8.13 Summary of Sensitivities at November 2017

RISK AREA	SENSITIVITY	JV	COUNCIL	COMMENTARY
Financing	JV LLP borrowing rate + 1%	-£9.2m	-£5.8m	The JV LLP agreement is predicated on a 70/30 debt/equity funding arrangement. Given the relatively high level of gearing, the base model was prepared on the assumption that the JV LLP can secure funding from the market at a composite rate of 8% rising to 8.9% over four years. The assumption should provide adequate cover for arrangement, holding fees and base coupon rate.
Economic	Inflation + 1%	+£21.9m	+£10.9m	In line with the long term Bank of England projections, CPI has been modelling at 2% per annum. It is assumed that house price and construction inflation will align at 2% per annum. It is likely to some of the cost risk will be mitigated with the JV LLP entering into a series of fixed price forward construction contracts.
Economic	House Prices £479 psf (Red Book)	-£2.0m	-£3.1m	The base model has been predicated on achieving £500 psf sales revenues on the 12 estates. However, prices may increase further or decrease particularly in the short term.
Economic	Sales (1 Year Delay)	-£42.7m	-£24.0m	The sale of open market sale units underpins this regeneration scheme. An economic downturn may result in individuals being unable to secure mortgage finance. This may result in a reduction or even a halt in sales. This would have a significant impact on the financing of the scheme, as working capital would be invested for a longer period.
Financing	LCHO Units Payment Residual Interest	+£19.3m	+£7.8m	It is currently assumed that the Council will not have to make a direct payment to acquire the residual interest in the LCHO units. This is reflected in the residual land valuations. As part of developing the funding proposal the PSP may require the Council to pay for to acquire the interest as means to reducing the reliance on third party financing. This extra value would be recognised with an appropriate uplift in the site RLV. The JV LLP would see a reduction in its external borrowing costs. Conversely, the Council would be required to increase its initial investment in the JV LLP with an increased likelihood of needing extra borrowing to finance the deal.