertaken. The conditions of the Viability Test are outlined in the section below.

4 Assessing the Viability of investing in the Innovation Centre and Mobility Hub

4.1. Although Council are being asked to approve the £95m funding envelope for the

investment in the Innovation Centre and Mobility Hub, the Development Funding Agreement **will not** become unconditional until all eight conditions outlined in the main report are met. This appendix focuses on the assessment of the financial viability elements within the overall conditions. These financial conditions are referred to as the Viability Test.

4.2. The final modelling of the development costs must meet the following viability conditions to pass the Viability Test:

Condition 1: the total development cost must not exceed the value of the completed buildings. This test is to ensure we are not developing a building that is worth less than its costs.

Condition 2: the total cost, including financing costs, must not exceed the £94m presented for approval in this report. The contingency included in the total costs outlined in Section 3 of this appendix includes sufficient flexibility for costs which may increase between now and the date the Funding Development Agreement becomes unconditional.

Condition 3: that the Net Initial Yield (NIY) is greater than 5%. This is calculated by dividing the total development costs by the gross annual rental income. The purpose of this measure is to set a baseline return for the Council.

4.3. If any of these conditions are not met then the Viability Test will not pass and the Development Funding Agreement will not become unconditional.

4.4 The Council's preferred internal measure for investment return is Internal Rate of Return (IRR). The IRR for this investment cannot be accurately determined at this stage as it is dependent on a number of variables which have been analysed in Part 2 of this report. The Council's standard target IRR for investments is 5% and there are a number of opportunities available to the Council to meet this target over the life of this investment.

5 Funding Options for the Council's Investment in the Innovation Centre and Mobility Hub

5.1 The Council's primary obligation under the Development Funding Agreement is to provide money to the developer to deliver the Innovation Centre and Mobility Hub on the West Cheltenham site. This will be drawn down by the developer in monthly invoices that reflect incurred costs and the Developers Return. Once the Development Funding Agreement becomes unconditional, the costs the Council are liable for will be capped by the Maximum Commitment that will be established when completing the Viability Test.

5.2 The Viability Modelling outlined in Section 3 assumes that the Council will take out a 50 year maturity loan from the Public Works Loan Board (PWLB) based on the prevailing rate at the time. The £94m loan has been modelled to cover 100% of the Total Costs for the project. This is considered a fall-back position for the Council as it is the most expensive form of financing for the Council and would result in an Internal Rate of Return (IRR) of less than the Council internal benchmark of 5%.

5.3 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements, and to end the

situation in which a minority of local authorities used PWLB loans to support the acquisition of investment assets bought primarily for yield. It does however remain permissible to borrow for the purposes of regeneration and housing.

5.4 The Council's investment in the Innovation Centre and Mobility Hub represents a once in a generation opportunity to regenerate the west of Cheltenham. Both the construction phase on site and the completed building will provide employment opportunities, deliver growth in business rates for the Council to reinvest in local services and improve transport links from the town centre to the west Cheltenham area.

5.5 The modelling outlined in Part 2 of this appendix refers to the surplus the Council will generate from this investment over a 50 year period. In addition to the wider benefits and revenue growth the Council will generate from the Innovation Centre, any surplus generated from the investment will be reinvested into local services. This includes covering increases in demand for statutory services which may directly come from growth in west Cheltenham but also discretionary services which make Cheltenham such a unique place to live and work.

5.6 Based on the figures provided in August 2023 when a provisional update of the viability model was provided, the investment generated an IRR of 3.27% using a PWLB loan for 100% of the costs. Whilst this is below the 5% IRR benchmark, there are two key opportunities for the Council to better this position and ultimately provide an IRR of >5%.

- Firstly, the Council can consider its investment approach. By investing more money as equity in the project, the loan interest payments will be reduced, and the Council would stand to make a higher IRR. This would require the Council to divest of some existing investments to finance the development.
- Secondly, the Council has the opportunity to manage the way it borrows through its Treasury Management function. One fixed 50-year loan would provide a level of financial certainty, but it would not enable the Council to take advantage of falling interest rates or more efficient funding opportunities. A more flexible approach may be temporary borrowing at a variable interest rate may provide better long term returns.

5.7 This report does not seek approval for a preferred funding option at this stage. Part two of this report includes a range of sensitivity analysis undertaken on a number of variables which may be subject to change between now and the Development Funding Agreement becoming unconditional. Funding options will continue to be reviewed and monitored by the Section 151 Officer during this time to ensure that as well as satisfying Condition 3 of the Viability Test, the Council are also maximising their own IRR for the development.

6 Additional financial benefits for the Council

6.1. Aside from the financial returns that will be defined through the Viability Model, the Council stands to benefit in a number of indirect ways as a result of this development:

- The development process will generate fees that are payable for core council functions, including Planning and Development Management. In total, around £235k has been budgeted in the current viability model for these fees.

- Following completion of the building, occupiers will be required to pay Business Rates to the Council, of which a proportion will be retained by the Council under the existing business rates retention formulae.
- Finally, the completed Innovation and Mobility hub will become central features at Golden Valley and they will be important in attracting occupiers and home owners to the development. Ultimately, this increased interest will have a positive impact on the value of the Council's remaining land holdings.

Part 2: Sensitivity analysis and Investment opportunity

Sensitivity Analysis

The HBD Innovation Centre (IC) model is a forecast of how the centre will perform financially once operational. There has been a huge amount of research, experience and market testing that has gone into the numbers included in the analysis below, but it must be recognised that the inputs are still variable and may be subject to change between now and the Innovation Centre opening its doors.

The Council's preferred internal measure for investment return is Internal Rate of Return (IRR). The IRR for this investment cannot be accurately determined at this stage as it is dependent on a number of variables which have been analysed below. The Council's standard target IRR for investments is 5% and there are a number of opportunities available to the Council to meet this target over the life of this investment.

The purpose of the sensitivity analysis is to establish how changes to key variables will impact on the investment return for the Council and will continue to be monitored by the Section 151 Officer to determine the most efficient and lowest risk mechanism for financing the project.

For the purpose of this analysis, our key performance indicators (KPIs) are:

- 1) Total CBC Surplus which will be available to the Council for reinvestment by the Council in regeneration and growth (over 50 years) as outlined in Section 5 of this report
- 2) IRR (internal rate of return)
- 3) Total Finance cost (Loan + interest)

1 - Interest Rate Sensitivity

The Base model assumes that we borrow 100% of the total costs at a fixed rate of 4.25% over the 50-year life of the model.

The below table shows how our KPIs will be affected by positive or negative moves in this rate.

| Interest Rate Sensitivity | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | -0.5% | -2.5% | Base Model | +0.25% | +0.5% |
| Key Metric | 3.75% | 4.00% | 4.25% | 4.50% | 4.75% |
| Total CBC Profit | £156,750,628 | £149,303,550 | £139,505,878 | £127,641,498 | £113,879,407 |
| IRR | 3.65% | 3.47% | 3.27% | 3.02% | 2.74% |
| Total Finance Costs (Loan + Interest) | £195,088,131 | £206,622,188 | £220,467,897 | £236,181,429 | £253,690,405 |

As you can see from the above, the investment is very exposed to movements in the borrowing rate – when borrowing a large sum over an extended period of time, small movements can affect the surplus generated significantly.

To give one example, if our borrowing rate is fixed and increases by just 0.25% to 4.5%, this reduces profitability by £12m (8.6%) over the 50 year lifetime of the project.

Clearly, the opposite is also true. Small reductions in interest rate can have a marked improvement on the surplus generated for the Council.

A welcome downside surprise in inflation for August 2023, supported the view of the Monetary Policy Committee to keep base rates on hold at 5.25% at its meeting on 21 September 2023, nearing the expected peak in the bank rate. Dependant on future inflation figures, unemployment, wage increases and GDP statistics Arlingclose, the council’s treasury advisors believe rates will remain between 5.25% and 5.50% for the next 9-12 months, before dropping to as low as 3% by early 2026.

This analysis reinforces the case that if we can realise a capital sum to reduce the borrowing requirement to deliver the Innovation Centre and Mobility Hub, this would reduce the Council’s exposure at a time when borrowing costs are high.

Another option that may be available to us is to structure the finance flexibly, i.e., rather than take out a fixed loan over 50 years, use temporary borrowing initially and structure the finance in such a way that we can take advantage of the expected drop-in interest rates and fix our rate in the medium to long term.

Further analysis of this has been summarised at the end of this report.

2 - Letting Rate Sensitivity

The base HBD model assumes that we manage to achieve a gross rent of £35 per sq. ft. in the Innovation Centre. The below table shows how our KPIs are affected by positive or negative changes in the rate we manage to achieve from tenants.

| Lettings Rate Sensitivity | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | -£5 | -£2.50 | Base Model | +£2.50 | +£5 |
| Key Metric | £30 | £32.50 | 35 psf | 37.5 psf | £40 |
| Total CBC Profit | £90,379,758 | £115,698,193 | £139,505,878 | £160,071,011 | £178,264,817 |
| IRR | 2.34% | 2.84% | 3.27% | 3.62% | 3.92% |
| Total Finance Costs (Loan + Interest) | £245,101,245 | £232,284,914 | £220,467,897 | £211,345,188 | £204,230,867 |

As can be seen from the table above, if we negotiated £37.50 per sq. ft. with our tenants in the IC, this would generate £21m (15.0%) additional surplus over 50 years.

This would also reduce the cost of the financing required to deliver the project, as the operation would generate more surplus for reinvestment, meaning the capital would be repaid at a quicker rate.

The Pre-let Condition requires 75% of the space to have an agreed rental figure prior to starting construction. As such, any decrease in rental income will be protected by the Pre-let Condition and the Viability Test. Following satisfaction of all the conditions, the risk/opportunity will only relate to 25% of the remaining floorspace.

3 – Occupier Pipeline Sensitivity

The minimum pre-let requirement outlined in the conditions of the Development Funding Agreement is 75% from year one.

For the remaining 25% of the building the base model assumes a 25% occupancy rate in year 1, rising to 75% in year 2, before being 100% occupied in year 3.

The below table tests how our KPIs would be affected by improvement in our occupier pipeline.

| Occupier Pipeline Sensitivity | | | | |
|---------------------------------------|---------------------------------------|-------------------------------------|-------------------------|--------------|
| | Base Model | | | |
| Key Metric | 25% (Yr 1), 75% (Y2), 100% (Y3) | 75% (Yr 1), 90% (Yr 2), 100% (Yr 3) | 90% (Yr 1), 100% (Yr 2) | 100% (Yr 1) |
| Total Surplus to CBC | £139,505,878 | £142,219,576 | £145,115,593 | £146,247,289 |
| First 5 year surplus to CBC | -£1,631,822 | -£800,499 | £86,677 | £433,364 |
| IRR | 3.27% | 3.33% | 3.40% | 3.43% |
| Total Finance Costs (Loan + Interest) | £220,467,897 | £218,585,523 | £216,576,682 | £215,791,674 |

As you can see from the table above, using our KPIs alone, it is tempting to conclude that our sensitivity to a slower or quicker occupier lead in is low – but it is important to recognise that this is relative as we are dealing with a 50-year model.

4 – Void Cost Sensitivity

Void cost in the model is used to account for both periods where space may lay empty i.e. transition between occupiers and any period where rent-free/discounted rent may be offered to entice new occupiers into the centre.

The base model has been set at 5% across the 50 year length of the project.

The below table tests how our KPIs would be affected by variation in our achieved void rate.

| Void Cost Sensitivity | | | | | |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| | -2.5% | Base Model | +2.5% | +5% | +7.5% |
| Key Metric | 2.5% | 5% | 7.5% | 10% | 12.5% |
| Total CBC Profit | £148,862,991 | £139,505,878 | £129,729,346 | £119,526,296 | £109,279,139 |
| IRR | 3.42% | 3.27% | 3.09% | 2.91% | 2.71% |
| Total Finance Costs (Loan + Interest) | £215,960,198 | £220,467,897 | £225,266,529 | £230,361,018 | £235,486,102 |

As you can see from the table above if we were to under-perform on our void expectations or we find the IC to be a more difficult “sell” and the true void rate is 10% rather than 5% as modelled this would reduce the surplus generated by the Council by £20m (14.3%) over the 50-year period.

5 – Operational Cost Sensitivity

Operational costs are the day-to-day expenses that relate to the operations of the IC.

It is worth noting that the operational cost modelled below are **net** of any auxiliary income generated (event, F&B ad sponsorship).

The below analysis tests how our KPIs would be affected if we were to deviate from our operational cost estimate:

| Operational Cost Sensitivity | | | | | |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | -50% | -25% | Base Model | +25% | +50% |
| Key Metric | £176,875 | £212,249 | £265,312 | £331,640 | £397,968 |
| Total CBC Profit | £147,324,254 | £144,215,613 | £139,505,878 | £133,471,546 | £127,241,297 |
| IRR | 3.40% | 3.35% | 3.27% | 3.16% | 3.05% |
| Total Finance Costs (Loan + Interest) | £216,658,892 | £218,169,516 | £220,467,897 | £223,442,954 | £226,553,910 |

As you can see from the above, we are relatively unexposed to operational costs this is because they are relatively small compared to the income that the Innovation Centre will generate.

The majority of costs will be passed onto tenants in the form of a service charge, so the costs that the centre have to bear will be minimal and as a result even large swings in operational cost only cause relatively small changes in long term surplus generated by the Council.

The impact of our analysis on the Innovation Centre Investment

The analysis above demonstrates that lettings and occupancy of the Innovation Centre have the most significant impact on the overall surplus generated by the Council over the 50 year period. These factors are within our control and in setting the conditions around pre-lets, these uncertainties can be managed in the period up to the Development Funding Agreement becoming unconditional.

The most significant external factor impacting any surplus from the investment is prevailing interest rates on any borrowing the Council has to take to fund the construction.

The more we borrow to fund the Innovation Centre and Mobility Hub, the more interest costs we have to bear which reduces the surplus returned to the Council over the 50 year investment period. Careful thought and planning will be given on how the finance is structured to fund the project and enable the Council to manage the ongoing uncertainty around interest rates.

In addition, if the Council can reduce borrowing by realising other capital assets, this has a huge impact on the surplus generated from the project for investment in local services and wider regeneration.

The base HBD model is extremely profitable, generating £140m for the Council over the 50-year life of the model (an average of £2.8m per year) – however, it must be noted that:

- The IRR falls short of the Council's internal commercial strategy target of 5%; and
- The base rate used in the modelling is such that more is paid in interest costs than in principal repayments.

As a result, the best value for money from this investment would be created by investing the Council's capital as early as possible to increase the surplus returned for re-investment and reduce the amounts required to cover interest payments to the PWLB.

The below table presents the impact on the model of the differing levels of investment the Council could make to reduce the total borrowing the project would require. This capital investment would be generated through the sale of Council owned assets in line with the principals set out in the approved Asset Management Strategy.

| Key Metric | Equity Contribution from CBC | | | | | | | | |
|---------------------------------------|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | Base Model | £5m | £10m | £15m | £20m | £25m | £30m | £35m | £40m |
| Total Operational Gross Rent | £380,060,919 | £380,060,919 | £380,060,919 | £380,060,919 | £380,060,919 | £380,060,919 | £380,060,919 | £380,060,919 | £380,060,919 |
| Total Operational Surplus for CBC | £139,505,878 | £158,343,966 | £174,914,503 | £189,082,605 | £201,000,706 | £211,907,900 | £220,741,559 | £228,743,728 | £235,446,615 |
| IRR | 3.27% | 3.61% | 3.92% | 4.20% | 4.45% | 4.70% | 4.91% | 5.12% | 5.31% |
| Total Funding | £90,384,084 | £90,384,084 | £90,384,084 | £90,384,084 | £90,384,084 | £90,384,084 | £90,384,084 | £90,384,084 | £90,384,084 |
| Total Interest Paid | £130,083,813 | £111,245,726 | £94,675,189 | £80,507,086 | £68,588,985 | £57,681,792 | £48,848,132 | £40,845,963 | £34,143,076 |
| Total Finance Costs (Loan + Interest) | £220,467,897 | £201,629,809 | £185,059,272 | £170,891,170 | £158,973,069 | £148,065,875 | £139,232,216 | £131,230,047 | £124,527,160 |
| Loan Amount | £90,384,084 | £85,384,084 | £80,384,084 | £75,384,084 | £70,384,084 | £65,384,084 | £60,384,084 | £55,384,084 | £50,384,084 |
| Value | £87,233,414 | £87,233,414 | £87,233,414 | £87,233,414 | £87,233,414 | £87,233,414 | £87,233,414 | £87,233,414 | £87,233,414 |
| LTV | 104% | 98% | 92% | 86% | 81% | 75% | 69% | 63% | 58% |

The analysis shows that as the Council's investment is increased, the larger the surplus returned for reinvestment. In particular, with a capital investment of £30m the IRR for the project would meet the Council's internal benchmark.

When considering the optimum mechanism for funding the Innovation Centre and Mobility Hub, as part of the delegations in this report the Section 151 Officer will ensure that the key exposures to fluctuations in the variables modelled are sufficiently mitigated before the Development Funding Agreement becomes unconditional.