



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

East Cambs
Trading CO. Ltd

ECTC HALF YEAR UPDATE

1 April 2022 to 30 September 2022

1. INTRODUCTION

The purpose of this report is to provide the Finance & Assets Committee, acting as the Shareholder Committee, with an update in the following areas:

- Strategic Risk Management
- Progress against the Business Plan 2022/23
- Current Financial Position

2. STRATEGIC RISK MANAGEMENT

The approved ECTC Business Plan 2022/23 includes Risk Management. The Risk Management Plan has been amended to reflect the updated loan position and the Cost of Living. The Board of Directors continue to monitor risks on an ongoing basis.

The changes are as follows:

The narrative on Risk 6 has been changed to reflect the new loan facility that is now in place. As agreed between ECTC and ECDC the first call on the loan was to repay the two previous loans and move forward with a single loan facility of £7.5m.

Note-The Debenture Agreement was completed prior to loan drawdown and this is fully registered at Companies House. Further, in accordance with the loan agreement the Company Secretary provided the Council with a copy of the Board Resolution and the most up-to-date copy of the Articles of Association prior to loan drawdown.

There is an additional risk; Risk 10- Cost of living. ECTC are not currently experiencing an impact from the Cost of Living Crisis. However, this is being closely monitored. All properties are listed on the open market in Ely and there is a high level of interest for the properties.

It is important that future individual business cases include a sensitivity analysis which reflects market behaviour.

The amended Risk Management Plan is provided in the table below.

Inherent Risk							Residual Risk				Monitoring
Risk No.	Risk Description	Effect	Owner	Likelihood	Impact	Score	Key Controls	Likelihood	Impact	Score	Notes
Legislative/Policy											
1.	Changes in legislation could place restrictions on the Council's power to trade in a commercial manner	Possible restrictions or cessation	MD	1	5	5	<p>Continuous monitoring of changes to legislation and government guidance through liaison with MP's, ebuletins, consultations, LGA Knowledge Hub and other publications.</p> <p>If there are significant changes in legislation this risk should be addressed immediately by the MD and reported to the Board of Directors. An amended Business Plan or Exit Strategy may need to be approved by the Board of Directors and submitted to Council.</p>	1	5	5	This is a medium to long term risk and no significant changes in legislation are anticipated that will affect the company during 2022/23.
2.	Changes in legislation could impact on ECTC's ability to borrow (or conversely ECDC's power to lend) to fund future projects	ECTC would need to borrow externally which requires Council consent	FM	1	5	5	The Council's S151 Officer attends all Board meetings and advises on all relevant financial and governance matters	1	5	5	<p>This is a medium to long term risk and no significant changes in legislation are anticipated that will affect the company during 2022/23.</p> <p>The Company has secured a new loan from ECDC to fund the projects within this Business Plan.</p>

3.	Changes in Planning and Housing Policies could have an impact on Property division, for example, Starter Homes, First Homes, Self-Build could impact the profitability of a particular development.	Reduced ability to pay dividends to ECDC or reinvest profits into future projects	DP C	2	2	4	<p>The Levelling up and Regeneration Bill could introduce key changes which will impact on housebuilding.</p> <p>The Council may choose to commence a new Local Plan following changes through the Levelling up and Regeneration Bill.</p> <p>This will impact on projects that have not yet commenced through the planning stage.</p> <p>Changes are to be monitored and assumptions continuously reviewed to ensure that the projects remain profitable with risks incorporated into individual business cases.</p>	2	2	4	<p>There is no impact on the projects that have planning permission or going through the planning system in 2022/23.</p> <p>Individual business cases for future projects should consider possible changes in Planning and Housing Policy.</p>
Governance											
4.	Inadequate governance arrangements and lack of clarity on roles of ECDC and ECTC could lead to poor decision making that undermines the operation of ECTC.	Impact on the Commercial operation of ECTC	MD	3	4	1 2	<p>Shareholder Agreement</p> <p>Articles of Association</p> <p>Rights of Observers</p> <p>Service Level Agreements</p> <p>Management Contracts</p>	1	4	4	Governance arrangements are fit-for-purpose
5.	ECTC is wholly owned by ECDC and so is subject to the controls and decision-making process for matters that	The speed of decision-making process may have an impact on ECTC's ability to operate effectively.	MD	3	4	1 2	Shareholder Agreement	1	4	4	The Shareholder Agreement provides for the ability of extraordinary meetings of the Shareholder Committee to be called to consider urgent

	are outside of the Business Plan.										business and where necessary make recommendations to Full Council.
Economic											
6.	ECDC has provided loans to ECTC to be drawn down and repaid in accordance with the loan agreement. In the event of an economic slowdown, there may be a risk that the company cannot meet the repayment schedule.	<p>The existing loans will be repaid using the new £7.5m ECDC loan facility.</p> <p>The new £7.5m loan provides ECDC with security over all ECTC's unsecured assets.</p> <p>ECDC could call on it's rights to recover the loan.</p>	FM	2	5	1 0	<p>Loan Agreement</p> <p>Debenture Agreement</p> <p>ECTC/ECDC Finance Manager Briefings</p> <p>Board review of business and loan performance</p> <p>Sensitivity analysis for future housebuilding projects</p>	1	5	5	<p>The new £7.5m loan facility is now in place.</p> <p>The first call on the loan was to repay the previous facility, therefore ECTC only has one loan with the Council.</p> <p>When requesting the loan sensitivity analysis was carried out for future projects.</p> <p>Individual, detailed business cases will be produced for future projects which will review assumptions made when requesting the loan.</p>
7.	CPCA has provided loans to ECTC for MOD Phase 1 and Haddenham. In the event of an economic slowdown, there may be a risk that the company cannot meet the	CPCA could call in it's rights to recover the loan.	FM	1	5	5	<p>Loan Agreement</p> <p>Legal Charge</p> <p>Board review of business and loan performance</p>	1	5	5	The market remains strong for the foreseeable future and with the advanced stages that both projects are at, ECTC remain confident in their ability to repay the loans by March 2023.

	repayment schedule.										
8.	<p>With the exception of new loans from CPCA, ECTC cannot increase its indebtedness without the consent of the Shareholder Committee (loans can be provided by ECDC and this requires the consent of Council).</p> <p>If ECDC's MTFS is not successfully implemented the availability of loan finance to ECTC could be reduced. This may lead to ECTC needing to borrow from the 'market'.</p>	<p>ECTC would need to work with the 'market' to secure financing.</p> <p>If borrowing could not be secured from the 'market' then ECTC would need to factor this in future business planning.</p>	FM/DP C	2	5	10	<p>ECTC/ECDC Finance Manager meetings</p> <p>Discussions with Council in advance of need to ensure there is time to consider alternative options</p>	2	5	10	<p>ECTC has secured loan financing for the projects in this Business Plan.</p> <p>If opportunities arise in the future financing discussions with the Council will be held as soon as practicable.</p>
9.	Changes in taxation, interest rates and build cost inflation.	These factors could have an impact on the viability and profitability of ECTC.	FM/DP C	3	3	9	<p>FM monitors taxation and interest rate.</p> <p>Build cost inflation is a key short to medium term risk to the company; to minimise the impact, wherever possible, build contracts will be let on a fixed price basis with costs defined.</p>	2	3	6	The FM and DPC monitor changes and factor these changes into individual detailed business cases.

10.	Cost of living	The cost of living crisis could impact on the sale ability and/or profitability of a scheme, for example, increased mortgage rates	FM/ DP C	4	4	1 6	Future development schemes will include this risk in the Full Business Case Phase with appropriate sensitivity analysis carried out which will include testing a longer sales period and the impact this may have on cashflow and the ability for ECTC to repay its loan.	4	2	8	All houses at Haddenham have either been sold or are reserved and going through the legal process. There are 12 remaining properties at MOD Phase 1 to be sold. Currently the demand is outweighing the supply in Ely. This is being actively monitored by the Management Team.
11.	Economic downturn could result in lower profits (or even possible losses) than are anticipated in the Business Plan	Depending on the severity of the situation it may impact on ECTC's ability to meet its financial obligations to its creditors	FM/ DP C	3	5	1 5	FM and DPC carry out a full assessment of the market conditions before any development commences. Once projects have commenced, ECTC is at risk from market fluctuations. In the event of a market downturn the DPC will appraise the MD and the Board and make recommendations to mitigate any potential losses.	3	5	1 5	The market remains strong for the foreseeable future. DPC and FM will consider this risk when producing the detailed individual business cases for future projects and this will include monitoring this risk if the plans are approved by the Board. Monitor closely and link with the specific cost of living risk.
Operational											
12.	Inadequate management of commercial build contracts can lead to delays, overspends and	This could impact on ECTC's ability to meet its financial obligations to its creditors	FM/ DP C	2	4	8	Qualified project manager Regular review of business case assumptions	1	4	4	The DPC and FM, in the business planning cycle, are aware of these risks and meet fortnightly with the project team to monitor the assumptions

	reduced profitability/cash flow for ECTC.										made in the individual business cases.
13.	Adequacy of organisational resources to deliver the required business outcomes.	Could lead to not being able to deliver the Business Plan	DP C	1	3	3	Resources identified when recommending the Business Plan for Board and F & A approval. In year changes discussed with the MD	1	3	3	Adequacy of resources is continuously reviewed. There is continued investment in facilities, staff and training to ensure that ECTC has the resources that it needs to deliver the necessary outcomes.

FM- ECTC Finance Manager

MD- ECTC Managing Director

DPC- Director Property & Commercial

PROGRESS AGAINST THE BUSINESS PLAN 2022/23

3.1 Commercial Services

The Commercial Services of ECTC currently deliver Ely Markets on behalf of ECDC and Grounds Maintenance Services; both on behalf of ECDC and for other customers.

The approved business plan stated that the primary focus for Commercial Services for 2022/23 is to continue to develop Ely Markets, focusing on the community as its customer, and Grounds Maintenance Service focusing on new areas of income generation; ensuring that both continue to deliver high quality services that respond to the needs of their customers and seek to maximise opportunities that arise throughout the year.

3.1.1 Ely Markets

The following table provides a summary of the approved budget and the current **forecast** position (as at 30 September 2022) for 2022/23.

Markets	Approved Budget (£)	Current Forecast (£)
Salaries	139,052	171,667
Premises	21,541	24,149
Transport	2,183	2,178
Supplies & Services	67,910	69,593
Turnover	236,659	275,399
Gross Profit	5,974	7,813

The increased salary costs reflect both the increased resources that generate additional turnover and the impact from the cost of living increase.

3.1.2 Grounds Maintenance

The following table provides a summary of the approved budget and the current position (as at 30 September 2022) for 2022/23.

Grounds Maintenance	Approved Budget (£)	Current Forecast (£)
Salaries	739,592	778,500
Premises	56,657	53,837
Transport	104,321	119,546
Supplies & Services	91,906	83,047
Turnover	1,002,021	995,622
Gross Profit	9,546	(39,307)

The increase in salaries reflects the cost of living increase.

3.2 Property

Business during the first half of the financial year has progressed largely as projected in the 2022-23 Business Plan.

Cumulative build and sales at 30 September 2022

West End Gardens, Haddenham	Units				
	Build Complete	Market Sold / Under Offer	Affordable	Market Rent	Available
Business Plan forecast (31/03/2023)	54	35	19	0	0
Mid -year actuals	41	24	17	0	0
Full-year projection at 30/09/22	54	35	19	0	0

MOD Ely (Refurb)	Units				
	Build Complete	Market Sold / Under Offer	Affordable	Market Rent	Available
Business Plan forecast (31/03/2023)	92	77	15	0	0
Mid -year actuals	92	64	15	1	12
Full-year projection at 30/09/22	92	76	15	1	0

Former Paradise Pools Site

The amended application, which incorporated minor amendments to increase space standards, has been approved by the Local Planning Authority.

A final review of build costs, sales values and sensitivity testing is being undertaken. A Full Business Case will be presented to Board in December 2022 for consideration.

MOD Phase 2

Planning permission has now been granted, subject to the completion of a Section 106 Agreement. Work has now commenced to meet the commitment to increase the level of affordable housing on the development.

3. FINANCIAL

The table below details the actual results for 2021/22 and latest forecasts for 2022/23.

	2021/22	2022/23
Turnover		
Commercial	1,263,454	1,271,018
Property	15,516,268	31,524,622
Total	16,677,976	32,795,640
Cost		
Corporate	257,324	250,598
Commercial	1,084,466	1,302,514
Property	14,011,814	29,153,215
Total	15,353,604	30,706,327
EBITDA	1,324,372	2,089,314
Interest cost	538,729	1,608,764
Profit before tax	785,643	480,550