

TITLE: ECTC BUSINESS PLAN 2023/24- HALF YEAR UPDATE

Committee: Finance & Assets Committee

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1.0 ISSUE

1.1. To receive a half year progress update on the East Cambs Trading Company (ECTC) Business Plan 2023/24 covering the period 1 April 2023 to 30 September 2023.

2.0 RECOMMENDATION(S)

2.1. Members are requested to note the Half Year Report at Appendix 1.

3.0 BACKGROUND/OPTIONS

3.1. In accordance with the Shareholder Agreement ECTC is required to produce a half year update for noting by the Finance & Assets Committee, acting as the Shareholder Committee. The update includes the Strategic Risk Assessment, progress against the Business Plan 2023/24 and the current financial projections.

3.2. The Half Year Update report is provided at Appendix 1.

4.0 ARGUMENTS/CONCLUSION(S)

4.1. Members are requested to note the ECTC Half Year report.

5.0 FINANCIAL IMPLICATIONS / EQUALITY IMPACT STATEMENT / CARBON IMPACT ASSESSMENT

5.1. There are no financial implications arising from this report.

5.2. EIA not required.

5.3. CIA not required.

6.0 APPENDICES

Appendix 1- Half Year Report.

Background Documents:

Shareholder Agreement
ECTC Business Plan 2023/24



EAST CAMBRIDGESHIRE
DISTRICT COUNCIL

East Cambs
Trading CO. Ltd

ECTC HALF YEAR UPDATE

APPENDIX

1 April 2023 to 30 September 2023

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 2023/24
- Current Financial Position

2. STRATEGIC RISK MANAGEMENT

The approved ECTC Business Plan 2023/24 includes Risk Management. Risks are assessed and reported to every Board meeting. Since March 2023 there has been 1 change to the Risk Register.

Change

The risk relating to the CPCA loan for MOD Phase 1 has been removed (previously risk 7) as the loan was repaid on time on 31 March 2023.

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, ebulletins, 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 2023/24.
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 2023/24.</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	Reduced ability to pay dividends to ECDC or reinvest profits into future projects	DP C	2	2	4	The Levelling up and Regeneration Bill could introduce key changes which will impact on housebuilding.	2	2	4	There is no impact on the projects that have planning permission or going through the

	impact on Property division, for example, Starter Homes, First Homes, Self-Build could impact the profitability of a particular development.						<p>The Council may choose to commence a new Local Plan following changes through the Levelling up and Regeneration Bill.</p> <p>This may 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>				<p>planning system in 2023/24.</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 currently fit-for-purpose
5.	ECTC is wholly owned by ECDC and so is subject to the controls and decision-making process for matters that are outside of the Business Plan.	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 business and where necessary make recommendations to Full Council.

Economic											
6.	ECDC has provided a £7.5m loan 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.	The £7.5m loan provides ECDC with security over all ECTC's unsecured assets. ECDC could call on it's rights to recover the loan.	FM	2	5	1 0	Loan Agreement Debenture Agreement ECTC/ECDC Finance Manager Briefings Board review of business and loan performance Sensitivity analysis for future housebuilding projects	1	5	5	When requesting the loan sensitivity analysis was carried out for future projects. Individual, detailed business cases will be produced for future projects which will review assumptions made when requesting the loan. Former Paradise Pool has now received Full Business Case approval with appropriate sales/cost assumptions, including factoring for a slow build/sales programme.
7.	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).	ECTC would need to work with the 'market' to secure financing. If borrowing could not be secured from the 'market' then ECTC would need to factor this in future business planning.	FM/ DP C	2	5	1 0	ECTC/ECDC Finance Manager meetings Discussions with Council in advance of need to ensure there is time to consider alternative options	2	5	1 0	ECTC has secured loan financing for the projects in this Business Plan. If opportunities arise in the future financing discussions with the Council will be held as soon as practicable.

	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'.										
8.	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	FM monitors taxation and interest rate. 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.	2	3	6	The FM and DPC monitor changes and factor these changes into individual detailed business cases.
9.	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	Continuous review of the homes remaining for sale in the portfolio is ongoing. Regular reports are produced 'Project Status Update' for Board to be kept up to date.
10.	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	3	5	1 5	The impact of change in market behavior is being actively managed. DPC and FM will consider this risk when producing the detailed individual business cases for future projects and this will include

							and make recommendations to mitigate any potential losses.				<p>monitoring this risk if the plans are approved by the Board.</p> <p>Monitor closely and link with the specific cost of living risk.</p> <p>Former Paradise Pool has now received Full Business Case approval with appropriate sales/cost assumptions, including factoring for a slow build/sales programme.</p>
Operational											
11.	Inadequate management of commercial build contracts can lead to delays, overspends and reduced profitability/cash flow for ECTC.	This could impact on ECTC's ability to meet its financial obligations to its creditors	FM/DP C	2	4	8	<p>Qualified project manager</p> <p>Regular review of business case assumptions</p>	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 made in the individual business cases.
12.	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	<p>Resources identified when recommending the Business Plan for Board and F & A approval.</p> <p>In year changes discussed with the MD</p>	1	3	3	<p>Adequacy of resources is continuously reviewed.</p> <p>There is continued investment in facilities, staff and training to ensure that ECTC has the resources that it needs to deliver the necessary outcomes.</p>

FM- ECTC Finance Manager

MD- ECTC Managing Director

DPC- Director Property & Commercial

PROGRESS AGAINST THE BUSINESS PLAN 2023/24

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 2023/24 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 2023) for 2023/24.

Markets	Approved Budget (£)	Current Forecast (£)
Turnover	284,892	290,927
Salaries	190,261	188,255
Premises	22,903	19,645
Transport	2,082	1,471
Supplies & Services	54,400	81,119
Gross Profit	15,247	437

An increased use of consultants over budget is the main cause of the variance on supplies and services. Ely Markets activities have greatly increased over the years and as such it was prudent and appropriate to employ an independent consultant to provide health & safety advice and reassurance to ensure that procedures are in place to manage health & safety with particular attention on the requirements arising from Martins Law.

3.1.2 Grounds Maintenance

The following table provides a summary of the approved budget and the current position (as at 30 September 2023) for 2023/24.

Grounds Maintenance	Approved Budget (£)	Current Forecast (£)
Turnover	1,092,993	1,143,211
Salaries	798,279	811,359
Premises	56,899	69,632
Transport	151,844	161,507
Supplies & Services	72,303	81,913
Gross Profit	13,668	18,800

The increase in salaries reflects increased costs due to additional work carried out. Premises costs have increased due to increased material usage and higher insurance costs. Transport costs are higher due to increased fuel usage.

3.2 Property

Business during the first half of the financial year has progressed largely as projected in the 2023-24 Business Plan.

Cumulative build and sales as at 30 September 2023

West End Gardens, Haddenham	Units				
	Build Complete	Market Sold / Under Offer	Affordable	Market Rent	Available
Business Plan forecast (31/03/2024)	54	35	19	0	0
Mid -year actuals	54	35	19	0	0
Full-year projection at 30/09/23	54	35	19	0	0

MOD Ely (Refurb)	Units				
	Build Complete	Market Sold / Under Offer	Affordable	Market Rent	Available
Business Plan forecast (31/03/2024)	92	77	15	0	0
Mid -year actuals	92	76	15*	1	0
Full-year projection at 30/09/23	92	76	15	1	0

*2 properties exchanged and awaiting completion with East Cambs CLT

Eden Square



Works have commenced at Eden Square. The current estimated completion of building works will be August 2024, with sales scheduled in the 12 months following that. (Due to the nature of the site, it will not be possible to have sales completions until building work has completed).

3. FINANCIAL

The table below details the actual results for 2022/23 and latest forecasts for 2023/24.

	2022/23	2023/24
Turnover		
Commercial	1,317,360	1,434,138
Property	27,054,487	4,244,570
Total	28,371,847	5,678,708
Cost		
Corporate	277,336	256,265
Commercial	1,340,074	1,414,902
Property	25,366,877	4,353,139
Total	26,984,286	6,024,306
EBITDA	1,387,561	(345,599)
Interest cost	1,164,178	423.203
Profit before tax	223,383	(768,802)

Financial Benefits to ECDC

EAST CAMBS TRADING
COMPANY LTD:

STATEMENT OF FINANCIAL BENEFITS FOR EAST CAMBS DISTRICT COUNCIL

	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	CUMULATIVE TO DATE	2023/24 Forecast	2024/25 Forecast	2025/26 Forecast	TOTAL
SUMMARY												
FINANCIAL BENEFITS FROM PROPERTY DEVELOPMENT			943,224	109,745	444,171	16,559	16,559	1,530,259	470,655	366,369	26,585	2,393,868
CHARGES INCURRED FROM ECDC	101,299	249,888	383,834	389,627	435,959	365,777	411,939	2,338,322	493,488	484,598	570,668	3,887,077
REDUCTIONS IN PARKS CONTRACTS					100,000	100,000	100,000	300,000				300,000
TOTAL FINANCIAL BENEFIT FROM TRADING COMPANY	101,299	249,888	1,327,058	499,372	980,130	482,336	528,498	4,168,581	964,143	850,967	597,253	6,580,943

