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| Report to: | Cabinet | 22 March 2022 |
| Lead Cabinet Member: | Councillor John Williams, Lead Cabinet Member for Finance Councillor John Batchelor, 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 Business Plan 2021/2022 to 2030/2031

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 2021/2022 to 2030/2031.**

Reasons for Recommendations

6. 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 (ii) acknowledge the changes in the financial assumptions and the financial return to the Council resulting from the business activity.
7. The original objective of the Company was to deliver 500 homes over the 5-year period 2016/2017 to 2020/2021 and the expectation is that this will now be achieved in year 2021/22.
8. Following a report by an independent consultant to consider the future direction of the Company, Cabinet decided in September 2020 to continue with the expansion programme until the 500-property target has been accomplished which was anticipated to be in the calendar year ending 2021 but has now slipped to March 2022. However, this date is reliant on timely completions of conveyancing for those remaining properties in the pipeline.

Details

Background

9. In November 2012, the Council set up a subsidiary housing company registered as South Cambs Limited (SCL). SCL has been trading under the name Ermine Street Housing (ESH) since 2014 and continues to operate as an independent property company wholly owned by the Council. The principal activities of the Company are to manage both purchased and leased properties for the purpose of residential lettings. The Company aims to provide a quality service in this sector.
10. The Council adopted a Business Plan for ESH in November 2015 and, in line with the original objectives, capital allocations of up to £100 million have been made since 2016/2017 to enable the Company to increase the property portfolio over a 5-year period, until 500 homes are owned and rented by the Company on assured short-hold tenancies. The current property portfolio is geographically located in Cambridgeshire, Suffolk, Northamptonshire, Leicestershire, Leeds and Nottinghamshire.
11. It was initially assumed that the acquisition profile would be relatively evenly spread across the 5 years but, in the earlier years of business expansion, the Company was not able to acquire as many as 100 homes per annum. Cabinet, at its meeting held on 7 November 2018, considered and endorsed the amendment to the Company Business Plan and Council, at its meeting 29 November 2018, approved the re-phasing of the capital programme to ensure that financial resources were aligned to realistic business expansion timescales for achieving the target of 500 homes in the timescales envisaged by Cabinet and Council in November 2015.

12. The Company now has 477 properties. There was an expectation that the original business plan objective would be achieved by the target date of 31 March 2021. However, there have been challenges during the pandemic and the target date has been put back to March 2022.

Refreshed Business Plan 2021/2022 to 2030/2031

13. The Company's 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.
14. 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.
15. 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.
16. The Company is on target to achieve the target of 500 homes by March 2022. The Company will continue to work closely with council colleagues to explore further opportunities beyond 2022-2023. Any additional borrowing to facilitate expansion beyond the 500 target will be subject to Council approving a business case and a refreshed Business Plan.
17. To date lending has been achieved by using the Council's own resources, resulting in a better rate of return for the Council because it is not having to pay interest charges on borrowed money.
18. Should the Council be required to borrow it should be noted that the interest uplift achieved by the Council will significantly reduce and will be dependent upon the underlying rate at which the Council can borrow.
19. A significant factor for the Council is the 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.
20. Consequently, it is possible that from April 2023 onwards, the Council would need to set-aside at least 2% per annum on all sums loaned to the Company.
21. Representations have been made in response to the consultation, in the hope that an exemption may be granted for the provision of housing.
22. Tables 1-4 in pages 43-45 of the Business Plan provide illustrative examples of the impact should MRP be applied to future lending. The Council could mitigate by imposing higher interest rates on the Company and this has been modelled as part of the sensitivity analysis, with the findings presented in Appendix H of the Business Plan.

23. The outcome of the consultation on MRP is critical in respect of future lending to the Company, as although any MRP is not physically lost from the Council, the resource is tied up for the life of the asset or loan, and therefore means that there is no available resource for investment in council services, which was the primary aim when setting up Ermine Street Housing.
24. Assuming that following the MRP consultation the provisions were to be implemented from April 2023 as currently proposed, the Council could be required to make MRP on all of the existing lending to the Company.
25. If the Company is not able to support higher interest payments to offset the impact of MRP for the Council, there may be the need to consider alternative options such as dissolving the Company and disposing of the asset portfolio.
26. For the Council this would mean losing the annual loan interest payments currently £3.2million which is used to support revenue spending.
27. If the Council were to retain the Company, and MRP were applicable on all of the acquisition loans (loans from the Council for the purchase value of the asset, as opposed to cash flow loans given for general operational activity, which are repayable as soon as the Company cash flow allows), the net return to the Council each year would be £1.5million as opposed to the current £3.2million leaving a budget gap of £1.7million.
28. Scrutiny and Overview Committee at their meeting on 3 March 2022 supported the recommendations in this report and the refreshed Business Plan. The following comments were made which could impact the Company and were noted:
- Impact of the crisis in the Ukraine.
 - The impending changes in VAT.
 - MRP and future ownership of the portfolio.
 - Climate change initiatives.
 - Increase in energy costs and other costs of living increases.
29. The Company has accepted the suggestion to include a section on climate change and energy efficiency initiatives in the next version of the Business Plan.

Implications

30. 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

31. Ermine Street Housing acquires property on the open market, borrowing at market interest rates via South Cambridgeshire District Council. Ermine Street Housing then lets the property at market rents to facilitate a reasonable pay back of the investment.
32. In February 2018 the Secretary of State issued new guidance on Local Government Investments (the Guidance), which widened the definition of an investment to include all the financial assets of a local authority as well as other non-financial assets held primarily or partially to generate a profit. This wider definition includes investment property portfolios as well as loans made to wholly owned companies or associates, joint ventures or third parties. The Guidance applies for financial years commencing on or after 1 April 2018.

Legal

- 21 There are no significant direct legal implications.

Staffing

- 22 There are no significant direct staffing implications.

Risks/Opportunities

- 23 The Ermine Street Housing risk register has been thoroughly reviewed, updated, and uploaded onto the Council's risk management system. The key risk now is the MRP consultation followed by the impact of the pandemic and the resulting rent arrears.

Equality and Diversity

- 24 There are no significant equality and diversity implications.

Climate Change

- 25 Ermine Street Housing works closely with the Council's Climate and Environment Team to take opportunity of funding available for additional insulation, reducing energy costs for the tenants, thereby reducing carbon emissions.
- 26 Likewise in partnership with Green Energy Switch there are further opportunities to take advantage of grants and funding available for similar measures.

Health & Wellbeing

27 There are no significant implications for health and wellbeing.

Consultation responses

28 Consultation was not required.

Alignment with Council Priority Areas

Growing local businesses and economies

29 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

30 Company offers some sub-market rent accommodation and works with Shire Homes Ltd to provide temporary accommodation for homeless people and families.

Being green to our core

31 As mentioned above the Company works in partnership with the Council's Climate and Environment Team and Green Energy Switch.

A modern and caring Council

32 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

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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