



CAMBRIDGE CITY HOUSING COMPANY - UPDATE 2022

CAMBRIDGE
CITY COUNCIL

To:

Councillor Anna Smith, Leader and Executive Councillor for Strategy and External Partnerships

Strategy and Resources Scrutiny Committee 07/02/2022

Report by:

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Wards affected:

All

The appendix to the report contains exempt information during which the public is likely to be excluded from the meeting subject to determination by the Scrutiny Committee following consideration of a public interest test. This exclusion would be made under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Not a Key Decision

1. Executive Summary

- 1.1 This report presents an update on the council's intermediate housing company, Cambridge City Housing Company Limited (CCHC). The updated business plan for CCHC for the period 2021/22 – 2030/31 is attached.
- 1.2 CCHC performed well over the past year in terms of letting with low void levels, minimal arrears, and low levels of antisocial behaviour over the past year. The Annual General Meeting will be held on 16 March 2022.

- 1.3 Since Covid-19, CCHC leased 5 properties from the council to re-let to rough sleepers to help meet their needs, providing accommodation to help keep them safe and provide support. Having operated this model for just over 12 months, it is evident that the shared accommodation model is not suitable for a number of the residents who have been placed in these units. The company is seeking to bring the existing tenancies to an end through the court process and will enter into discussions with the council about the future use of the homes. At the request of the council, one of these leases for a vacant dwelling has been collapsed prematurely to meet a greater housing need.
- 1.4 Financially in 2020/21, CCHC generated a small surplus in direct trading activity of £86,824 (2019/20, £73,882) with a decrease in the value of the investment property by approximately £30,000 or 0.4%, to just under £7.9m.

2. Recommendations

The Executive Councillor is recommended to:

- 2.1 Note the comments of the Strategy and Resources Scrutiny Committee on the draft business plan; and
- 2.2 Inform the Board of Directors of Cambridge City Housing Company of the comments of the Strategy and Resources Scrutiny Committee/Council for consideration in finalising the business plan
- 2.3 As the company's sole shareholder, confirm continuing support for the company and recommend refinancing of the company for a further five years at 2.02% p.a., subject to review on the occurrence of any of the conditions set out in paragraph 4.9 of this report.

3. Background

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- 3.1. CCHC was established in February 2016 to alleviate some of the pressures on the intermediate housing market in Cambridge. It is an independent property company, wholly owned by Cambridge City Council.
- 3.2 The objectives of the company are to provide and manage housing that is affordable for those in housing need and any other property

related activity in Cambridge and neighbouring districts, whilst also generating a financial return for the council.

- 3.3 CCHC owns 23 market housing units at Water Lane and Aylesborough Close let at sub-market rent. In 2020, at the request of the council, it leased five properties from the council's housing stock to let to people who were rough sleepers pre-Covid-19. The company currently retains four of these leased properties and is fully indemnified by the council for void loss, bad debts, legal costs and abnormal repair costs.
- 3.4 The council's Town Hall Lettings team provide property management services for CCHC's properties and this has been a successful partnership. They provide a good service, dealing with all day to day matters arising and have developed good relationships with the tenants. The coronavirus pandemic has seen their involvement with tenants increase but no significant issues have arisen so far.
- 3.5 CCHC's Annual General Meeting will be held on 16 March 2022. All Councillors are invited to the meeting at which the business plan will be presented.
- 3.6 The Board of Directors is the decision-making body for CCHC. As agreed, the council as shareholder gives direction to the Board through the recommendations of the Finance and Resources Scrutiny Committee arising from this update report and consideration of the draft business plan attached as Appendix A.

4. Refinancing the company

- 4.1 The company is currently financed by a loan from the council of £7.5m at 2.02% p.a., returning £151,500 interest to the council each year. The loan matures in April 2022 and requires renewing for the company to continue to trade.
- 4.2 The interest rate was originally set to comply with the EU State Aid regulations and to return a small margin above normal cash deposit rates to the council. Based on an average cash deposit rate of 0.62% at September 2021, this is a margin of 1.4% or £105,000.
- 4.3 **Subsidy Control Regime:** Following the United Kingdom's exit from the EU, State Aid regulations no longer apply. However, the Government is introducing a Subsidy Control Regime to replace these regulations, publishing the Subsidy Control Bill on 30 June 2021. The bill presents seven subsidy control principles but appears to require

further regulation to determine how the principles will be applied. Therefore, the impact of the Subsidy Control Regime on the loan to CCHC cannot be evaluated at this time.

- 4.4 **Interest rates and return to the council:** The Bank of England base rate was increased from 0.1% to 0.25% in December 2021 and is expected to rise to 1.0% by the end of 2022 in response to inflationary pressures. It is therefore difficult to determine a rate in line with the company's objective of generating a financial return for the council, but that will be affordable for the company
- 4.5 **Viability for the council and CCHC:** Current financial modelling undertaken to support the CCHC business plan indicates that an interest rate of 2.5% or higher is unsustainable for the company. Any reduction in the current interest rate of 2.02% will create a budgetary pressure for the council.
- 4.6 The council is expected to move into a net borrowing position within the next few years subject to the pace and scale of capital spending. At that point, the council will incur interest charges in providing the loan to CCHC, producing a further budgetary pressure of £75,000 p.a. for each 1% of interest suffered.
- 4.7 **Minimum Revenue Provision (MRP):** The Department for Levelling Up, Housing and Communities (DLUHC) has issued a consultation on the calculation and application of MRP which closes on 8 February 2022, the outcome of which is expected to be effective for 2023/24 onwards. Where capital expenditure is funded from borrowing, a prudent annual charge to revenue is required to ensure that the borrowing can be repaid.
- 4.8 The loan to CCHC is classed as capital expenditure. The council currently funds the loan through use of its cash balances, also known as internal borrowing. The council's MRP policy, approved annually in the Treasury Management Strategy Statement, does not require MRP to be charged, as the loan is secured on the investment properties of CCHC. However, the consultation specifically addresses the application of MRP to capital loans, so this approach may not be available to the council in future. Charging MRP on this loan would create a further pressure of £150,000 p.a. on the council's revenue budget. This is equivalent to an additional subsidy of £6,500 p.a. for each of the 23 properties, in addition to the existing market rent discount.

4.9 To provide some certainty for the company it is recommended that the term of the loan is increased from three to five years and that the interest rate is maintained at 2.02% p.a. However, based on the risks and uncertainties summarised above, the loan should be subject to review and possible termination if:

- The Subsidy Control Regime adversely impacts the legality and viability of the loan
- MRP is found to apply to the provision of the loan, such that the support provided to the company by the council is no longer viable and/or value for money in relation to the achievement of the council's objectives
- The council becomes a net borrowing authority, with the resulting interest charges required to support the CCHC loan further impacting the viability and/or value for money of the council's support for the company.

4.10 If termination of the loan were to become necessary, the company would have to seek alternative financing or sell the properties in order to repay the loan to the council.

5. Future development of the company

5.1 As the 100% shareholder of the company, the council will continue to explore how the company can be funded and developed to meet its dual objectives in respect of meeting housing need and a financial return, within acceptable levels of risk. Opportunities that may arise, for example, through the Cambridge Investment Partnership, will be considered and where appropriate reports brought back to committee to seek additional funding.

5.2 Over summer 2021, the company explored the feasibility of expansion by up to 250 homes over a five year period, working with both the council as shareholder and an external advisor organisation. Both funding and delivery options were examined, as were options for retrofitting the purchased homes to net-zero carbon standards. Initial work indicated that a viable scheme might be possible, subject to certain design constraints, such as property prices and availability and funding options.

5.3 More detailed work is now being undertaken, and further external advice is being sought in respect of any legal, treasury, accounting

and tax implications before any final recommendations are made for approval to both the company and council as shareholder.

5.4 The business plan has been constructed using the base assumption that the company remains as is (Business Plan Appendices C to E), but with the business expansion option included as a sensitivity (Business Plan Appendices C(1) to E(1)), using the data and conclusions derived from feasibility work conducted by Cambridge City Council and the external advisory organisation during the summer of

5.5 The business plan for CCHC for the period 2020/21– 2030/31 is at Appendix A for the committee’s consideration and comment.

6. Implications

a) Financial Implications

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Housing management services are supplied to the company by the Council’s Town Hall Lettings team. Council staff provide director, company secretary and administrative support to CCHC, charged to the company at cost.

The company has loans from the Council of £7.5m and deferred tax liabilities of c£51k.

Rents have been reviewed in line with market conditions and increased where appropriate in line with local market conditions and CCHC’s sub market rent approach. Market pressure on rents for some of the properties, however, has suppressed rents to some degree compared to the original business plan, exacerbated by the coronavirus pandemic. CCHC has been flexible in dealing with issues arising since March 2020 but has managed to maintain income levels with low void levels to date.

The council received interest payments on its loan to CCHC of £151,500 in 2020/21. No dividend was paid as it was considered prudent to retain cash in the business to cover additional repair and maintenance costs and establish appropriate sinking funds for future expenditure. The company is undertaking condition surveys to inform these future costs.

b) Staffing Implications

Housing management services are supplied to the company by the council's Town Hall Lettings team. Council staff provide director, company secretary and administrative support to CCHC, charged to the company at cost.

c) Equality and Poverty Implications

No Equality Impact Assessment has been done as this is a continuation of an existing service.

d) Net Zero Carbon, Climate Change and Environmental Implications

The current properties have Environmental Performance Certificates of good Bs with limited recommendations which would only marginally increase the EPC score. A typical EPC for the properties is shown below:

Score	Energy rating	Current	Potential
92+	A		
81-91	B	87 B	88 B
69-80	C		
55-68	D		
39-54	E		
21-38	F		
1-20	G		

Although the CCHC properties perform relatively well compared to many properties, they do not meet net zero carbon. To achieve net zero carbon will require retrofitting in the future and further investment in the properties.

The current CCHC business plan does not have a strategy for improving the environmental performance of its existing properties. As a small part of the council's housing provision, it is not proposed that CCHC do independent design work on retrofitting its properties at present. CCHC will work with Estates and Facilities, learning from the work it is doing in respect of retrofitting the Council's significant HRA portfolio to achieve the required environmental performance. Subsequent CCHC business plans will incorporate a strategy as to how

the properties can be improved, the required level to be achieved and how this can be financed.

e) Procurement Implications

The company procures services in line with the council's procurement regulations.

f) Community Safety Implications

None.

5. Consultation and communication considerations

None, as this report recommends actions that will ensure the continuation of services provided by CCHC.

6. Background papers

Background papers used in the preparation of this report:

- Cambridge City Housing Company Ltd Annual Report and Financial Statements for the Year ending 31st March 2021
- Ensor's Final Management Report for the Year ending 31st March 2021

7. Appendices

Appendix 1 – Confidential – Cambridge City Housing Company Ltd Business Plan 2021-22 – 2030/31

8. Inspection of papers

To inspect the background papers or if you have a query on the report please contact Caroline Ryba, Head of Finance and section 151 Officer, tel: 01223 - 458134, email: caroline.ryba@cambridge.gov.uk.