

Report to:	Cabinet	20 March 2023
Lead Cabinet Member:	Councillor John Batchelor, Lead Cabinet Member for Housing Councillor John Williams, Lead Cabinet Member for Resources	
Lead Officer:	Peter Campbell, Head of Housing Peter Maddock, Head of Finance	

South Cambs Limited trading as Ermine Street Housing: Review of Business Plan 2022/2023 to 2031/2032

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) **Note, in their capacity as shareholder, the Ermine Street Business Plan for the period 2022/2023 to 2031/2032.**

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 (iii) 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 this was achieved in 2021/2022.
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 occurred in March 2022.

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 target was achieved in March 2022. The properties are all let by the Company on assured short-hold tenancies. The 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. There was an expectation that the original business plan objective would be achieved by the target date of 31 March 2021. However, there were challenges during the pandemic and the target date was put back to March 2022. The Company achieved the target of 500 properties having spent £94.635 million.

13. Further opportunities were presented to the Council, and it was agreed that the Company could pursue these opportunities in the financial year 2022-23. The total spend is anticipated to be £5.2 million taking the overall spend to £99.8 million. The properties include a combination of a newly built block of 3 apartments, a newly refurbished block of 10 one bed flats, a mixture of residential/commercial with flats in Peterborough City Centre and 9 apartments on an estate where the Company obtained the freehold of a further 14 units, providing additional income.
14. This amounts to 30 lettable units. All acquisitions are in the defined 'investment area' which is the Greater Cambridge commuting pattern as identified in the Cambridgeshire and Peterborough Independent Economic Review (September 2018).
15. To date the expenditure is £97.375million and conveyancing is taking longer than expected on the remaining properties in the pipeline, and consequently expenditure may slip into 2023/2024.

Refreshed Business Plan 2022/2023 to 2031/2032

16. 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.
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. The Company met the target to achieve 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.
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. The proposed rate applicable from 1st April 2023 of 4.25% is in line with what the council could achieve by lending to another local authority, bank or building society.
21. The Company's Board of Directors agreed the Business Plan at their board meeting on 2 February 2023.
22. Regarding the State Aid position and subsequent Subsidy Control Act, April 2022 (pages 36/37 of the Business Plan), the Board considered it would be prudent for the Council to seek an expert external legal opinion on the position for the Council

and Company in this regard. Any resulting impact for the Company will be reported in future iterations of the business plan.

23. A significant factor for the Council is the 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.
24. 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.
25. Representations have been made in response to the consultation, in the hope that an exemption may be granted for the provision of housing.
26. 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.

Implications

27. 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

28. 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.
29. 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

30. There are no significant direct legal implications.

Staffing

31. There are no significant direct staffing implications.

Risks/Opportunities

32. The Ermine Street Housing risk register has been thoroughly reviewed, updated, and a version produced for the Council's risk register. The key risk now is the impact of the cost-of-living crisis and the potential for increasing rent arrears.

Equality and Diversity

33. There are no significant equality and diversity implications.

Climate Change

34. 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 cutting carbon emissions. However, take up is limited because funding is reliant on tenant take up, and is subject to minimum income requirements, and most of the Company's tenants would not qualify because of the income criteria.

35. Considering the above, Ermine Street Housing took the decision to employ the Council's energy efficiency contractor Aran Insulation. Aran have been requested to survey properties in Cambridgeshire and advises of the required energy efficiency measures to improve the EPCs of the property. The works include loft insulation, cavity wall insulation, improved lighting, and recommendations for new boilers.

Health & Wellbeing

36. There are no significant implications for health and wellbeing.

Consultation responses

37. Consultation was not required.

Alignment with Council Priority Areas

Growing local businesses and economies

38. 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

39. 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

40. As mentioned above the Company works in paragraphs 34 and 35.

A modern and caring Council

41. 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).

Report Author:

Duncan Vessey – Head of Ermine Street Housing
Telephone: (01954) 713139