Risk review

Where can I find...?

Principal risks
pages 38 to 43

Long-term viability statement
page 33

Board risk oversight
page 72

Audit Committee activities on risk framework and internal controls
page 100

Risk environment

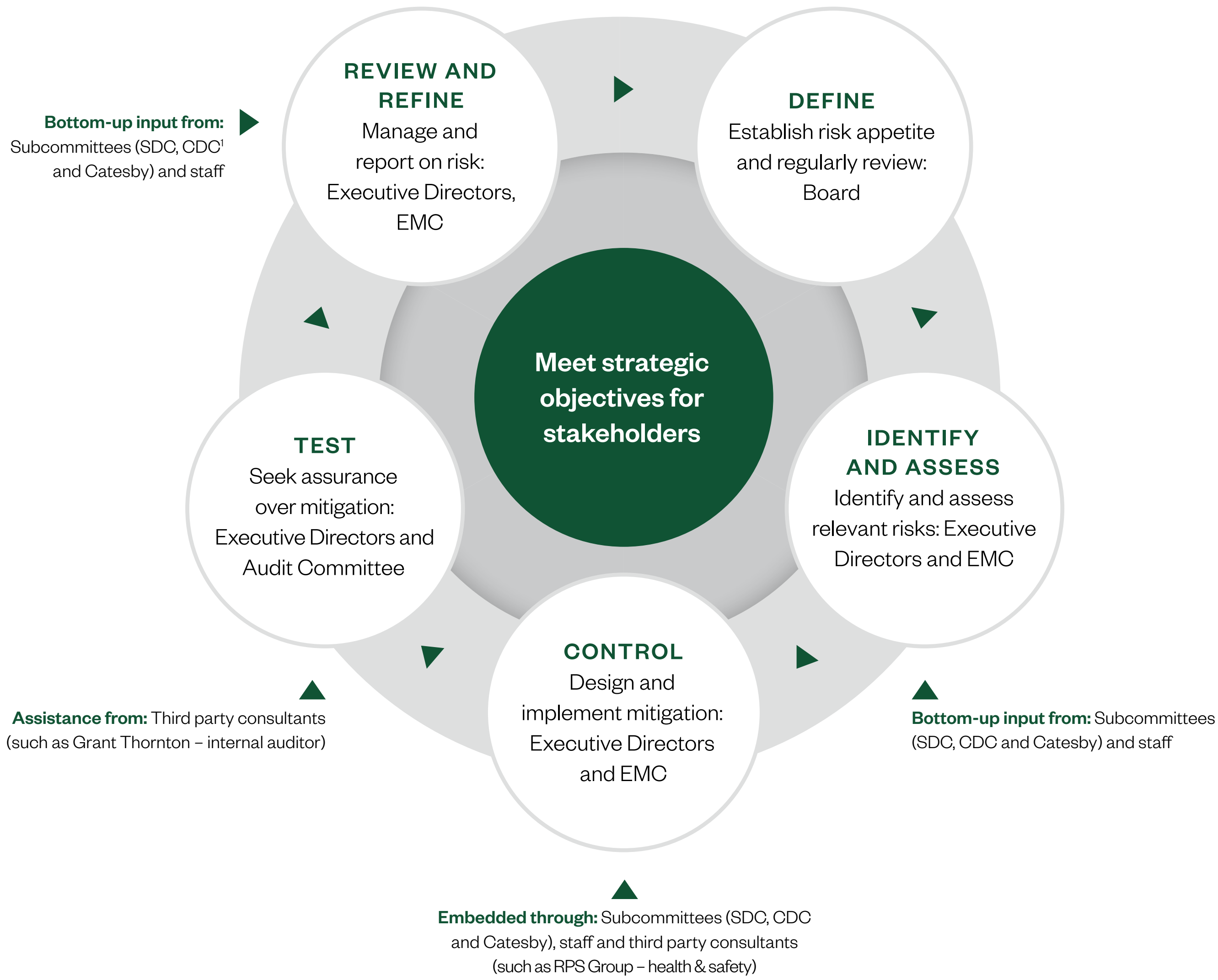
Our risk management framework is established, monitored and managed in the knowledge that:

- a large part of the Group's operations is focused on facilitating UK regional housing development and delivery;
- housing markets have historically been cyclical;
- our customers (housebuilders), or our customers' customers (homebuyers), are influenced by mortgage availability, job security and disposable income (amongst other matters) when deciding to buy (or build) homes;
- politics around residential delivery, and in particular around planning consents and Help to Buy availability, is challenging and historically volatile;
- changes in legislation and regulation can impact the way the Group operates, both directly and indirectly; and
- the ability to acquire development sites and bring them forward, so that homes may be built, is heavily dependent on our in-house skillset.

Principal areas of focus in 2019

The following reviews or improvements to the Group's risk management framework were undertaken or implemented during the financial year:

- Board and Executive Management Committee (EMC) reviewed key risk registers together with a summary of corporate and business unit level risks (including emerging risks) at each meeting.
- Board, Audit Committee and EMC each reviewed the Group's risk appetite and detailed top-down risk registers during the year.
- Audit Committee oversaw the completion of the initial three-year internal audit programme (carried out by Grant Thornton), with three internal audits being undertaken on health and safety, investment and divestment and outsourced contracts management. Each audit was undertaken to an Audit Committee agreed scope. A follow-up assessment of previous internal audit recommendations was also carried out and concluded that all agreed and due actions had been implemented.
- Audit Committee agreed a further three-year internal audit programme, which will see all key risks covered and provide assurance that the Group's internal controls are appropriate, in place and functioning.
- Board monitored the political and economic environment at each Board meeting, including giving consideration as to what might be the impact of the UK's exit from the European Union over the short, medium and longer term.
- Health and safety consultants RPS Group continue to be employed to oversee periodic reviews of the health and safety practices at the Group's sites and offices.
- New employee induction programmes have helped to reinforce the Group's risk appetite from the outset.
- More detailed credit checking processes for the Group's subcontractors and suppliers were instigated.



1. The terms SDC and CDC are defined in the glossary.

Urban&Civic continues to seek to deliver (on behalf of its stakeholders) its strategic objectives through operating a Board-led risk management framework that:

- establishes the nature and scale of risk that the Group is prepared to take (risk appetite);
- identifies and assesses risks applicable to the Group's strategy and operations (both existing and emerging);
- designs and implements mitigating actions, controls and procedures;
- seeks assurance over the effectiveness of those mitigating actions, controls and procedures; and
- manages the Group's risks on an ongoing basis against risk appetite, acknowledging that risk cannot be fully eliminated.

Risk management framework

Our risk management framework has remained largely unchanged during the financial year, although through additional training and internal discussion, the understanding of the framework and how to report risk under the framework has become more embedded, stable and consistent across the Group.

Urban&Civic's operational size and regional office network provide the Group with an opportunity to collate, assess and mitigate risks effectively, but only if supported by effective communication and reporting up, down and across the Group. The EMC and Subcommittees (Strategic Development Committee or SDC, Commercial Development Committee or CDC and Catesby) continue to act as hubs for this communication and both play a significant role in helping the Board implement the risk management framework, especially at grassroots levels, where emerging risks are typically identified first.

Risk management structure

The Board continues to have ultimate responsibility for risk management and internal control, with a particular focus on defining the Group's risk appetite, regularly assessing and monitoring the Group's principal risks and reviewing reports produced by internal auditors on internal controls and risk reports from the EMC and business segment Subcommittees.

The Audit Committee reviews the adequacy and effectiveness of the Group's financial and non-financial internal controls and risk management systems on behalf of the Board. The Audit Committee also monitors and reviews the external audit, including the auditor's report. The work undertaken by the Audit Committee in relation to risk during the year and its anticipated 2019/20 work programme are further set out in the Audit Committee report on pages 99 to 105.

The Executive Directors, with the assistance of the EMC, design and manage the internal controls and risk management systems, ensuring that risk registers and risk reporting are maintained throughout the year. The EMC further relies on business segment Subcommittees to help fulfil its risk reporting responsibilities by maintaining live operational risk registers. These procedures give the Executive Directors the ability to provide assurance that the Group's internal controls are appropriate, in place and functioning.

Key features of our risk management framework

- Clear and well communicated risk management framework and structure (including roles and responsibilities).
- Regular reviews of risk (including appetite and registers – including emerging risks) and internal controls by the Board, Audit Committee and EMC.
- Immediate communications to the Board and Audit Committee of material risk events. These events are then investigated by the Executive Directors and EMC, with lessons learnt fed back into the risk management framework.
- Open door policy to all employees, which aids early identification and resolution of issues.
- Clear reporting lines and delegated authorities.
- Formal and informal opportunities for intra-group debate and communication.
- Sensibly paced systems evolution – avoids shocks to the control framework.
- Maintenance of a stable senior management team.
- Robust and regular reporting systems (operational and financial as well as risk).
- Appropriate training (including induction for new employees so they understand the Group's risk appetite).
- Ensure employees understand and have confidence in the Group's whistleblowing policy. Details of this policy are communicated through an employee handbook.

Risk management framework components

The principal components of the Group's risk management framework, which the Board, Audit Committee and EMC use to monitor and manage risk, comprise:

- Risk appetite table (see below).
- Risk heatmap (see opposite).
- Risk summary table – which highlights the principal risks across the Group and the changing risk profiles and emerging risks over time.
- Risk registers (and associated scoring matrices) – encompassing key risk registers, detailed top-down risk registers, business unit risk registers and corporate risk registers.

The following table summarises the Board's risk appetite and risk behaviour across the Group's identified risk areas.

Risk description	Risk appetite	Risk behaviour	Change in risk appetite in the year
External environment	High	The Group is prepared to operate in a volatile environment, but only when enhanced returns compensate for increased risk. Long-term viability is a key override.	▶
Operational strategy	Moderate/high	The Group undertakes planning and development activities, both of which have elevated risk profiles.	▶
Operations	Low	The Board seeks to deliver developments effectively; complying with all legislation and avoiding actions that could adversely impact reputation and/or stakeholder returns.	▶
Finance	Low	The Group seeks to put in place non or limited recourse funding lines, with non-onerous covenants (on a flexed basis) and does not seek to borrow against serviced land (except through infrastructure loans provided by Homes England).	▶
People	Low	The Group cannot function without a motivated and well trained workforce and aims to recruit, train, promote and retain staff, ensuring a succession plan is in place.	▶

You will note that the Group's appetite across the key risk descriptions (into which all risks are classified) has not changed since last year, which given the Group's long-dated model is in line with our expectations. However, the Board recognises that the current volatile political environment which may or may not impact the Group in say 20 or 30 years (the time horizon of our strategic land sites) certainly has shorter-term consequences.

Our risk focus over the shorter term

The UK has been in a well publicised period of uncertainty since the EU membership referendum decision in June 2016, and this looks set to continue for a period given the recent announcement of a December general election and an extension to the Brexit deadline. While a no deal hard Brexit would see the UK leave on World Trade Organization rules (with its associated tariffs and regulations), the current direction of travel appears to lean towards a softer deal (with an agreed transition period). Whatever the eventual outcome, it is clear that uncertainty will continue until new EU and international trade agreements are finalised.

Although it is not possible to fully assess the impact of Brexit on our business, the Board is taking appropriate action to ensure the Group is resilient to short-term disruption and well positioned over the medium and longer term.

Our principal areas of focus over the shorter term (in addition to those already mentioned) have been and will continue to be:

- **Developments** – although our strategic land sites benefit from relatively low forward development commitments at any one time, we have: increased our due diligence on the financial robustness of our subcontractors and suppliers; put in place performance bonds or guarantees where appropriate and entered into fixed price contracts for material works (at Manchester New Square for example). These measures help to protect the Group from a downturn in UK performance and consequential rising input prices (at least in the near future).
- **Customers** – homebuyer confidence and ability to access finance and meet mortgage obligations are principal demand drivers for our customers (the housebuiders). While sales rates and demand for land parcels from the housebuilders have maintained to date, we cannot say for certain that this trend will continue. Building up forward sales of £101.7 million (with minimum annual contracted receipts of £30.7 million) has been a key feature in the Board's strategy to manage any short-term disruption (Brexit or otherwise).
- **Values** – post the EU referendum the value of our strategic land portfolio has continued to grow (reflecting maintained demand, sales rates and pricing); however, falling values (on the back of falling demand, sales rates and pricing for example) would reduce loan covenant headroom. At 30 September our principal valuation loan covenant, in a subsidiary, is based on EPRA net asset value, which would have to fall by 43 per cent before this gearing covenant was breached. Falling values are not all bad news for the Group, as reduced land prices would most likely provide more and better land acquisition opportunities.
- **Debt** – in addition to the constant stress that falling values may create (as referred to in the previous paragraph), increased interest rates, falling sales rates or other adverse market changes may also increase covenant pressure. In order to monitor and manage the Group's debt over the shorter term our self imposed gearing limit of 30 per cent of EPRA NAV is monitored at each bi-monthly Board meeting, as are all the facility covenants (to ensure compliance and identify emerging issues). More information on our approach in this area can be found in the long-term viability statement.
- **Sustainability** – including climate change is an increasing focus for the Board. Our approach to sustainability is set out on pages 48 to 63.

As previously noted, a key component of the Group's risk management framework is the maintenance of risk registers. The Group maintains corporate and business unit risk registers, which are used to revise and educate detailed top-down registers that are periodically reviewed by the Board, Audit Committee, and EMC. The top-down registers typically include around 35 risks at any one time and the most recent 11 key risks are set out on the following pages. This is one higher than last year having added climate change as an amber risk. Of the other ten key risks some emerging issues have altered the overall key risk rating if not the key risk itself. During the year, seven key risks have increased their risk rating (after mitigation) although none have crossed the threshold to either amber or red categorisations from previously assessed levels. One risk has moved down and two have remained the same. The movements are discussed in more detail below.

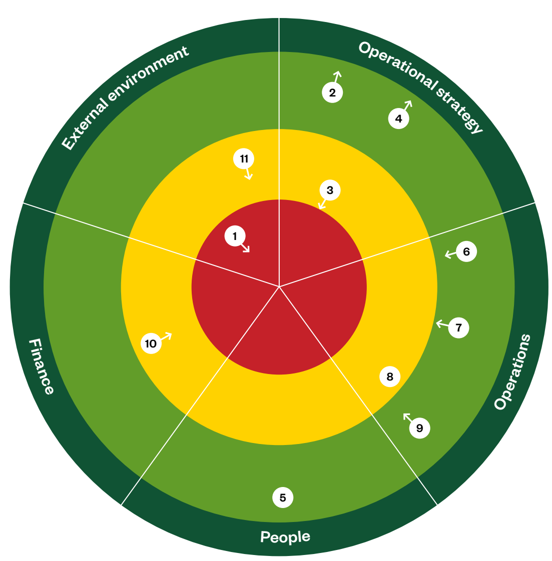
Risk after mitigation

High Medium Low

Movement in the year

Key

R1.	Market risk	**R7.**	Planning risk
R2.	Strategic risk	**R8.**	Health and safety risk
R3.	Competition risk	**R9.**	Delivery
R4.	Legal and regulatory risk	**R10.**	Financial
R5.	People risk	**R11.**	Climate change
R6.	Cyber risk		



Principal risks

All of our risks are aligned to both our KPIs and strategic objectives

Key

Link to strategy:

1 Secure sites

2 Accelerate delivery

3 Sustain quality

4 Identify opportunities

5 Deliver returns

Read more on our strategy pages 10 and 11

Risk rating after mitigation:

Low

Medium

High

Change during the year:

Increase in risk

No change

Decrease in risk

Read more on our KPIs pages 12 and 13

External environment

R1. Market risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Plot completions; Cash flow generation from plot completions; Total shareholder return; Gearing – EPRA NAV; Health and Safety.

Impact of risk

The business model may be affected by external factors such as economic conditions, the property market, quoted property sector and political and legislative factors, such as climate change, tax or planning policies. Adverse movements in these market conditions increase the risk of lower stakeholder returns, even though investment opportunities may be more evident.

Controls and mitigation/action

- Strategy is considered at each Board meeting and specifically at the annual business strategy day.
- EMC and other Subcommittee meetings just prior to Board meetings provide better quality, bottom-up, information.
- When making decisions consideration is given to external markets, dynamics and influences.
- Press, economic data subscriptions, industry forums and adviser updates are used to keep executives up to date in respect of external markets.
- Regional focus and local knowledge in areas with strong underlying economics (such as job creation) mitigate the impact of market and economic shocks.
- Increased focus on putting in place forward sales contracts with contractual annual minimum receipts in respect of the Group's most prominent segment: strategic land.
- Prior to investment, detailed due diligence and financial appraisals are carried out and flexed to establish the financial outcome on a downside-case basis.
- Business plan (one-year) and rolling long-term cash flow forecasts (one-year, five-year and ten-year) with sensitivity analysis are maintained.
- Ongoing monitoring with the assistance of appropriate professional advisers (tax, accounting, regulatory and legal).

Typical risk indicators

- Reduced sales rates and prices (homes and land parcels).
- Increased interest rates.
- Legislation enactment.
- Falling share price or real estate indices (reflecting reduced investor appetite).
- Increased construction cost.
- Press or social media narrative (may provide an early warning).

Movement description

- Although the Group's sales rates and pricing points at its strategic sites have been maintained, the UK's general economic position has weakened (largely due to a weaker global economy and uncertainties around Brexit). This weakening could ultimately lead to potential homebuyers postponing their decision to purchase a new house, which in turn could impact not only the timing of currently contracted serviced land overages (minimum receipts are locked in, subject to the creditworthiness of our customers – the housebuilders), but also the behaviour of the housebuilders themselves, all leading to increased market risk.
- Political commentary around sustainability, the environment and use of greenfield and greenbelt sites increases uncertainty and therefore market risk. See climate change key risk for further considerations.
- Increased scrutiny around economic, social and corporate governance (ESG) by stakeholders increases compliance risk and risk of penalties for breaches.

Operational strategy

R2. Strategic risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions.

Impact of risk

Implementing a strategy inconsistent with market environment, skillset and experience of the business could devalue the Group's property portfolio or have an adverse impact on the Group's cash flows, consequently eroding total shareholder return.

Controls and mitigation/action

- Board annually approves a business plan and produces rolling longer-term cash flow forecasts with sensitivity analysis.
- Business plan is periodically monitored by the Board, EMC and Subcommittees and remedial actions are identified, approved and implemented where necessary.
- Material capital commitments, which have not previously been approved in the Group business plan require additional Board approval.
- Employment of suitably qualified and experienced staff.

Typical risk indicators

- Adverse variances to the business plan.
- Fall in independent valuations.
- Litigation.
- Contingency utilisation.
- Covenant breaches.

Movement description

- EMC and other Subcommittee meetings are now held just prior to Board meetings – providing better quality, and timely, bottom-up information.
- Third party internal auditor reviews in respect of investment and divestment decisions, outsourced contract management and health and safety have provided additional assurance to the Executive Directors, Board and Audit Committee.
- Confirmation (by Grant Thornton – our internal auditor) that previously agreed and due recommendations from prior period internal audits have been implemented now received.
- Reported variances to the business plan have not caused the Board undue concern over the last 12 months, which helps demonstrate that current processes are supportive of a reduced risk rating.
- Continued improvements in Board reporting have provided additional comfort that issues around operational strategy, which could be picked up through operational reporting, have been.

R3. Competition risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions.

Impact of risk

Competition could result in assets being acquired at excessive prices, potential assets not being acquired because pricing is too high or developments commencing at the wrong point in the cycle.

Controls and mitigation/action

- Experience and expertise used to determine suitable offer prices and optimal project timings (to maximise returns).
- Investment, divestment and development decisions are benchmarked against market conditions prior to contract execution or development commencement (using in-house and third party research and advice).
- Assessment of competition before acquiring assets (such as competing sites close to a proposed acquisition that might impact the Group's intended strategy).
- Open, honest and fair relationships with partners, land owners, agents and other stakeholders provide the Group with a competitive advantage through enhancing its reputation of delivering on its promises.

Typical risk indicators

- Ratio of successful to unsuccessful bids.
- Adverse variances to business plans and/or investment memorandums.
- Significant or persistent abortive costs.
- Low rates of return.

Movement description

- Like last year, our competitors continue to benefit from strong cash generation and capital availability, particularly in strategic land and land promotion segments.
- Institutional investment, such as Legal & General's acquisition of a strategic land site in North Horsham, is becoming more common, which increases direct competition for sites.
- As planning consents get harder to achieve (see planning key risk on page 41 for details), site availability reduces, thereby increasing the risk of competition.

Operational strategy continued

R4. Legal and regulatory risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Health and Safety.

Impact of risk

Non-compliance with laws and regulations could result in project delays, failure to obtain planning consents, inability to raise finance, penalties and fines and reputational damage.

Controls and mitigation/action

- The Group employs highly qualified and experienced staff, and specialist consultants where appropriate, to ensure compliance with laws and regulations.
- Calendar/diary of important dates maintained.
- Key reports and announcements reviewed in draft by the Board/Audit Committee.
- Training and continuing professional development undertaken.
- Board/Audit Committee review of UK corporate governance compliance.
- Regular Board/Audit Committee updates and training on regulatory obligations.
- EMC taskforces formed to take responsibility for emerging laws and regulations.

Typical risk indicators

- Litigation.
- Investigations or enquiries (LSE, HMRC or Health and Safety Executive for example).
- Frequency of reportable incidents (health and safety).
- Penalties.

Movement description

- Increasing ESG requirements and a new governance code and accounting standards have increased the risk in this area.
- Increased use of advisers and training have helped to mitigate this risk, as has a third party internal audit on health and safety.
- A further review of GDPR across the Group is ongoing (following its introduction in May last year), which should provide additional assurance.
- The Group has introduced governance checklists to help ensure compliance with legislation.
- A new electronic training system (iHASCO) has been rolled out to augment face to face training. Areas such as money laundering, bribery, whistleblowing and equality will be covered by this training method.

People strategy

R5. People risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions.

Impact of risk

Over-reliance on key people or inability to attract and retain people with appropriate qualities and skills, making the Group operationally vulnerable to both time delays and replacement cost.

Controls and mitigation/action

- The Group offers a competitive remuneration package including both long and short-term incentives.
- Employees generally work on a number of projects across the Group and are not dedicated to one particular site.
- Short reporting lines and delegated authority ensure staff feel they are contributing to the success of the Group.
- Nomination and Governance Committee reviews succession planning.
- Appropriate notice periods to minimise disruption.
- Adequate resourcing.
- Performance reviews and training.
- Exit interviews with results fed back to the EMC.

Typical risk indicators

- High or increasing staff turnover.
- Critical appraisal or exit interview feedback.
- Complaints or grievances.

Movement description

- Introduction of an employee advisory group in progress. This is a representative body made of non-Board or EMC employees, which sets its own agenda and can bring forward (to the Board and EMC) any workforce matters it sees fit.
- New HR Manager appointed.
- Annual performance appraisal process embedded.
- New induction process to help monitor/reinforce corporate culture.
- Learning and Development Manager now fully employed in delivering staff training.

Despite these improvements this risk has been maintained at the same level as last year (which is low post-mitigation).

Link to strategy:

1 Secure sites 2 Accelerate delivery 3 Sustain quality 4 Identify opportunities 5 Deliver returns

Operations

R6. Cyber risk

Strategic objectives

1 2 3 4 5

KPIs Limited impact on any KPIs due to the Group's low reliance on IT.

Impact of risk

Loss of business credibility due to lack of timely, accurate information.
Cost of reinstatement.

Cost and reputational damage of breaches in data protection regulations.

Controls and mitigation/action

- Passwords, protocols and protections.
- Physical access to premises and computer servers restricted.
- Firewalls and anti-virus software with regular updates.
- Computer data back-up and recovery procedures and periodic testing.
- Hardware replacement programme to reduce vulnerability.
- Administration rights restricted.

Typical risk indicators

- Server downtime.
- Loss or corruption of data.
- GDPR complaints/penalties.
- Volume of IT support calls.

Movement description

- Hardware and software upgrades (including move to Office 365) completed and ongoing.
- New service agreement signed with third party IT support (The Final Step).
- Data recovery processes tested in the year.
- Quarterly review meetings now established with The Final Step to discuss network performance and work programmes.
- Weekly reports on IT performance received.
- Internal audit recommendations were all implemented.

The above progress has produced a stable IT environment and the small increase in risk rating (which is not sufficient to turn this risk to amber) is due to the general increase in the number and complexity of cyber attacks that UK business is encountering.

R7. Planning risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions.

Impact of risk

Appropriate planning consents are not achieved or are challenged once granted, resulting in:

- loss of promotion costs;
- value proposition not being maximised;
- time delay (e.g. from judicial review or call-in) – increasing costs or creating other issues within property cycles; and
- difficulties in arranging finance.

Controls and mitigation/action

- Internal planning expertise to navigate planning law and regulation.
- Expert advice obtained before proceeding with planning work.
- Before significant planning applications are made, the Group, together with its advisers, undertakes detailed consultations with the relevant planning authority, statutory authorities and other stakeholders.
- Alternative uses considered in case initial application not achieved.
- Increased focus on political landscape pre-investment (particularly where the local authority does not have a majority control).

Typical risk indicators

- Longer than average times to achieve consent.
- Planning budget overruns.
- Increased appeals and judicial reviews.
- Inability (at all or below expectations) to finance, build out or sell consented scheme.

Movement description

- During the year, appeals and judicial reviews have, in our experience, become more likely in the absence of full local authority support. Achieving this support may be harder to achieve given a significant number of local authorities have gone to "no overall control" and the politics of planning has become more changeable. This has therefore increased likelihood of not achieving consent, but the Group remains confident it has the experience to work within these constraints.

Risk rating after mitigation:

Low Medium High

Change during the year:

Increase in risk No change Decrease in risk

Operations continued

R8. Health and safety risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions; Health and Safety.

Impact of risk

Serious injury and loss of life could lead to development site closure, delays and cost overruns, as well as reputational damage and Directors' liability.

Controls and mitigation/action

- Health and safety procedures are reviewed by third party health and safety advisers (RPS Group) and the Group appoints principal contractors and principal designers in line with the Construction (Design and Management) Regulations.
- Periodic reviews by third party internal auditor (Grant Thornton).
- Maintain health and safety procedures and policies at operational sites and Group offices.
- Due diligence carried out (including appropriate references) on principal contractor and design consultants prior to appointment.
- Appropriate insurance cover is carried by either the Group or its contractors.
- Training by third party consultants provided and health and safety handbook issued to all employees.
- Safety log.

Typical risk indicators

- Incidents (reportable and non-reportable).
- Penalties.
- Investigations (by the Health and Safety Executive or similar) and enquiries.
- Adverse health and safety audit findings.
- Litigation.

Movement description

- Internal audit on health and safety matters (undertaken by Grant Thornton) now complete.
- RPS Group role now established (although scope is likely to be expanded).
- Increased health and safety awareness training.
- Induction process for new staff now includes health and safety matters.
- Health and safety booklet periodically issued to all staff.
- A fatality post year end (at one of our housebuilders' construction sites at Alconbury Weald) reminds us to keep vigilant at all times on health and safety matters.
- Updated health and safety policy and procedures in place.

Despite the improved working practices set out above, the risk rating has been held until the internal audit recommendations have been actioned.

R9. Delivery risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions.

Impact of risk

Ineffective delivery of projects could lead to delays, reduced build quality and increased cost pressures.

Controls and mitigation/action

- Projects are monitored on an ongoing basis by the Board, EMC and Subcommittees.
- Internal development and project management teams manage project delivery.
- Fixed price contracts are used where appropriate.
- Third party internal audit review of project delivery mechanisms.
- Material subcontractors and customers are credit checked and performance bonds, guarantees and charges are used as appropriate to safeguard delivery.

Typical risk indicators

- Customer/subcontractor complaints.
- Adverse budget variances.
- Delayed completion dates.
- Adverse internal audit findings.
- Subcontractor or customer default.

Movement description

The Group's approach to delivery remains largely unchanged, although during the year the Group enhanced its credit check procedures (content and frequency) in response to current economic uncertainties. These uncertainties have caused us to increase this risk's rating this year (although the risk remains low).

Link to strategy:

1 Secure sites 2 Accelerate delivery 3 Sustain quality 4 Identify opportunities 5 Deliver returns

Financial

R10. Finance risk

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions.

Impact of risk

Lack of funding, cost overruns or failure to adhere to loan covenants could result in financial loss or affect the ability to take advantage of opportunities as they arise.

Controls and mitigation/action

- Detailed annual business plan prepared, approved and regularly monitored by the Board and EMC.
- Continuous monitoring of capital and debt markets (with advisers).
- Maintenance of relationships with lenders and investors.
- Review of principal terms of prospective loans prior to documentation.
- Ongoing monitoring of covenants/requirements to ensure compliance.

Typical risk indicators

- Increased gearing metrics.
- Covenant breaches.
- Reduced deal flow (reduces options to realise assets to lower debt levels).

Movement description

- Additional contractual minimums with housebuilders at the Group's strategic land sites continue to improve certainty over short-term cash receipts (subject to ongoing viability of the counterparty housebuilder).
- Reduced commercial portfolio has increased the financial risk as the Group becomes more strategic land focused.
- Additional Homes England facilities (on Civic Living and Waterbeach – where the loan is in documentation) have or will accelerate delivery of these projects and reduce the Group's equity requirement (which helps to mitigate the financial risk); however, introducing more debt and covenants into the Group's capital structure, increases financial risk.
- A five-year extension to the HSBC revolving credit facility was agreed in March 2019 and a new £11.2 million facility in respect of our hotel at Deansgate, Manchester was put in place in August 2019 (also with HSBC). Increased borrowing and additional covenants, like increased Homes England borrowing, increase financial risk.
- On balance (and in light of the above movements) the Board considers there to be an increased financial risk this year, predominantly due to increased borrowings and covenants.

External environment

R11. Climate change

Strategic objectives

1 2 3 4 5

KPIs EPRA NAV per share; Wholesale discount; Total shareholder return; Plot completions; Cash flow generation from plot completions; Trees planted.

Impact of risk

Climate change and/or regulatory controls aimed at preventing climate change create a range of possible impacts for the delivery of large scale sites including impacts on design, delivery timings, costs, values and sales rates (amongst other matters).

Controls and mitigation/action

- Maximise the advantages of large site delivery (which reflect the inbuilt optionality of delivering sites of scale over the long term) to minimise the impacts of delivery on climate factors.
- Continue to prioritise the delivery of extensive green infrastructure.
- Settle and adopt a Sustainability Framework with clear metrics to ensure business wide compliance with relevant standards.
- Work with housebuilder customers and other third party stakeholders to direct, influence and encourage consistent and congruent stakeholder best practice.
- Identify, interrogate and trial innovations and then promote and adopt where they make a difference.

Typical risk indicators

- Flooding.
- Heat damage to structures.
- Community complaints.
- Reduced sales levels.
- Regulatory challenges or fines.
- Negative press comment.

Movement description

- This is a clear global imperative that has increased in importance over a relatively short space of time.
- Investors and other stakeholders have made an increased number of enquires on this matter over the last 12 months.

The Group has started to formalise its approach to sustainability by the extensive review of sustainability metrics at Alconbury Weald and the identification of five key sustainability capitals. This builds upon the work already undertaken at each site and during the course of 2020 this will then be further developed into a Sustainability Framework with specific business wide metrics and targets.

Risk rating after mitigation:

Low Medium High

Change during the year:

Increase in risk No change Decrease in risk