



EAST CAMBRIDGESHIRE  
DISTRICT COUNCIL

**East Cambs**  
**Trading CO. Ltd**

## ECTC BUSINESS PLAN

2019/20

## 1. INTRODUCTION

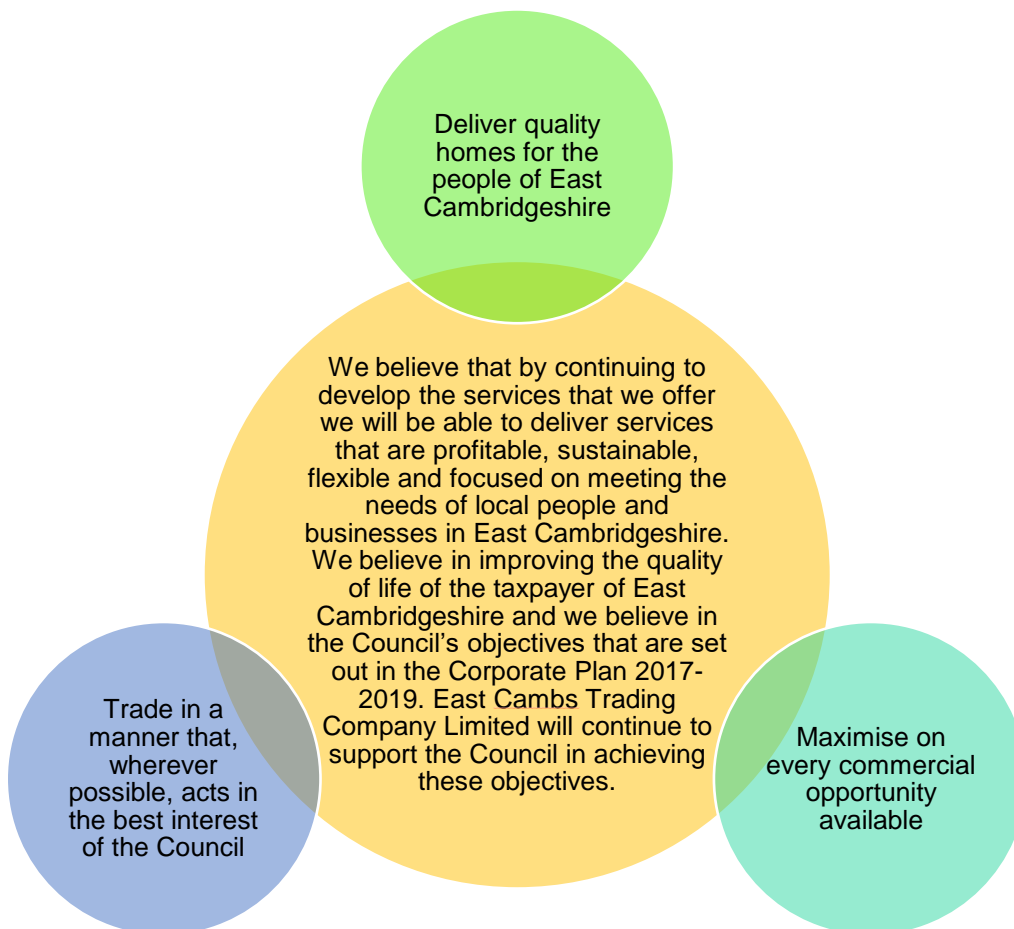
This Business Plan is designed to provide an overview and detail of the:

- ❖ Governance structure
- ❖ Financial overview
- ❖ Risk Management
- ❖ Board and Management Structure
- ❖ Commercial Services
- ❖ Property and Community Housing

East Cambs Trading Company (ECTC) is a private company limited by shares that is wholly owned by East Cambridgeshire District Council (ECDC). ECTC operates at 'arm's length' from ECDC with an independent board for operational decision making.

Working with ECDC the following drivers were established:

- ❖ Balance the Budget
- ❖ Improve Services
- ❖ Build New Homes
- ❖ Maximise Devolution Opportunities
- ❖ Promote Open for Business and 'Can Do' Attitude



## **2. BACKGROUND**

ECTC was established as a 'tool' to enable ECDC to do more than it already does. Whilst ECTC is a legal entity in its own right, and should be free to operate commercially to generate the maximum returns, it is important to remember that it is a company that is wholly owned by ECDC.

As the sole shareholder ECDC has an interest to ensure, wherever practicably possible, that ECTC is profitable. Profit for ECTC will ultimately benefit the Council as sole shareholder as the only body capable of receiving a dividend. Profit will either be reinvested in ECTC to achieve greater profits or will be paid to ECDC, as a dividend, to enable it to achieve the aims of the MTFs and the Corporate Priorities.

### **2.1 Key Business**

ECTC has two key business areas; the first is Commercial Services, which currently delivers Ely Markets and Grounds Maintenance and, the second is Property and Community Housing.

Both areas of the business carry out business on behalf of ECDC as well as other customers.

ECTC will continually look for new opportunities to enter new markets or expand in existing markets. Where necessary individual business plans will be developed for approval by the board.

## **3. PROCESS**

### **3.1 Service Level Agreements**

ECDC will continue to provide support services to ECTC through Service Level Agreements (SLA). ECTC will negotiate individual SLAs with each ECDC support service to reflect the needs of ECTC. Each SLA will include measurable performance indicators, break clauses and remedies for non-performance. There will be an annual review process whereby SLAs are refined to more accurately reflect the support required by ECTC.

Support services from ECDC for 2019/20 include:

- ❖ HR Support, including recruitment and training,
- ❖ Payroll,
- ❖ Customer Services- Phone answering service and taking telephone payments,
- ❖ Insurance provision (buildings, vehicles, employers and public liability),
- ❖ Legal Support- as and when required, and
- ❖ IT

### **3.2 Property and Assets**

The Head Office of ECTC is The Grange, Nutholt Lane, Ely, Cambridgeshire, CB7 4EE. Wherever possible, ECTC seeks to operate from premises within the ECDC Estate.

Ely Markets currently occupy The Grange, Ely.

Grounds Maintenance currently occupy The Grange, Ely and The Depot, Portley Hill, Littleport.

Property and Community Housing occupy 5 Fordham House Court, Newmarket Road, Fordham. The Fordham property is occupied under a 6 year lease that has an option to break after 3 years. The lease is assignable and sub-letting is allowed. A formal review of the office requirements of Property and Community Housing will be carried out prior to December 2020.

### **3.3 Policies and Procedures**

ECTC continue to use all relevant ECDC policies and procedures.

### **3.4 Data Protection**

ECTC comply with the relevant legislation and guidance concerning Data Protection.

### **3.5 Freedom of Information**

ECTC is subject to requests for the disclosure of information under the Freedom of Information Act 2000 in its own right. As such, ECTC maintain a record management system that complies with the relevant guidance concerning the maintenance and management of records. ECTC will liaise with ECDC as appropriate to ensure consistency in answering FOI requests and provide such information to ECDC as it may require to answer questions it has received.

## **4. GOVERNANCE AND MANAGEMENT**

This Business Plan will be delivered in full compliance with the governance arrangements set out by ECDC. ECTC will seek to maintain and enhance ECDCs reputation and brand for high standards.

ECTC continues to maintain an effective service and will deliver financial performance management reporting systems to the Board and ECDC Shareholder Committee.

The financial reporting information is currently being improved to suit the requirement of both the Board of Directors and the Shareholder Committee.

This Business Plan provides for sufficient support and leadership from Executive and Non-Executive Directors, a Managing Director and an Independent Chairman.

## **4.1 Structure**

### **Board of Directors**

The Board of Directors comprises:

The Independent Chairman

2 ECDC Elected Members; Leader of Council and Chairman of Operational Service Committee

2 ECDC Senior Officers; the Chief Executive and the Director, Commercial

The quorum for board meetings shall be three and one of the three must be either the Leader of Council or the Chairman of Operational Services Committee.

At board meetings each director shall have one vote.

Board meetings shall be held at least quarterly on such dates as they may agree (where there is failure to reach an agreement a decision will be made by the Chairman).

An agenda for the meeting will be prepared and distributed not less than 5 business days prior to the meeting.

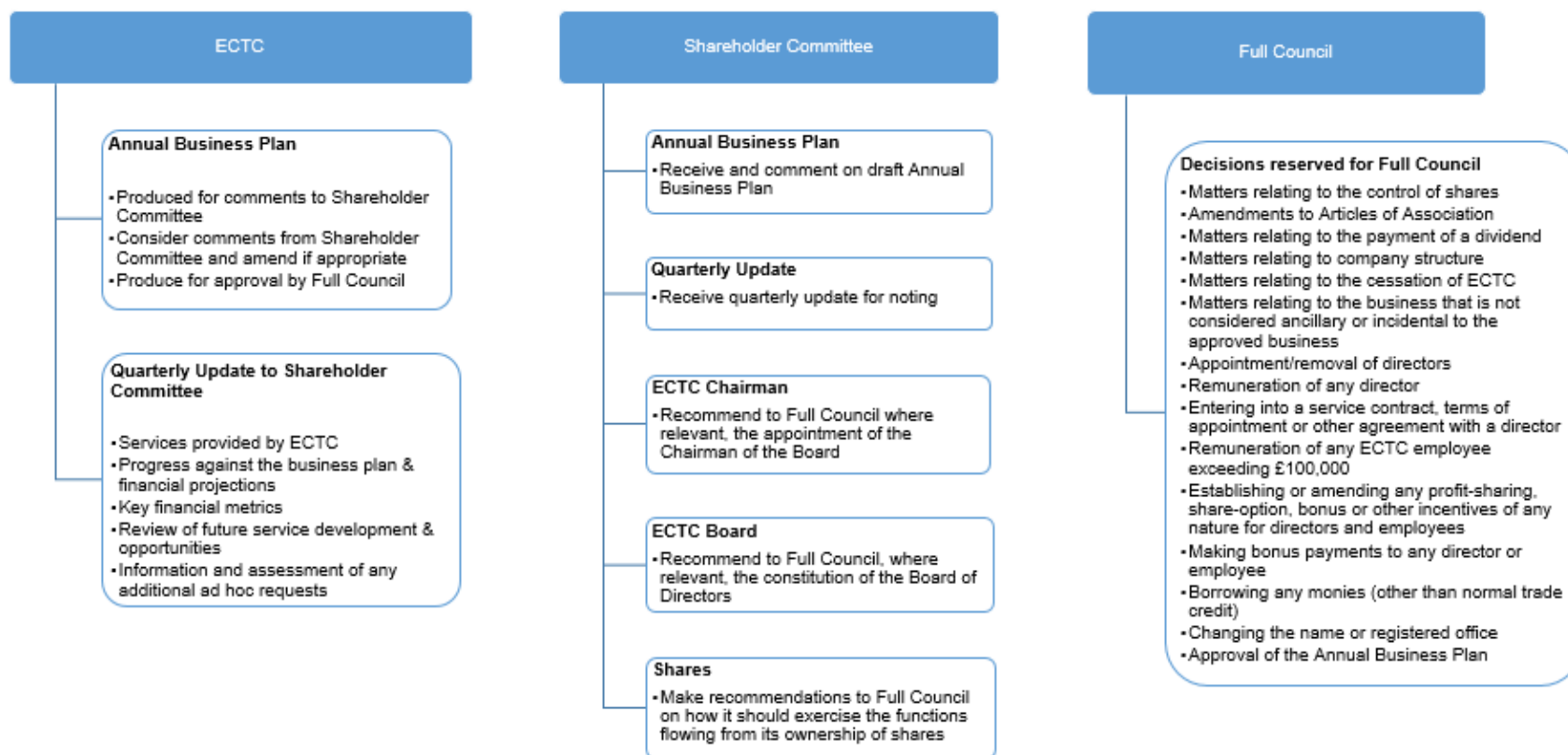
Except where the information is commercially sensitive, minutes of Board meetings will be provided to the Shareholder Committee for noting.

### **Managing Director and Company Secretary**

The Managing Director of ECTC is the Chief Executive of ECDC. The Managing Director acts as the key conduit between ECTC and ECDC and has overall responsibility for ensuring compliance with the Shareholder Agreement.

The Company Secretary of ECTC is ECDC's Director Commercial.

## 4.2 ECTC's relationship with ECDC



On 21 February 2019 ECDC approved a new committee structure. From May 2019 the Shareholder Committee became a function of the Finance & Assets Committee. The Shareholder Agreement has been amended and agreed to reflect these changes.

## 5. FINANCIAL INFORMATION

### 5.1 Budget

The table below provides a summary of turnover and cost up to 2020/21.

	2018/19	2019/20	2020/21
	2018/19	2019/20	2020/21
<b>Turnover</b>			
Commercial	1,076,395	1,118,119	1,146,383
Property	5,547,779	10,421,327	19,491,065
<b>Total</b>	<b>6,624,174</b>	<b>11,539,446</b>	<b>20,637,448</b>
<b>Cost</b>			
Corporate	200,059	160,090	172,560
Commercial	882,324	925,856	980,182
Property	4,878,286	9,863,094	19,113,766
<b>Total</b>	<b>5,960,669</b>	<b>10,949,040</b>	<b>20,266,507</b>
<b>EBITDA</b>	<b>663,505</b>	<b>590,406</b>	<b>370,941</b>
Interest cost	(417)	341,791	592,758
Profit before tax	663,922	248,615	(221,817)
Tax	-	-	-
Profit after tax	663,922	248,615	(221,817)

The balance sheet and cashflow statement are provided as EXEMPT Appendix 1.

### 5.2 Financial benefit to ECDC

The table below shows the receipts that ECDC has received from ECTC as a result of its activities:

	2016/17 Actual	2017/18 Actual	2018/19 Actual (Dec 2018) + forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast	Total
<b>Company profit</b>	(405,810)	(305,803)	663,922	228,657	(257,718)	825,249	748,496
<b>Financial Benefits From Property Development</b>	-	-	943,224	234,769	444,269	566,559	2,188,822
<b>Charges Incurred From ECDC</b>	93,800	233,188	388,334	316,082	305,618	176,769	1,513,791
<b>Total Financial Benefit From Company</b>	<b>(312,010)</b>	<b>(72,615)</b>	<b>1,995,481</b>	<b>779,508</b>	<b>492,170</b>	<b>1,568,577</b>	<b>4,451,109</b>

Full details provided at Appendix 2.

## 6. RISK MANAGEMENT

LEGISLATIVE/POLICY				
Identified Risk	Management of Risk	Risk Score		Risk Owner
<p><b>Changes in legislation which could place restrictions on the Council's powers to trade in a commercial manner.</b></p> <p><b>Changes in legislation could impact on ECTC's ability to borrow (or conversely ECDC's power to lend) to fund future projects</b></p>	<p>This is outside the control of ECTC.</p> <p>Continuous monitoring of changes to legislation and government guidance through liaison with MP's, ebuletins, consultations, LGA KnowledgeHub and other publications.</p> <p>Any significant changes in legislation which realise this risk should be addressed immediately by the Managing Director to the Board of Directors.</p> <p>An amended Business Plan or Exit Strategy will need to be approved by the Board of Directors and submitted to the Council.</p> <p>The Council's S151 Officer attends all Board Meetings and advises on all relevant financial and governance matters.</p> <hr/> <p><b>Monitoring</b></p> <p>There have been no significant changes in legislation. This risk is continually reviewed through publications and regular liaison with Grant Thornton.</p>	<p>Likelihood</p> <p>Impact</p> <p>Risk</p>	<p>1</p> <p>5</p> <p>5</p>	Managing Director
<p><b>The June 2016 Referendum result for the United Kingdom to leave the European Union could have a financial and/or operational impact on ECTC.</b></p> <p><b>The extent of the impact is unknown, this will be kept under continuous review.</b></p>	<p>The Board of Directors shall continuously monitor the perceptions and actual impacts on market conditions and inform the Council of any changes/decisions that need to be made.</p> <p>Advice will be sought from the relevant professional body when appropriate.</p> <hr/> <p><b>Monitoring</b></p>	<p>Likelihood</p> <p>Impact</p> <p>Risk</p>	<p>3</p> <p>4</p> <p>12</p>	<p>Board of Directors</p> <p>Section 151 Officer &amp; Director Commercial (ECDC)</p>



	<p>At present there are still many unknown implications that could arise from BREXIT.</p> <p>The key risks identified so far relate to inflationary pressures on construction products and material prices, potential for skills shortages within the construction industry, and constraints on market for new homes due to political and economic uncertainty</p> <p>ECTC seek to manage these risks through its tendering process and ensures that as much flexibility as possible is retained when entering into land agreements.</p> <p>The Head of Development has addressed the key risks in the individual project business plans.</p>			
<b>Local Government Reform</b>	<p>The Cambridgeshire and Peterborough Combined Authority Mayor has announced a review for local government reform. Details and scope of the review are not defined at present, such a review is capable of having both a positive and a negative impact on ECTC, depending on the outcomes of the review.</p> <p>It is unlikely that there will be negative impact for ECTC in 2019/20 as the review is likely to take a significant amount of time to conclude.</p> <p>The Director Commercial shall monitor the proposals as they progress.</p> <p>The Director Commercial shall inform the Board as soon as is practicably possible of any opportunities and threats that arise.</p>	<p>Likelihood Impact Risk</p>	<p>2 2 4</p>	<p>Director Commercial</p>
<b>Changes in Planning and Housing Policies could have an impact of the Property Division, for example, changes to Affordable Housing, Starter Homes, and Self-build could</b>	<p>The Government has published revised National Planning Policy Framework (July 2018). 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.</p>	<p>Likelihood Impact Risk</p>	<p>3 3 9</p>	<p>Director Commercial</p> <p>Head of Property Development</p>

<p><b>impact the profitability of a particular development.</b></p>	<p><b>Monitoring</b></p> <p>The ECDC Director Commercial has sought consent from Council to progress to Stage 1 of the application process to become a registered provider. At the time of writing the application has been submitted to the Regulator for consent but a decision from the regulator has not been made.</p> <p>There will be no impact on the Haddenham Development or the MOD, Ely Phase 1 development as the Section 106 Agreement for the former was completed prior to the changes and there is no Section 106 Agreement for the latter.</p> <p>The Head of Property shall continue to monitor progress.</p>			
<p><b>The Council cannot demonstrate a five year land supply.</b></p> <p><b>This has a potential to undermine the ability to deliver CLT development in East Cambridgeshire.</b></p>	<p>In February 2019 ECDC took the decision to withdraw the emerging local plan and has reverted to the 2015 adopted local plan. The Council cannot demonstrate a five year land supply from now until April 2020 (once the adopted plan is five years old).</p> <p>This situation provides landowners the potential of an additional option for development outside the development envelope other than CLT's or rural exception sites. This could undermine the negotiating ability of local CLT's.</p> <hr/> <p><b>Monitoring</b></p> <p>ECTC has not experienced a negative impact from the Council's lack of five year land supply. The Head of Development shall continue to monitor the situation closely in 2019/20.</p>	<p>Likelihood Impact Risk</p>	<p>5 4 20</p>	<p>Director, Commercial Services</p> <p>Head of Property Development</p>

<b>GOVERNANCE</b>				
<b>Inadequate governance arrangements and lack of clarity on roles of the Council and ECTC could lead to poor decision making which could undermine the operation of ECTC</b>	<p>In 2017/18, both the Shareholder Committee and ECTC Board had reservations about the operation of the Shareholder Agreement. This resulted to changes in the Shareholder Agreement which were approved and implemented in May 2019.</p> <p>The Council and ECTC will continue to monitor the practicalities of the Shareholder Agreement to ensure that it is fit-for-purpose. Any necessary changes will be brought to the attention of the Council.</p> <p>Any changes to the Shareholder Agreement will need to be approved by the Council. The Managing Director will provide a report to the Council detailing any proposed changes and why these changes would be necessary.</p>	Likelihood Impact Risk	3 4 12	Managing Director
<p><b>As ECTC is wholly owned by ECDC, ECTC is subjected to the controls and decision making process for matters that lay outside of the Business Plan.</b></p> <p><b>The speed of the decision making process may have an impact on ECTC's ability to operate effectively.</b></p>	<p>The Shareholder Agreement sets out the decision making abilities of the ECTC and ECDC. The Shareholder Agreement provides for the ability of extraordinary meetings of the Shareholder Committee to be called to consider urgent business and make recommendations to Full Council.</p> <p>In accordance with the Council's Constitution a Full Council meeting can be convened to deal with any urgent business.</p>	Likelihood Impact Risk	3 4 12	Managing Director
<b>ECONOMIC</b>				
<b>ECDC has provided a loan to ECTC of £5,000,000, to be drawn down in accordance with the loan agreement.</b>	<p>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.</p> <p>The ability of ECTC to repay any outstanding loan to ECDC is dependent on commercial activities of ECTC particularly with reference to property development.</p>	Likelihood Impact Risk	4 4 16	Finance Manager

<p><b>If the Council's MTFS is not successfully implemented this will reduce the availability of loan finance to ECTC, thus undermining the cash flow and profitability.</b></p>	<p>The repayment schedule is on track but is dependent on £2m receipt from the Kennett development, most probably facilitated with the transfer 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.</p> <hr/> <p><b>Monitoring</b></p> <p>The £2m assured receipt or a substantial part of this figure will be required to meet ECTC obligations to the Council.</p> <p>An award of funding from the Combined Authority should enable the transfer of the site to a special delivery vehicle and retain the development rights for ECTC and any JV partners (if applicable).</p> <p>The Head of Development is exploring alternative commercial opportunities to ensure that ECTC can meet its obligations to repay the loan and will report progress to the board in due course.</p> <p>The Head of Development will complete a full risk assessment before ECTC commit further finance (beyond that already agreed to achieve outline planning permission) for the Kennett development.</p> <p>The Section 151 Officer will ensure the Council can make the advances to ECTC in accordance with the loan agreement, in the event that advances cannot be made the Section 151 Officer shall notify the Managing Director as soon as is practicably possible.</p>			<p>S151 Officer</p>
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<p><b>With the exception of new loans from the Combined Authority, ECTC cannot increase its indebtedness without the consent of the Council; it is likely that loans will be provided by the Council (subject to Full Council approval of the Business Case for the loan).</b></p> <p><b>If the Council's MTFS is not successfully implemented this will reduce availability of loan finance to ECTC. This means ECTC would need to borrow from the 'market' and as such will undermine ECTC's profitability and cash flow as the ECTC would not be able to benefit from the same terms and conditions of a loan agreement if it went to the market for such a loan.</b></p>	<p>This matter concerns the future of ECTC, however, effective business planning requires continuous consideration of financing in order to realise its success.</p> <p>In considering an application for a loan from the Council ECTC shall engage with the Section 151 Officer as early as practicably possible to enable the Council time to assess its financial position and make a decision as to whether such a loan could be provided.</p> <p>The Council shall make a decision on whether to provide ECTC with a loan as early as practicably possible; if it is not possible this will enable ECTC to consider alternative options for financing.</p> <p>All parties shall have regard to the Council's decision making processes.</p> <p>ECTC shall, wherever possible, adhere to the deadline requirements of the Council's Committee and Council meetings.</p> <hr/> <p><b>Monitoring</b></p> <p>ECTC has not experienced any issues with accessing the £5,000,000 loan facility that has been agreed with the Council.</p> <p>ECTC and the Council's S151 Officer continue to keep this matter under review, firstly to ensure that the Council can continue to make this facility available and secondly to ensure ECTC continue to be in a position to make the repayments.</p> <hr/> <p>The current loan facility from ECDC is inadequate to fund all of the development activities that ECTC plans to undertake in this business plan</p>	<p>Likelihood Impact Risk</p>	<p>3 4 12</p>	<p>Section 151 Officer</p> <p>Managing Director</p> <p>Head of Property Development</p> <p>Director, Commercial (ECTC)</p>
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	<p>The future growth of ECTC is dependent on the availability of affordable development finance over and above that provided by the shareholder.</p> <p>Its immediate funding requirements are in relation to West End, Haddenham (circa £6.5m), Kennett (after planning circa £14m) and MOD Ely (circa £25m).</p> <hr/> <p>ECTC has secured project loans from the Combined Authority (Haddenham £6.5m and MOD Ely (£23.5m) and from ECDC (£1.5m MOD Ely).</p>			
<p><b>Changes in taxation, interest rates and build cost inflation could have an impact on the viability and profitability ECTC.</b></p>	<p>At present changes in taxation is not a known risk, however, ECTC should have regard to the impact of any such changes.</p> <p>Building cost inflation is a key risk; to minimise the impact of this contracts will be let on a fixed price basis with costs defined.</p> <p>The Finance Team, and where relevant the Head of Property Development will monitor changes and factor any changes in the business planning process.</p>	<p>Likelihood Impact Risk</p>	<p>1 3 3</p>	<p>Section 151 Officer/Finance Manager</p> <p>Head of Property Development</p> <p>Director, Commercial Services (ECTC)</p>
<p><b>Economic downturn could result in less than anticipated (or even losses) assumed in the Business Plan</b></p>	<p>A full assessment of the market conditions will be 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.</p> <p>The Managing Director shall inform the Council as soon as is practicably possible of any significant changes that may impact on the repayment of any of the company's loans.</p>	<p>Likelihood Impact Risk</p>	<p>3 4 12</p>	<p>Head of Property Development</p> <p>Managing Director</p>

	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.			
<p><b>In order to prosper in a commercial environment, cash flow for the ECTC will be essential.</b></p> <p><b>Insufficient cash flow will result in ECTC being constrained in realising the objectives of the Business Plan.</b></p>	<p>The cash flow of ECTC is dependent on the loan facilities from ECDC/Combined Authority, commercial returns from non-property based activities, receipts from property sales and project cash flow.</p> <hr/> <p><b>Monitoring</b></p> <p>ECTC continues to monitor its cash flow to ensure it meets its creditor obligations to staff and contractors.</p> <p>Should opportunities arise that are outside of the scope of the Business Plan ECTC shall liaise with the Council and prepare a revised Business Plan, at the earliest opportunity, which will include identifying loan funding (to be approved by Council) that would enable commercial opportunities to be realised.</p>	Likelihood Impact Risk	3 4 12	<p>Managing Director</p> <p>Head of Development</p> <p>Director Commercial</p> <p>Finance Manager</p>
<b>OPERATIONAL</b>				
<p><b>Inadequate cost controls on commercial build contracts can lead to delays, overspends and reduced profitability/cash flow for the company.</b></p> <p><b>This has the potential to undermine the ability to repay loans to the Council.</b></p>	<p>The Head of Property Development, in the business planning cycle, shall have regard to market conditions, build cost inflation and put in place a robust project management and cost control plan.</p> <p>The Head of Development shall monitor the impacts of Brexit and report any implications to the Board of Directors.</p>	Likelihood Impact Risk	2 3 6	<p>Managing Director</p> <p>Head of Property Development</p>
<b>Lack of community appetite for CLT development may undermine the targets set out in the Business Plan</b>	ECTC is reviewing the Community Housing element of the business who continue to deliver support to Community Land Trusts.	Likelihood Impact Risk	2 4 8	Head of Property Development

<b>Adequacy of resources to deal with change and upheaval.</b>	The realisation of ECTC ambitions to build 1850 homes (including Kennett) requires investment into ECTC particularly on the development side to ensure that the company has the human resources it needs to deliver the necessary outcomes.	Likelihood Impact Risk	1 3 3	Managing Director  Head of Property
	<hr/> <p><b>Monitoring</b></p> <p>In 2018/19 the Managing Director approved a phased increase in the company's human resources specifically in the areas of strategic projects, land and development, finance and administration. Recruitment to these posts is on track and is in accordance with the phased approval.</p> <p>In 2019/20 the Head of Property and Managing Director shall review the company's human resources to ensure that the services are being delivered efficiently and effectively.</p>			



## **7. COMMERCIAL SERVICES**

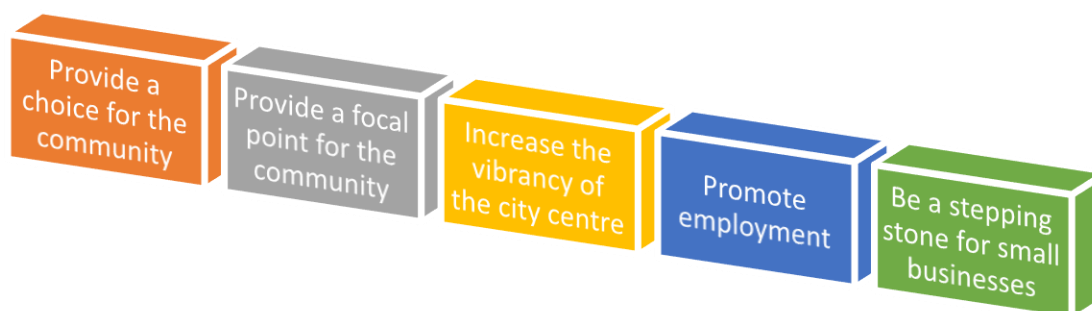
- 7.1 The Commercial Services of ECTC currently delivery Ely Markets on behalf of ECDC and Grounds Maintenance Services; both on behalf of ECTC and for other customers.
- 7.2 Commercial services, through the Grounds Maintenance Service has made a commitment to explore areas of income generation that will enable ECDC to continue to deliver good quality services to its residents, visitors and businesses.
- 7.3 The primary focus of Commercial Services for 2019/20 shall be 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.
- 7.4 Where opportunities arise that are outside of the scope of this business plan, individual business plans will be produced and submitted to the Board for approval.
- 7.5 The following table provides a cumulative budget to 2020/21.

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Turnover</b>	1,076,395	1,118,119	1,146,283
<b>Cost</b>	922,336	957,874	1,014,694
<b>EBITDA</b>	154,059	160,245	131,589

## 7.6 Ely Markets

ECTC manages and operates Ely Markets on behalf of ECDC. This has been secured by way of a ten year operations and management contract.

### 7.6.1 Service Objectives



### 7.6.2 Budget

The following table provides a summary of the budget to 2020/21.

Markets	2018/19	2019/20	2020/21
<b>Salaries</b>	126,259	124,937	129,090
<b>Premises</b>	26,067	36,197	46,500
<b>Transport</b>	3,235	2,085	2,601
<b>Supplies &amp; Services</b>	20,716	20,936	22,032
<b>Turnover</b>	208,735	222,579	217,050
<b>Gross Profit</b>	<b>32,458</b>	<b>38,425</b>	<b>16,827</b>

Please note that Ely Markets is maintaining the profitability levels that it has achieved in previous years. The service has been able to maintain previous profitability levels and make investments in improving the service, i.e. the electrical improvement works on the Market Place. This shows that Ely Markets is a self-sustaining element of the business and relies on its own income to keep improving.

The difference in premises cost relates to repayment to the Council for the electrical improvement works.

The Ely Markets Team consists of 2 part-time Markets Development Officers, 1 part-time Markets Administrative Officer and 1 full-time Market Supervisor. For the operational element of the market, Ely Markets has a 'Wrecking Crew'.

## 7.7 Grounds Maintenance

ECTC currently carries out Grounds Maintenance services for a variety of different customers; ECDC, Cambridgeshire County Council, Parish Council's, Schools and other private clients. Grounds maintenance services include (but are not limited to); grass cutting, hedge trimming, SUDS maintenance, sports pitch line marking, tree services and sports pitch maintenance.

### 7.7.1 Service Objectives



ECTC's main client is ECDC; generating an income of £720,675 in 2019/20 and rising with RPI in future years. Please note that the Sanctuary contract is incorporated into the management fee paid by ECDC as ECDC 'sub-contract' the Sanctuary contract to ECTC.

The Sanctuary contract is due to end in March 2020. New contract negotiations have already commenced with Sanctuary, updates will be provided to ECDC and board as negotiations progress.

### 7.7.5 Budget

	2018/19	2019/20	2020/21
<b>Salaries</b>	493,393	552,076	557,757
<b>Premises</b>	72,378	69,408	61,000
<b>Transport</b>	69,921	80,056	88,444
<b>Supplies &amp; Services</b>	70,355	40,161	72,757
<b>Turnover</b>	867,660	895,539	929,233
<b>EBITDA</b>	<b>161,613</b>	<b>153,838</b>	<b>149,275</b>

There is an 'overspend' on grounds materials in 2018/19, this overspend relates to a new contract secured in 2018/19 that was not budgeted for previously. The 'overspend' is recovered by the income.

The transport costs have increased from 2018/19 to reflect the lease charge that ECTC pays ECDC. The lease charged will be reviewed during 2019/20.

The Grounds Maintenance Team consists of 21 members of staff; 1 Open Spaces & Facilities Manager, 1 Parks & Open Spaces Team Leader, 1 Open Spaces & Facilities Support Officer, 1 Open Spaces & Facilities Administrative Officer, 2 Gardeners, 13 Grounds Maintenance Operatives (2 vacancies), 2 Grounds Maintenance Operatives (Seasonal) and 1 Apprentice Grounds Maintenance Operative (vacant).

At the time of preparing this business plan ECTC is actively recruiting to fill the vacancies identified above. The vacancies arose during different periods of 2018/19. The service was able to absorb the vacancies during the year by offering additional hours (either through overtime or time off in lieu), however, such a low staffing structure would not be sustainable in the long term for two reasons:

Some contracts require us to deploy staff quickly and if there is no flexibility in the structure and due to the length of time it takes to recruit we will lose our ability to respond quickly to new opportunities.

This staffing structure represents the level of staff needed to accommodate the existing contracts in place. If further contract opportunities arise then there may be a need to recruit additional staff to service the contracts. A case will be made to the Managing Director as and when appropriate to secure additional resource.

## 7.8 Property and Community Housing

### 7.8.1 Service Objectives



### 7.8.2 Overview

Since the company was established in 2016, East Cambs District Council has already benefitted by £964,000 from the activities of ECTC Property and Community Housing. In addition, 24 high quality new homes have been delivered, including 10 CLT owned affordable homes that will be available for local people in perpetuity and will generate positive returns for re-investment in the local communities.

Palace Green Homes has now identified and secured land that will expand the development pipeline from 570 to 722 homes, an increase of 25%. Over 200 of these new homes are expected to be affordable homes.

The company has been able to take advantage of new business opportunities using the existing finance arrangements that it has from ECDC and is on-course to being in a position where it is expected to be able to repay the ECDC loan in 2021 as planned. In addition, a significant new source of project financing has been secured in the past year using an innovative new revolving financing facility that has been established by the Cambridgeshire and Peterborough Combined Authority (CPCA).

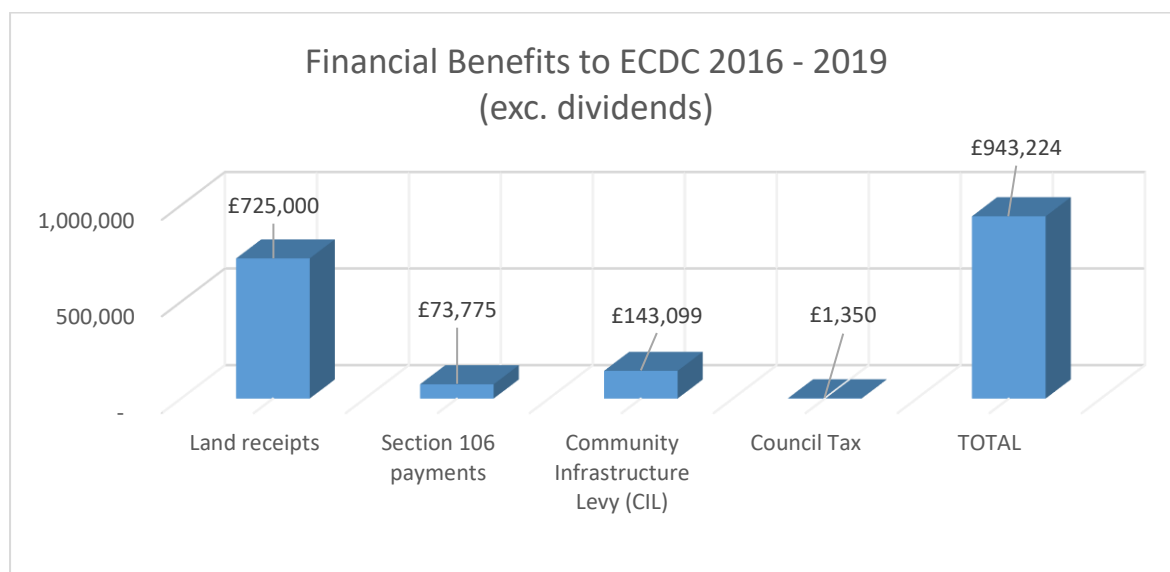
The projects at West End Gardens, Haddenham and Ely will be the first investments of this kind for the CPCA and will bring forward new homes that are additional to the existing development pipeline, support the further development of CLTs and bring homes back into use that are currently excluded from the market. Unlike a normal public sector grant fund, the repayable loan and profit-share arrangements that have been agreed with ECTC will allow CPCA to recycle the funds into other housing projects from 2021.

The new housing management element of ECTC was established in 2018 and has already produced revenue which is expected to grow in the coming year. Housing management contracts with two local CLTs were secured and affordable homes were allocated to new CLT tenants on our projects at 'Fledglings' in Soham and 'Kings Row' in Ely.

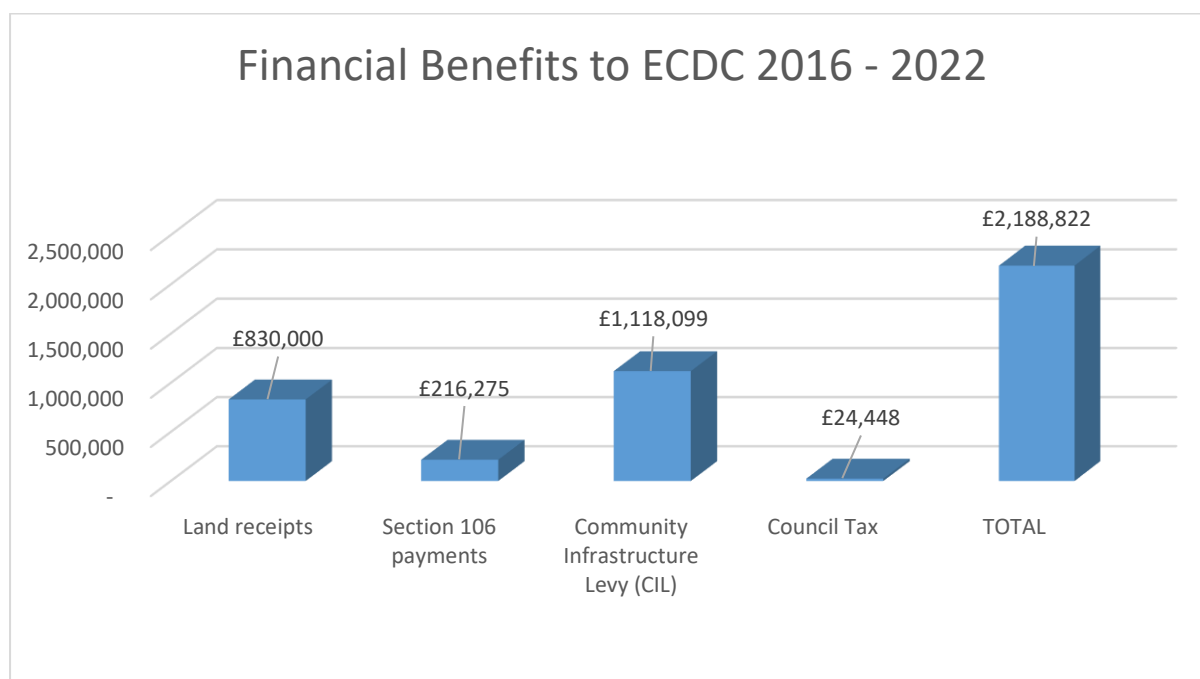
To deliver this ambitious programme of development, the company is reviewing its resources to ensure that key projects can be delivered effectively and efficiently to meet the demands of a growing business.

### 7.8.3 Financial benefits to ECDC from ECTC Property and Community Housing

To date, due to the development activities of ECTC (Property and Community Housing), over £950,000 in financial benefits have already been transferred to the Council in the form of land receipts, section 106 payments, CIL payments and Council tax receipts from new properties.



Based on the projected development pipeline, by March 2022 the financial benefits that are expected to directly accrue to the Council from the company's development activities will exceed £2.17 million. This figure excludes any additional dividends that may be paid to the Council as shareholder during the period.



#### 7.8.4 Key Challenges for 2019/20

This business plan has been produced at a time of almost unprecedented uncertainty, with politics affecting the real economy as almost never before. But away from Brexit, technology continues to drive immense structural change, and new policy initiatives will alter the way in which the housing market operates. It will be a challenging year for the company as it seeks to deliver on its objectives.

Back in October 2018, the announcement of an extension to the government's Help to Buy Scheme provided additional confidence for the industry and the company is anticipating being able to offer this product on its new housing development at Haddenham. However, the July 2019 RICS Residential Market Survey results show some of the improvement seen in near term expectations partly reversed. Political uncertainty is increasingly being cited as a constraint on the market, alongside the well-established challenges around affordability and a lack of stock available for purchase.

Bank of England forecasts suggest economic growth of 1.3% in 2019, and 1.3% in 2020. This is well below the long-term average, and growth will remain subdued over the medium term. A "no deal" Brexit is likely to reduce projected economic growth in 2019, whilst an increase in certainty may create a modest "Brexit bounce".

UK short-term interest rates are also likely to rise, although this would be less certain in the event of a "no deal" Brexit. This should be limited and gradual, but a key risk is that the base rate rises faster than currently expected. This would impact adversely on consumer expenditure, business confidence and the residential market. Indeed, the banks are increasingly aware of this and are already factoring it into their lending decisions.

The company expects that the lower end of the affordability spectrum will continue to fare well in 2019. Property pricing that attracts lower stamp duty (SDLT), and transactions where first time buyers are SDLT exempt will be very popular, as they have been in 2018. Properties where affordability more closely aligns with earnings will be the most attractive.

ECTC will continue to closely monitor local market conditions for any potential impact on customer confidence in light of the wider political and economic uncertainty. Certainty of future demand is absolutely key as the company looks to invest in its planning permissions, and get them to the point to where homes can actually be built.

Concern of course remains as to the impact Brexit will have on the economy, and in particular on continued access to skilled foreign workers who provide around 7% of the UK construction workforce, which will be key to the company's ability to build out its sites expeditiously. Construction products and material prices have already risen significantly following the falls in the value of sterling post referendum, and with about 15% of products used in UK construction coming from the EU, leaving the EU without a deal would undoubtedly add to these inflationary pressures. The company is likely to find it more challenging to secure fixed price tender contracts with suppliers and contractors given the challenging external environment.

That said, the company has secured a strong development pipeline and has ambitions to be delivering 250 homes per year within 5 years, so it will continue to invest in the people, supply chain and new technologies that it needs to achieve this target. By further developing the company's own 'in house' capability, it should be possible to mitigate against some of these external risk factors, and give the company greater control of project delivery. Utilisation of modern methods of off-site construction on future projects should also help to ensure more homes can be built, more quickly, and with greater pricing certainty.

Challenging though it will be, 2019 will also be a year of opportunity for ECTC. The housing crisis that exists in the UK will not go away and local communities within the region will continue to seek to provide more affordable homes for local people on local wages. ECTC is uniquely placed to take advantage of this trend toward more community-led housing and with financial and political support also now available at local, regional and central government level, conditions are set fair for the company to continue to grow at pace.

#### **7.8.5 Targets for 2019/20**

During the current financial year, ECTC will:

- ❖ Commence construction on two new development sites at Haddenham and Ely
- ❖ Complete the refurbishment of 40 homes at Ely, including 15 shared ownership affordable homes
- ❖ Secure planning permission and establish delivery arrangements for 500 (including 150 affordable homes) new homes, a new primary school and other village facilities in Kennett

#### **7.8.6 Projects**

##### **West End Gardens, Haddenham**

This development, now underway, is for 54 new homes in the village of Haddenham, with generous green space on eight acres of land that was acquired in April 2019. A close partnership formed back in 2016 between the landowner, ECTC (Palace Green Homes), Haddenham CLT, Haddenham Parish Council, and the local community looks sets to create a positive lasting legacy for the parish.

19 of the new homes within the scheme will be affordable homes managed by Haddenham CLT that are available to people that live and/or work in the parish. These one, two and three bed properties will be assets that benefit the wider community for years to come. The affordable homes, that include several bungalows, are expected to be ready for occupation in Summer 2020.

35 two, three and four bed homes will be available for sale on the open market, again ready for occupation in Summer 2020. All of the homes within the scheme have been designed so that the affordable and the market homes blend together seamlessly to create a balanced community, close to the centre of Haddenham.



The project is being funded in part by a £6.5 million landmark housing loan agreement from the Cambridgeshire and Peterborough Combined Authority. The balance of the project costs are being resourced from ECTC's own finances.

### **Former MOD Site, Kilkenny Avenue, Ely**

In late July 2019 ECTC acquired 8.78 hectares (21.6 acres) of land in Ely. The land includes 88 existing houses and provides opportunities for further new-build development. The site is contiguous with adjoining existing housing estates, new development at Ely North and the Princess of Wales Hospital.

The estate was formerly used to accommodate US Air Force families, but some of the homes have stood empty for up to 5 years. The housing is at low density, and includes terraced, semi-detached and detached houses. There are several hundred mature protected trees giving it a very attractive 'garden village' feel. Structurally the houses are generally in very good condition however, the refurbishment plans will bring them up to modern standards through the installation of replacement bathrooms, kitchen and floor coverings. Improvements to the streetscape and additional off-road parking will also be completed.

Through these improvements, it is possible to convert four houses into eight maisonettes, delivering 92 homes in total. These will be refurbished for occupation over a two year period with 77 sold to individual purchasers on the open market and 15 offered as shared ownership units.

Refurbishment work is now underway and the first homes are expected to be available for sale from October 2019. The shared ownership homes are expected to be available for occupation in Spring 2020. In total, 40 homes are expected to be refurbished during the current financial year.

In addition to the refurbishment, subject to planning permission, there are opportunities for further new build development within the site. The terms of the deal to buy the site from the MOD include obligations on ECTC to submit planning applications to make optimum use of this well-located, urban, brown-field site. ECTC have already committed to deliver more than 30% of the homes as affordable housing.

The project is being funded by a £24.4 million loan agreement from the Cambridgeshire and Peterborough Combined Authority. The balance of the project costs will be funded by ECTC resources and an additional 'top-up' ring fenced loan of £1.5 million from ECDC.

### **Kennett Garden Village**

Now in the advanced planning stage, Kennett Garden Village is set to be the fifth and largest community-led development in East Cambridgeshire. The proposals for

Kennett Garden Village are the product of a genuine collaboration between the local community, the landowners, who live locally, and ECTC (Palace Green Homes).

Kennett Garden Village will offer 500 high-quality homes of all tenures and for all ages, create local employment opportunities and encourage healthy and sociable community living in a careful design that will further enhance this attractive village. 150 of the new homes will be affordable housing.

We will build the new housing, and invest significantly in improvements to local highway infrastructure. In conjunction with Cambridgeshire County Council, the project will deliver new school buildings for Kennett Primary School with a dedicated sports pitch and an Early Years Centre. There will also be a new Village Green and Village Square, an enterprise park for new business, car parking for the adjacent railway station (connecting the development to Cambridge and Ipswich), and open spaces that local families, dog walkers, picnickers and joggers can enjoy.

The project has been designed as a sustainable, lower-density 'garden village' style mixed-use development that will not only be a great place to live, but is somewhere that has community ownership at its heart, including genuinely affordable homes and attractive open spaces owned by Kennett Community Land Trust. The trust will own and manage community assets for the long-term, providing a significant and on-going income that can be reinvested back into the local community for generations to come.

Planning permission was approved by ECDC planning committee in April 2019 and the Section 106 Agreement is being finalized so that the final planning permission can be issued. ECTC is now actively working up a strategy for delivery of the scheme and is aiming to commence development in 2021.

## Current CLT projects in East Cambs

East Cambs CLT	The 2 affordable homes at Kings Row, Ely have been transferred to the ownership of East Cambs CLT. They are now being managed under contract through ECTC.
Haddenham CLT	ECTC has commenced construction of the project at West End Gardens, Haddenham and is supporting the local CLT as it prepares to take ownership of 19 new affordable homes.
Kennett CLT	The CLT continues to support the development on land at Station Road. This large scheme will provide 500 new dwellings with affordable homes contributing 150 of the total. Outline planning permission has been granted subject to the completion of a Section 106 Agreement.
Soham CLT	Following handover of 8 affordable properties at Fledglings, Soham, the CLT is using ECTC to manage the properties on their behalf. The CLT is actively looking at a further housing projects in the town.
Stretham & Wilburton CLT	The CLT have identified a site in Wilburton that might provide 15 affordable homes and new sports facilities for the village although it is at an early stage of planning. ECTC continue to provide advice and support to facilitate this scheme.
Swaffham Bulbeck CLT	The CLT are working with a landowner and developer to lodge a planning application for a piece of land in the village which currently would provide 15 affordable homes for the CLT. This project will require support throughout its development.
Swaffham Prior CLT	The CLT received a funding grant to research a district heating system. The £3m proposal is for a community heating system run off ground source heat pumps and it is hoped the scheme will take the village off its' reliance on oil heating and provide a sustainable, environmentally sound, economical source of energy for the whole village

## Financial projections – Property and Community Housing

*Financial projections 2017 – 2022 (exc. revenue from Kennett Garden Village) at Jan 2019.*

	<b>2017/18</b>	<b>2018/19</b>		<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>TOTAL</b>
<b>Turnover</b>							
Market housing sales	£0.0m	£4.56m		£10.09m	£16.97m	£21.94m	£53.56m
Affordable (CLT) housing sales	£0.0m	£0.86m		£0.29m	£2.51m	£3.28m	£6.93m
EC Community Housing	£0.15m	£0.11m		£0.05m	£0.01m	£0.01m	£0.33m
Other income	£0.84m	£0.02m					£0.86m
<b>Total Turnover</b>	<b>£0.99m</b>	<b>£5.55m</b>		<b>£10.42m</b>	<b>£19.49m</b>	<b>£25.23m</b>	<b>£61.68m</b>
<b>Cost of Sales</b>	<b>£1.18m</b>	<b>£4.88m</b>		<b>£9.86m</b>	<b>£19.11m</b>	<b>£23.85m</b>	<b>£58.88m</b>
<b>Gross Profit / (Loss)</b>	<b>(£0.19m)</b>	<b>£0.67m</b>		<b>£0.56m</b>	<b>£0.38m</b>	<b>£1.38m</b>	<b>£2.8m</b>
Overheads	£0.14m	£0.16m		£0.13m	£0.14m	£0.14m	£0.71m
<b>EBITDA</b>	<b>(£0.33m)</b>	<b>£0.51m</b>		<b>£0.43m</b>	<b>£0.24m</b>	<b>£1.24m</b>	<b>£2.09m</b>

<b>SWOT Matrix</b>	
<b>INTERNAL FACTORS</b>	
<b>STRENGTHS (+)</b>	<b>WEAKNESSES (-)</b>
<ol style="list-style-type: none"> <li>1. Low overhead costs.</li> <li>2. Responsive and pro-active.</li> <li>3. Specialist knowledge of existing team.</li> <li>4. Strong local connections.</li> <li>5. EC Community Housing - a catalyst to PGH development projects.</li> <li>6. Ethos aligned with target market.</li> <li>7. Intensive community engagement reduces development risk.</li> </ol>	<ol style="list-style-type: none"> <li>1. Reliance on existing funders and difficulties in securing private finance.</li> <li>2. Build costs are higher than other competitors.</li> <li>3. Balance between company profit vs community benefit could be better defined.</li> <li>4. Inability to pay staff bonuses could affect staff retention.</li> <li>5. Media and PR profile could be stronger.</li> <li>6. Risk of perceived bias / conflict of interest between company and council activities.</li> </ol>
<b>EXTERNAL FACTORS</b>	
<b>OPPORTUNITIES (+)</b>	<b>THREATS (-)</b>
<ol style="list-style-type: none"> <li>1. Corporate objectives aligned with Council Corporate Plan.</li> <li>2. Few local competitors.</li> <li>3. Public sector land disposal opportunities.</li> <li>4. Growing interest in community-led development.</li> <li>5. New geographic markets.</li> <li>6. Demand from local CLTs for Housing and Estate Management Services.</li> <li>7. Housing crisis firmly on political agenda.</li> <li>8. Partnerships / Joint ventures.</li> </ol>	<ol style="list-style-type: none"> <li>1. Housing market deterioration affects sales revenue projections.</li> <li>2. Construction cost inflation erodes profit.</li> <li>3. Failure / delay in obtaining planning permissions.</li> <li>4. Loss of uniqueness as company grows and competitors enter the market.</li> <li>5. Loss of support from local Communities.</li> <li>6. Change in local political priorities.</li> </ol>