

Report to:	Cabinet	12 March 2024
Lead Cabinet Member:	Lead Member for Finance Lead Member for Housing	
Lead Officer:	Peter Campbell, Head of Housing Peter Maddock, Head of Finance	

South Cambs Limited trading as Ermine Street Housing:

Review of the Business Plan 2023/2024 to 2032/2033

Executive Summary

1. The Ermine Street Housing Business Plan is refreshed annually to include the latest portfolio details, the previous years' performance, and the amended financial assumptions.
2. The Business Plan has been scrutinised and agreed by the Company's Board of Directors and is shared with Cabinet for information.

Key Decision

3. No
4. This is not a key decision because it does not directly result in the authority incurring expenditure which is, or the making of savings which are significant having regard to the Council's budgets.

Recommendations

5. **Cabinet is requested to consider the report and, if satisfied, to:**
 - (a) **Receive, in their capacity as shareholder, the Ermine Street Business Plan for the period 2023/2024 to 2032/2033.**

Overview and Scrutiny Committee 15 February 2024 comments

6. Having reviewed the report and received responses to questions asked by Committee members, the Scrutiny and Overview Committee commends to Cabinet the Ermine Street Business Plan for the period 2023-2024 to 2032-2033.
7. The Scrutiny and Overview Committee recommends:
 - a. that the Ermine Street Housing Business Plan should use footnotes to explain complex accounting concepts, and clearly explain the meaning of unavoidable technical jargon.
 - Accepted: to be fed back to the Ermine Street Housing Board and to be incorporated in future iterations of the Business Plans.
 - b. that in future the Cabinet report relating to the Ermine Street Housing Business Plan should set out in greater detail the risks to Council so that the Overview and Scrutiny Committee can help and support the Cabinet by proposing mitigation measures where appropriate.
 - Accepted: The Risk/Opportunities Section of this report at paragraphs 34-37 has been updated to reflect these comments.
 - c. Specifically, the covering report for the Business Plan should address Strategic Risk SR25 (Ermine Street Housing (ESH) £100 million investment fails to deliver return) so that the Committee can consider the potential implications for the residents of South Cambridgeshire.
 - Accepted: as above.

Details and background to Ermine Street Housing

8. In November 2012, the Council set up a subsidiary housing company registered as South Cambs Limited, which has been trading under the name Ermine Street Housing (ESH) since 2014. It is an independent property company wholly owned by the Council.
9. The principal activities of ESH are to manage both purchased and leased properties for the purpose of residential lettings. ESH aims to provide a quality service in this sector.
10. The Council approved a Business Plan in November 2015, and recommended capital allocations of £100 million to acquire 500 properties over a 5-year period.
11. In March 2022 ESH achieved its target of 500 acquisitions. This was a positive result for ESH and the Council, and it was achieved within the budget of £100

million, having spent £89.5 million on property acquisitions and £5.1 million on cash flow loans, totalling £94.6 million.

12. However, further acquisition opportunities were presented to the Council, and it was agreed that ESH could pursue these opportunities in the financial year 2022-23.
13. As a result, a further 22 properties were added to the portfolio, taking the overall spend to £100 million at the end of March 2023, of which property acquisitions expenditure was £94.6 million and £5.4 million was the total amount for cash flow loans.
14. Loans for the property portfolio only cover the purchase cost of the acquisitions and do not include stamp duty, legal and surveying fees. These additional costs have been met by cash flow loans.
15. ESH acquires property on the open market, borrowing from the Council at an agreed interest rate. ESH then lets the property at market rents to facilitate a reasonable pay back on the investment. To date, all assets have been acquired with 100% borrowing. A viability modelling tool is used to determine the required yield of over 5% and payback period within 40 years.

Refreshed Business Plan 2023/2024 to 2032/2033

16. ESH Board of Directors review and refresh the Business Plan annually to reflect changes in the composition of the portfolio, the gross rental yields achieved and the latest market values of the portfolio.
17. The Business Plan also considers the performance of the Company in relation to the previous year's trading period, updates the financial assumptions and revises key risks and key business sensitivities.
18. The Business Plan, attached at **Appendix A**, is used by the Company's Board of Directors to challenge, and scrutinise the Company's trading activities. It is now shared to enable the Cabinet to consider the updated version.
19. As stated in last year's plan the proposed rate applicable from 1st April 2024 is 4.25%, before reverting to 3.85% in April 2026 should interest rates reduce over the next year.
20. To date lending has been achieved by using the Council's own resources but going forward it is likely that the Council will need to borrow and lend on, should any future expansion be considered.
21. Cabinet received an Additional Growth on 6 February 2024, requesting an investment fund of £20 million for ESH to draw down for investment opportunities and for the provision of homes for the single homeless.

22. The Company's Board of Directors agreed the Business Plan at their board meeting on 25 January 2024.
23. The Subsidy Control Act, April 2022 replaces the EU state aid provisions and is unlikely to be of concern if the interest charged meets the requirement to charge a high enough rate. The Board considered it would be prudent for the Council to seek external legal opinion on the position for the Council and the Company. Any resulting impact for the Company will be reported in future iterations of the Business Plan.
24. As in previous years the Business Plan includes information relating to Minimum Revenue Provision (MRP), which is significant factor for the Council. Government consultation that commenced in late 2021 which indicates that the Council may be required to make Minimum Revenue Provision (MRP) on any lending held / made from April 2023 onwards. However, there has been no information from government relating to the results of the consultation and/or any subsequent date for implementation.
25. Should it be implemented it is possible that the Council would need to set-aside at least 2% per annum on all sums loaned to the ESH. To do this the Council would need to increase the interest rates to such a level that it would be unviable for the Company to continue trading.
26. Representations have been made in response to the consultation, in the hope that an exemption may be granted for the provision of housing.
27. At the time of writing this report, the outcome from the government is still awaited, the impact of this for the Council was outlined in the Ermine Street Housing Business Plan last year, and in the event of an announcement being made the Company will be able to refresh the Business Plan and inform the Council of the impact.

Reasons for Recommendations

28. The Council, as owner of the Company and sole shareholder, has an interest in reviewing the Business Plan to ensure that: (i) the Company is on target to achieve its objectives, (ii) to consider the past year's performance, and (iii) acknowledge the changes in the financial assumptions and the financial return to the Council resulting from the business activity.

Implications

29. In the writing of this report, taking into account financial, legal, staffing, risk, equality and diversity, climate change, and any other key issues, the following implications have been considered: -

Financial and Fraud Risk

30. ESH acquires property on the open market, borrowing at market interest rates from the Council. ESH then lets the property at market rents to facilitate a reasonable pay back of the investment.
31. The Council benefits from both the interest uplift in respect of lending to ESH, and the ability to recharge staff employed by the Council to ESH where they are working on behalf of ESH, therefore delivering an efficiency saving to the Council.
32. There are potential benefits from capital growth with the increase the value of assets possibly outstripping general inflation. However, to realise these gains certain costs will be involved such as legal, marketing and tax liabilities.

Legal

33. There are no direct legal implications associated with this report. There are, however, legal and tax implications arising from using the homeless reductions grant funding. These implications would be covered in a future report.

Risks/Opportunities

34. There is no risk to the Council from accepting the Ermine Street Housing Business Plan.
35. However, there is a risk (SR25) that the investment in Ermine Street Housing fails to deliver a return. There are three controls in mitigation:
 - a. Strong financial management.
 - b. House price deflation: house prices are more resilient in the Cambridgeshire area. The Business Plan is less dependent on property value, rental income is more important.
 - c. Property condition: properties are generally new and in good condition. Ermine Street Housing has stock condition survey data to allow longer term investment plans together with an asset and disposal strategy.
36. Investment in the current portfolio provides a return to the Council, and risk is mitigated by ensuring that all acquisitions/investments meet the agreed viability criteria.
37. Ermine Street Housing maintains its own risk register which is monitored by the Board of Directors. The board make up is: two nominated SCDC councillors, two SCDC senior officers, and two independents (1 of which is currently vacant).

Climate Change

38. ESH mainly purchases properties that EPC rating C and above, where the rating is lower than a C, surveys have been carried out, and contractors have been appointed to assess the energy efficiency and carry out works to improve the ratings, these are short term measures.

39. In the longer term the asset management strategy and stock condition survey will be used to improve the energy efficiency of the portfolio, which move the ESH to Net Zero Carbon and provide energy savings for tenants.

Alignment with Council Priority Areas

Growing local businesses and economies

40. The Company employs a range of local businesses to undertake repairs and maintenance, cleaning, and lettings and management.

Housing that is truly affordable for everyone to live in

41. The Company offers some sub-market rental accommodation particularly in the MOD leased stock. Additionally, the Company leases homes to Shire Homes Ltd, that are used as Houses in Multiple Occupations (HMOs) to provide housing for single homeless people and other homes that are used for temporary accommodation for homeless families.

42. The Additional Growth report received at Cabinet on 6 February 2024 proposes to allow the Company to purchase additional homeless single person accommodation to prevent the use of expensive temporary accommodation.

Being green to our core

43. The energy efficiency measures being taken as mentioned above in paragraphs 38 and 39.

A modern and caring Council

44. The business activities of the Company generate income for the Council to invest in services for local people.

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection:

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person

seeking to inspect the documents at the offices of South Cambridgeshire District Council.

The following documents are relevant to this report:

- Business Case for Ermine Street Housing: Report to Cabinet – 12 November 2015
- Business Case for Ermine Street Housing: Report to Council – 26 November 2015
- Ermine Street Housing – Re-phasing of Lending: Report to Cabinet – 7 November 2018
- Ermine Street Housing – Re-phasing of Lending: Report to Council – 29 November 2018
- South Cambs Limited trading as Ermine Street Housing: Review of Business Direction- 2 September 2020
- Ermine Street Housing - Additional Growth- Cabinet 6 February 2024

Appendices

Appendix A: Ermine Street Housing Business Plan Update (exempt – not for publication by virtue of Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972).

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