

Cambridge City Housing Company Update

**To:**

Councillor Mike Davey, Executive Councillor for Finance, Resources and Transformation

Strategy and Resources Scrutiny Committee 30 January 2023

Report by:

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Wards affected:

All

1. Executive Summary

- 1.1. This report presents an update on the council's wholly owned housing company, Cambridge City Housing Company Limited (CCHC). The updated business plan for CCHC for the period 2022/23 – 2031/32 is attached.
- 1.2. CCHC performed well over the past year in terms of letting its own stock, with low void levels, minimal arrears, and low levels of antisocial behaviour over the past year. The Annual General Meeting will be on 8 March 2023.
- 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. However, this model has proved to be unsuitable for this cohort and as tenancies are brought to an end, at the request of the council these leases are being collapsed prematurely.

- 1.4. Financially in 2021/22, CCHC generated a profit before tax of £310k, including an increase of £226k, or 2.86%, in the value of the investment property, which is now worth c£8.1m.

2. Recommendations

- 2.1. The Executive Councillor is recommended to:
 - 2.1.1. Note the comments of the Strategy and Resources Scrutiny Committee on the draft business plan; and
 - 2.1.2. To inform the board of directors of Cambridge City Housing Company of the comments of the Strategy & Resources Scrutiny Committee for consideration in finalising the Business Plan

3. Background

- 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.
- 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.
- 3.5. CCHC's Annual General Meeting will be held on 8 March 2023. All councillors are invited to this meeting at which the business plan will be presented.
- 3.6. The board of directors make decisions for the company. As agreed, the council as shareholder gives direction to the board through the recommendations of the Strategy and Resources Scrutiny Committee arising from this update and the draft business plan attached as **Appendix A**.

4 Company financing

- 4.1 The company is currently financed by a loan from the council of £7.5m at 2.02% p.a. secured on the investment properties of CCHC. The loan returns £151,500 interest to the council each year. 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. The loan matures in April 2027, when it will need to be renewed for the company to continue to trade.
- 4.2 Following the United Kingdom's exit from the EU, the government has introduced a Subsidy Control Regime to replace the EU's State Aid regulations. The council is taking legal advice on the impact of the new regime on the loans given to CCHC. Early indications are that any subsidy, calculated as the difference between the interest rate charged by the council and a market rate that would be available to CCHC, would be allowable due to the nature of CCHC's business, but would require disclosure.
- 4.3 In December, the Bank of England base rate was increased to 3.5%. The council's average cash deposit rate for the final six months of the 2022/23 financial year is expected to be around 3.35%, resulting in a potential annual shortfall for the council, or support to CCHC, of around 1.3% or £98,000. So, whilst the company is generating a financial return to the council, it is now markedly below what the council could achieve through its treasury activities.
- 4.4 It should be noted that current financial modelling undertaken to support the CCHC business plan indicates that an interest rate of 2.5% or higher would require far higher re-financing of borrowing at the end of the business plan term and is unsustainable for the company.
- 4.5 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. This would produce a budgetary pressure for the council equal to the interest difference between the council's borrowing rate and the 2.02% currently paid by CCHC on the loan. This pressure would equate to £75,000 p.a. for each percentage point of interest difference.

4.6 As reported last year, the Department for Levelling Up, Housing and Communities (DLUHC) has consulted on the calculation and application of Minimum Revenue Provision (MRP). The final outcome of the consultation is awaited, with implementation unlikely until 2024/25 at the earliest. If the council is required to charge MRP on the loan, it would create a pressure of £150,000 p.a. on the council's revenue budget, equivalent to an additional subsidy of £6,500 p.a. for each of the 23 properties, in addition to the existing market rent discount.

4.7 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
- The level of financial support provided is considered to be unsustainable, including:
 - 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

4.8 If termination of the loan were to become necessary, the company would have to seek alternative viable 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 The company has explored the feasibility of expansion by up to 250 homes over a five-year period, with a final report presented to Strategy and Resources Scrutiny Committee in July 2022. Initial work indicated that such a scheme would be feasible but adverse movements in market conditions meant the scheme was considered to be unviable in July 2022. As agreed, the directors of the company monitor expansion metrics on a quarterly basis, with a view to bringing forward the scheme should conditions improve, and it becomes deliverable. The metrics are included at Appendix C of the business plan.
- 5.3 The business plan has been constructed on the assumption that the company remains as is with sensitivities modelled in Appendix H.

6. Implications

a) Financial implications

Covered in the report.

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 & 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

g) Consultation and communication considerations

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

7. 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 2022
- Williamson & Croft Audit Findings Report the Year ended 31st March 2022
- Strategy & Resources Scrutiny Committee Report and Minutes – ‘Potential Expansion of Cambridge City Housing Company Limited’ – 11th July 2022

8. Appendices

Appendix A: Cambridge City Housing Company Ltd Business Plan
2022/23 – 2031/32

9. Inspection of papers

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