



**South
Cambridgeshire
District Council**

REPORT TO: Council
LEAD OFFICER: Head of Finance

29 November 2018

Ermine Street Housing – Re-phasing of Lending

Purpose

1. To invite Council to consider the recommendation from the Cabinet, at its meeting held on 7 November 2018, to approve bringing forward lending of £13 million to Ermine Street Housing into 2018/19 by re-phasing the Capital Programme, and bringing forward budget from future years to enable the Company to continue the business expansion as agreed by Cabinet and Council in November 2015.

Recommendations

2. That Council approves bringing forward lending of £13 million to Ermine Street Housing into 2018/19 by re-phasing the Capital Programme and bringing forward budget from future years to enable the Company to continue the business expansion as agreed by Cabinet and Council in November 2015.

Reasons for Recommendations

3. To put in place the financial resources needed to enable the continued business expansion of Ermine Street Housing as agreed by Cabinet and Council in November 2015

Background

4. Ermine Street Housing are seeking a re-phasing of the lending approval to them, as supported by the Business Plan Amendment attached at confidential Appendix B (not for publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972).
5. As background, the Council approved a business plan for Ermine Street Housing in November 2015, which would see the Council lend the Company up to £100 million to acquire a portfolio of 500 properties over a 5 year period. Initially it was assumed that the acquisition profile would be relatively evenly spread across the 5 years.
6. In the earlier years of business expansion, the Company was not able to acquire as many as 100 homes per annum, and as a result the revised business plan approved by the Board and Council in early 2018 slowed down the pace of acquisition to ensure that the income expectation of the Council was not over-stated.

7. During 2018 the Company has significantly increased the pace of acquisition by extending areas, partnering with investment agents, and considering large scale acquisition opportunities.
8. This has proven hugely successful, with 78 acquisitions in 2018/19 to date, which include a number of multi-dwelling purchases. This is beneficial to the Council as the investment income will be received at an earlier stage than anticipated.
9. There are some good acquisition opportunities being presented currently, and the Company has made offers on a number of these, pending this decision by the Council.
10. There is a view in the sector that the opportunities in the market currently are as a result of uncertainty surrounding Brexit, and that these may not be available by this time next year once the Brexit deal has been finalised. At the same time regulatory changes have imposed further burdens on buy-to-let landlords with more impositions in the pipeline. These factors are causing some landlords to exit the market; as the Company is seeking to achieve a target of 500 homes, it is considered beneficial to both the Company and the Council to progress with these opportunities now.
 - (a) Hometrack reported in August 2018 that the impact on the UK economy of a hard or 'no deal' Brexit, and the knock-on impact for the housing market, has been a much debated topic. However, despite the uncertainty around Brexit compounding the market slowdown in high value areas such as Cambridge, Oxford and London, overall the UK city house price inflation is running at 3.9%, up on the 3.6% a year ago. There has been an increase in the quarterly and annual rate of growth in recent months. This is primarily as a result of an acceleration in house price growth in the most affordable cities such as Nottingham and Leicester. As a result, opportunities for investment arise in those areas and it is difficult to predict if those opportunities will still be available in the short term if a 'no deal' Brexit is on the cards next year.
[Source: Hometrack Insight Series-UK Cities House Price Index, August-July 2018].
 - (b) ARLA have noted that a significant number of individual landlords and investors continued to quit the buy to let market, thanks to the higher stamp duty costs and the phasing out of mortgage tax relief and increased regulation. Estate agents have reported an increase in landlords selling properties across their branches.
[Source: The Association of Residential Letting Agents - ARLA PropertyMark December 2017]
11. The accelerated business activity would result in the Council receiving investment income more quickly than planned, allowing resource to be re-invested in other Council services.
12. The impact of these changes from the Council's perspective will only be a change in the timing of the lending. The Council has already agreed to lend Ermine Street Housing up to £100 million. This acceleration of acquisitions will not mean that the total lending sum is breached but will mean that the funds will simply be required over a shorter timeframe, with the Council receiving increased investment income more quickly. This would provide an estimated £120,000 per annum to the Council in terms of interest receipts earlier than anticipated.

13. Cabinet considered and endorsed the amendment to the Ermine Street Housing Business plan (attached at confidential Appendix A) at its meeting held on 7 November 2018 and agreed to recommend Council to bring forward the lending of £13m to Ermine Street Housing into 2018/19 by re-phasing the Capital Programme and bringing forward budget from future years to enable the continued expansion of the Company as previously agreed by Cabinet and Council in November 2015

Implications

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

Financial

15. The impact of these changes from the Council's perspective will only be a change in the timing of the lending as detailed in paragraph 12 above.

Legal

16. There are no direct legal implications associated with this report.

Staffing

17. There are no direct staffing implications associated with the decisions requested in this report.

Equality and Diversity

18. There are no direct equality and diversity implications associated with this report.

Climate Change

19. There is no direct climate change impact associated with this report.

Consultation responses (including from the Youth Council)

20. There are no direct implications associated with this report..

Effect on Strategic Aims

The proposal aligns with the aim for the Council to generate its own income to invest in services for local people.

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).

Background Papers

None

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