APPENDIX 1

EAST CAMBS TRADING COMPANY

STRATEGIC RISK ASSESSMENT UPDATE

RISK REFS

A4	Changes in Planning and Housing Policies
A5	Council cannot demonstrate five year land supply
B1/2	Governance – clarity of roles between Council and ECTC and adequacy of the Shareholder Agreement
C1	Loan arrangements to ECTC current and in the future
C2	Availability of loan finance to fund ECTC operations
C4	Economic downturn
C5	Sufficiency of cash flow
D4	Adequacy of resources to deal with change and upheaval

RISK REF	**MANAGEMENT OF RISK**	**ACTION (IF APPROPRIATE)**
A4	The Government has published revised National Planning Policy Framework (Jul 18). The revised definition of Affordable rented housing restricts delivery to registered providers. This will restrict CLTs ability to deliver Affordable rented housing unless they become, or work with, a Registered Provider.	Director Commercial is investigating options available to ECTC//ECDC.
A5	The Gladmans appeal judgement has exposed the Council's lack of a five year land supply. This provides a presumption for growth irrespective of local plan boundaries and settlement status (although still subject to sustainability test). This situation provides landowners the potential of an additional option outside the development envelope other than CLT's or rural exception sites. This could undermine the negotiating ability of local CLT's.	The local plan is going through examination. The Council should have a five year land supply in late 2018, early 2019.
B1/B2	Both the Shareholder Committee and the ECTC Board had reservations about the current operation of the Shareholder agreement. These are summarised in the report to Shareholder Committee (ref: 28 June 2018). The increased land opportunities, complexity of business, financing options and competitiveness of the property market requires ECTC to be 'fleet of foot' and responsive within a short timetable.	The Council have agreed a revised Shareholder Agreement, terms of reference of the Shareholder Committee on 12 July 2018 (ref: Agenda Item 9) including a new memorandum of understanding.
C1	ECTC is required to repay in full at March 2021 any loan outstanding from the £5m facility agreed by Council at the inception of the company.	The £2m assured receipt or a substantial part of this figure will be required to meet ECTC obligations to the Council.

	The ability of ECTC to repay any outstanding loan to ECDC is dependent on commercial activities of ECTC particularly with reference to property development. The repayment schedule is on track but is significantly dependent on £2m receipt from the Kennett development, most probably facilitated with the sale of the site to a special delivery vehicle wholly owned by ECTC or joint venture with third party funder. This is of course, dependent on the availability of finance and relates to risk commentary below. (ref: C2)	The award of loan funding from CA will enable the sale of the site to SDV and retain the development rights for ECTC and any JV partners (if applicable). The fast option would be to dispose of the freehold of the site.
C2	The current loan facility from ECDC is inadequate to fund other Palace Green obligations other than Barton Road, Ely and The Shade, Soham. The future development of ECTC is dependent on the availability of affordable loan capital above that provided by the shareholder. Its immediate funding requirements are in relation to West End, Haddenham (circa £6.5m) and Kennett (after planning circa £14m). In addition, ECTC has a CLT development programme to deliver 1850 homes over ten years including Kennett requiring £40m loan finance.	ECTC has secured £6.5m loan facility from the Combined Authority to part fund the Haddenham CLT development, subject to board approval. The heads of terms are based on a 2 year 1.6% per annum loan facility guaranteed against the assets of the project by ECTC.
	The options available to ECTC, these developments will have profound impact on the profitability of the company, especially in relation to interest rate, arrangements for guarantees, equity options and other loan terms.	In the event of CA loan finance not being available, ECTC will need to raise finance from the private sector (authorised by Council) but that would be available at less preferential interest rates.

C4	ECTC operates in a highly commercial market environment and economic downturn could result in lower than anticipated profits (or even losses) than those assumed in the Business Plan.	A full assessment of the market conditions is carried out prior to any development commencing. In the event that an economic downturn occurs once a development has commenced the Head of Property Development will appraise the Managing Director of the situation and propose a solution to mitigate any potential losses. The Managing Director shall inform the Council as soon as is practicably possible of any significant market changes that may impact on the repayment of the loan. Where relevant the Managing Director shall present to the Council an amendment to the Business Plan or, if necessary, present an Exit Strategy, for approval.
C5	The cash flow of ECTC is dependent on the loan facility from ECTC, commercial returns from non property based activities, receipts from property sales, project cash flow and access to other sources of loan funding. The company continues to monitor its cash flow to ensure it meets its creditor obligations to staff and contractors.	See previous comments.
D4	The realisation of ECTC ambitions to build 1850 homes (see C2) including Kennett will require a significant investment into ECTC particularly on the development side to put in place human resources to deliver the necessary outcomes.	The MD has approved a phased increase to the establishment specifically in the areas of strategic projects, land and development, finance and administration.