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

CAMBRIDGE CITY
HOUSING COMPANY

November 2022

Version Control

	Version	Audience	Anticipated Content
Current	1	Board	Draft Business Plan for review
	2	AGM	Draft Business Plan for review
	3	Board	Final Board Approved Version
	4		
	5		

Contents

Appendices

Section 1

Executive Summary and Introduction

Executive Summary

Cambridge City Housing Company (CCHC) Ltd, incorporated in February 2016, has a portfolio of 23 acquired homes. The company, wholly owned by Cambridge City Council, was established to alleviate some of the pressures on the intermediate housing market in Cambridge. whilst also generating an income to the Council.

The Housing Company currently owns housing at Water Lane and Aylesborough Close, Cambridge, let at sub-market rental levels. The acquisitions are financed by loans from Cambridge City Council with the interest payments on the maturity loan being met from the rental income.

The acquired property portfolio continues to remain let, with low levels of void and rent arrears.

During 2020/21, CCHC agreed to assist the Council in providing move on accommodation for rough sleepers, housed under emergency measures due to the coronavirus pandemic. To facilitate this, CCHC entered into lease agreements for five HRA dwellings, with the properties sublet to up to ten rough sleepers. An indemnity agreement was entered into to de-risk the position for the Company by meeting void loss, bad debts, legal costs and abnormal repair costs.

Following operation of this scheme for 2 years, it is evident that the accommodation does not meet the needs of this specific client group. Financial assistance has not been sought by the occupants, rents have not been paid and there have been a number of housing management and anti-social behaviour issues. The Council has therefore concluded that the scheme should be brought to an end, with 4 of the 5 leases having been terminated at the time of writing this report, and the remaining lease expected to cease in the coming weeks.

In 2021/22, the Council as shareholder and CCHC commissioned Social Finance to undertake a feasibility project for a proposed expansion of the Company. The project explored the potential for the Company to acquire up to 250 additional homes over a 5 year period, with the homes to be let at sub-market rents, particularly focussed on meeting an identified housing need for key workers in and around Cambridge.

Legal, accounting and tax advice was also sought as part of the feasibility project. before any recommendations were made to the Council as shareholder and primary lender.

Unfortunately, a combination of increased property values, borrowing rates and operational costs during the life of the project resulted in a recommendation to the Council in July 2022, not to proceed with expansion at the current time, but instead to keep the financial metrices under review quarterly, with a view to returning to the Council if the market changes. The Council also committed to exploring the potential for external financing through partner organisations.

This wholescale expansion and any one-off acquisition opportunities are now kept under review by the Company.

Business aims:

The objectives of Cambridge City Housing Company Ltd as stated in the Company's Articles of Association are:

"……..providing and managing housing that is affordable for those in housing need and any other property related activity in Cambridge and neighboring districts that also generates a financial return for the Council."

Cambridge City Housing Company Ltd is wholly owned by Cambridge City Council and it supports a Council corporate priority to tackle poverty by:

- *Addressing the high cost of housing, improving housing conditions, and reducing homelessness*

Financial summary:

Cambridge City Housing Company Ltd has a portfolio of 23 owned properties, which were acquired between May 2016 and February 2017 at a total acquisition price of £7,030,648. The Housing Company took a loan of £7,500,000 from Cambridge City Council, at an interest rate of 2.02%, to acquire the properties, to meet the costs of acquisition and provide initial cash flow.

Rents are intended to be set at 80% of market rents (intermediate rents) for Cambridge, adjusted for the geographical placement of the properties within the city.

The financial performance over the past 3 years was as follows:-

	Period ended 31 March 2022 £	Period ended 31 March 2021 £	Period ended 31 March 2020 £
Revenue *1	360,219	348,274	296,439
Administrative expenses	(121,218)	(107,616)	(71,057)
Gain/(Losses) on property revaluations	225,600	(30,100)	182.,900
Investment revenue	0	6	0
Finance costs	(154,539)	(153,840)	(151,500)
Profit/(Loss) before tax	310,062	56,724	256,782
Income tax expense	(58,912)	(10,778)	(49,902)
Total comprehensive profit / (loss)	251,150	45,946	206,880

*1 Revenue (Turnover) represents income in respect of the rental income and service charges from investment properties and leased dwellings.

In 2021/22, the Company turnover was £360,219 (compared with £348,274 in 2020/21) with a profit before tax of £310,162 (£56,724 in 2020/21). The property portfolio saw an increase in value of £225,600 during 2021/22, so the underlying 'trading' profit before tax was £84,462. The Company's investment property asset value at 31 March 2022 was £8,122,700 (£7,897,100 at March 2021).

At 31 March 2022, Cambridge City Housing Company had retained profits of £830,604, with £305,983 of this represented as cash in the bank. A Reserves Policy was approved in the last iteration of the Business Plan and is attached at Appendix G for information.

The latest 10 year income and expenditure projections, cashflow projections and associated balance sheet are presented in **Appendices C, D and E.** This shows that with the current operating model the Housing Company can continue to service the Council's loan and operate with positive cash flow but will not be in a position to fully repay the loan within the 50 year business model, and would instead be forced to re-finance a significant proportion of the loan or dispose of the assets at the point of maturity. This does not change the Council's exit plan, which would be to dispose of the entire property portfolio, unless values should fall significantly.

The Housing Company is not currently VAT registered, but the position is subject to ongoing review as part of exploring any potential to expand the business offering, with joint employment contracts for Council staff still an option to be fully explored. Financial appraisals continue to assume that VAT will be charged at 20% for services provided by the Council, and that this will form part of the total costs incurred by the Company. The Housing Company is liable for corporation tax, with external auditors engaged to undertake the tax computations and to advise on the tax position.

Any future acquisitions would require funding and this could be additional loans from Cambridge City Council or through other external borrowing.

Company Background

Key personnel and experience

The company retains 3 Directors and a Company Secretary, all Cambridge City Council officers: Caroline Ryba, Head of Finance; James Elms, Head of Commercial Services; Julia Hovells, Assistant Head of Finance and Business Manager and Dave Prinsep, Head of Property Services. These officers are the Company Directors and Company Secretary respectively as registered with Companies House.

The Company has no direct employees and operates utilising existing Council officers whose time is recharged to the Company. Day to day management of the Company is led by Dave Prinsep (the Council's Head of Property Services), Julia Hovells (Assistant Head of Finance and Business Manager) and Paul Sinclair (Letting Agency Manager). Operationally the staff who manage the company on a day to day basis each have over 20 years' experience of property, housing and financial management in both the public and private sector.

The potential to move staff to operate under joint employment contacts still need to be explored by the Council.

Company Structure and Governance

Governance - Board of Directors

The Housing Company is wholly owned by Cambridge City Council and is strategically managed by a governing body. There are three Directors, all of whom are Council Officers: Caroline Ryba, the Council's Head of Finance and S151 Officer, James Elms, Head of Commercial Services and Julia Hovells, Assistant Head of Finance and Business Manager. The Company Secretary is Dave Prinsep, Head of Property Services who services the Board, oversees set-up of the management, maintenance and other service contracts for the Companies' properties and is also the lead officer for the Council who monitors the activities of the Housing Company. The Directors and Company Secretary are not paid directly for their roles.

From a procurement perspective the Housing Company is 'Teckal compliant' i.e. it is able to receive services from the Council without needing to tender for them.

Governance – Roles and Responsibilities of Directors

The Board's responsibilities include, but are not limited to:

- Agreeing the strategic direction for the company
- Management and monitoring of performance
- Setting key priorities
- Financial planning
- Approval of the business plan
- Approval of target rent increases to be sought
- Budgetary control
- Risk management
- Approval of company policy
- Approval of company procedures
- Approval and sign off of annual accounts

Board meetings are held quarterly or as decisions are required. The Board considers regular reports from the Company Secretary, Assistant Head of Finance and Business

Manager and the managing agent in respect of both finance and performance. The company produces a formal set of annual accounts, including; director's report, balance sheet, profit and loss account, associated notes and an auditor's report. An annual corporation tax return is completed.

Cambridge City Housing Company Limited have employed Williamson and Croft as independent auditors for the company from 2021/22 onwards. Accounts are filed with Companies House and are available for public inspection. The auditors also support the corporation tax computation process and submit corporation tax returns to HMRC in the required company formats.

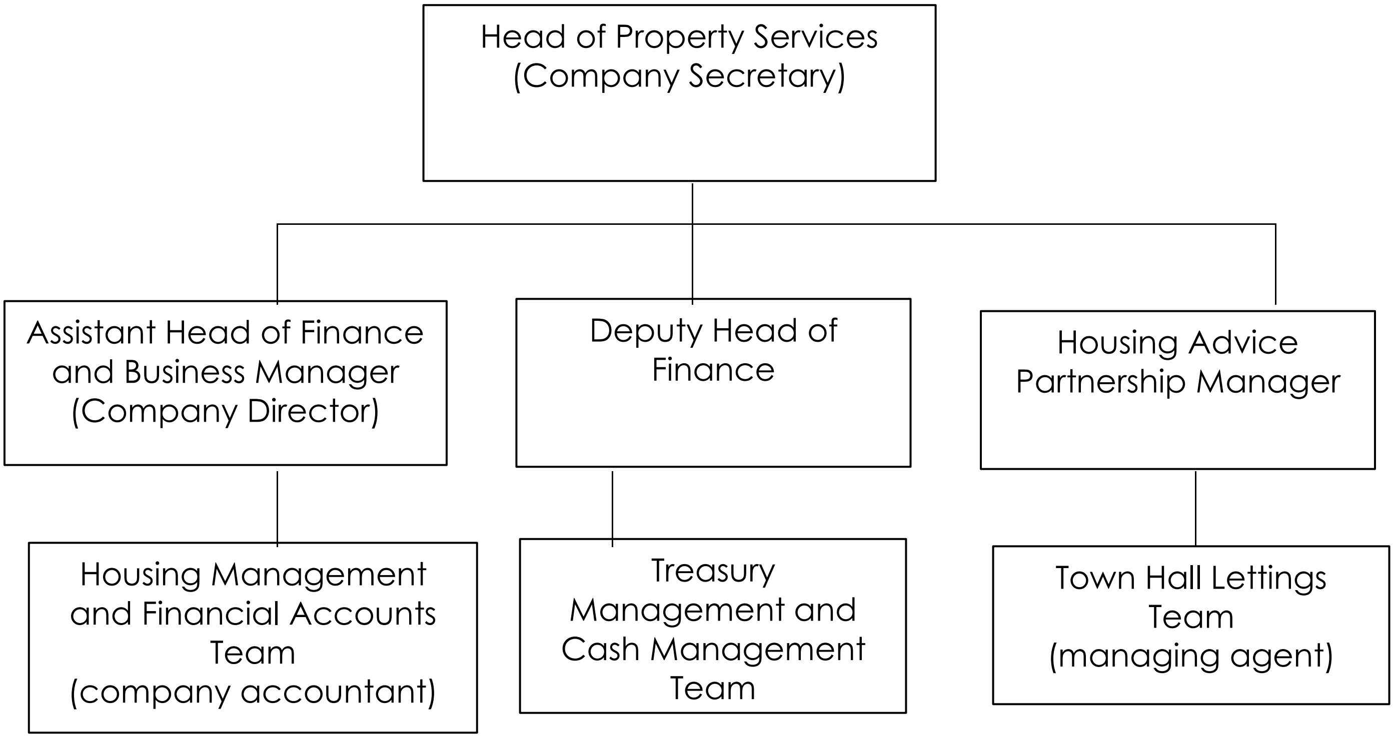
Staff Structure

There are no staff directly employed by the Company, but instead Cambridge City Council employees work on behalf of the Company with their costs of employment recharged directly to the Company, either on a fixed fee for the management service provided or on a time spent basis for all other employees deployed in supporting the Company. The option for the Council to employ staff on joint employment contracts is still under considered, and the potential to employ staff directly would be reviewed if the business model were to grow.

Delivery of services to the Company is through existing Council staff structures and services as follows:

- Town Hall Lettings – responsible for property letting, tenancy management, rent collection, arrears recovery, property maintenance and contract management
- Housing Management and Financial - responsible for cash allocation, rent accounting, financial management, management accountancy and audit
- Treasury Management and Cash Management – responsible for banking, payments and treasury management
- Head of Property Services – responsible for leadership, day to day management and reporting to the Board

The Company operates in line with the structure below:



Other staff employed by the Council may provide services recharged to the company, to include, but not be limited to;

- HR
- Finance /Accountancy
- Internal Audit
- Legal
- ICT
- Building Surveying

Section 2
Property Portfolio

Current Property Holding - Owned

The current property assets held by Cambridge City Housing Company and their respective values are as follows:

No	Street	Property Type	Beds	Date of Acquisition	Value 31/3/22
7	Aylesborough Close	House	3	23/05/2016	£439,900
7A	Aylesborough Close	House	3	23/05/2016	£439,900
41	Aylesborough Close	House	3	14/10/2016	£439,900
42	Aylesborough Close	House	3	14/10/2016	£440,000
43	Aylesborough Close	House	3	14/10/2016	£439,800
44	Aylesborough Close	Flat	2	14/10/2016	£309,900
45	Aylesborough Close	Flat	2	14/10/2016	£309,900
46	Aylesborough Close	Flat	2	14/10/2016	£309,500
47	Aylesborough Close	Flat	2	14/10/2016	£309,700
48	Aylesborough Close	Flat	1	14/10/2016	£267,700
49	Aylesborough Close	Flat	2	14/10/2016	£309,500
50	Aylesborough Close	Flat	2	14/10/2016	£309,500
51	Aylesborough Close	Flat	2	14/10/2016	£309,700
52	Aylesborough Close	Flat	2	14/10/2016	£309,900
15	Jolley Ford Court	House	3	25/01/2017	£446,600
16	Jolley Ford Court	House	3	25/01/2017	£446,600
17	Jolley Ford Court	House	3	25/01/2017	£446,000
6	Water Lane	Flat	2	08/02/2017	£319,700
7	Water Lane	Flat	1	08/02/2017	£280,000
8	Water Lane	Flat	2	08/02/2017	£319,700

No	Street	Property Type	Beds	Date of Acquisition	Value 31/3/22
9	Water Lane	Flat	2	08/02/2017	£320,000
10	Water Lane	Flat	1	08/02/2017	£279,700
11	Water Lane	Flat	2	08/02/2017	£319,600
Value as at 31/3/2022					**£8,122,700**

Current Property Holding - Leased

The Company, at the request of the shareholder, took on the lease of 5 dwellings for a 7-year period from the Council's Housing Revenue Account, with the specified use being to provide next steps accommodation for rough sleepers housed temporarily by the Council during the coronavirus pandemic.

The homes were intended to be let to two single occupants on a shared basis, with support to these individuals provided by the Council and other agencies. The Council nominated tenants to the accommodation directly.

The rent payable under the lease is the standard rent restructured target social rent, and the rent the Company charges each occupant is the Local Housing Allowance shared room rate, to ensure that the tenants can claim financial assistance for their full housing costs.

To protect the Company from the risks associated with this business diversification, a management / indemnity agreement was entered into alongside the lease with the Council's General Fund. This agreement ensures that the Council meets any void loss as a result of the lack of nominations from the Council, any rent arrears, legal fees or abnormal maintenance costs incurred due to the nature of the required use under the lease.

Having operated this model on a small scale initially as a pilot, it is evident that the shared accommodation model is not suitable for the majority of the residents who have been placed in these units. Two of the leases were collapsed as a result of this in 2021/22.

It has now been concluded by the Council, that this type of shared accommodation is not appropriately meeting the needs of the client group, and as a result, further leases were collapsed in June and November 2022 by mutual agreement between the Council and Company The remaining lease is expected to be terminated once any remaining occupants have been re-housed. For the purposes of this business plan update a termination date of 31 December 2022 has been assumed for the remaining lease.

The remaining property assets leased by Cambridge City Housing Company are as follows:

No	Street	Property Type	Beds	Date of Lease Start	Annual Lease Sum
16	Ekin Road	House	3	31/8/2020	£6,607.64
Total Annual Lease Sum					**£13,066.04**

Acquisition / Expansion Strategy

Consideration has been given to expansion of the Company, with the potential for 250 further acquisitions explored, working with both the Council and Social Finance, a consultancy firm experienced in the housing sector. The project to explore the feasibility of expansion undertook extensive market research, considered governance and company policies and explored external partnership opportunities, in addition to undertaking financial feasibility modelling.

During the life of the project, many variable factors changed adversely, including inflation on expenditure, interest rates for borrowing, market rent levels for homes in and around Cambridge and property values.

The project culminated in a report to the Council's Strategy and Resources Committee in July 2022, which recognised a need for intermediate housing, particularly for essential worker's in and around Cambridge, but concluded that the desired expansion was not financially viable at the current time.

The report committed to continued exploration of external funding to make expansion a feasible option, whilst also requesting the Housing Company keep the metrics under regular review, reporting back to the Council as shareholder if the assumptions change significantly enough to make the expansion plans worthy of re-consideration.

The company will review the metrics as part of each board meeting agenda, alongside considering the regular financial monitoring reports presented to them.

Individual acquisition opportunities continue to be explored when they present themselves, with the need to seek funding approval from the Council if any opportunity is considered financially viable.

Section 3

Housing Management Activity

Current Owned Housing Stock

The properties are managed by the Council's Town Hall Lettings service, experienced housing managers with an ethical and trusted approach to property management. The properties are let under Assured Shorthold Tenancies (AST's) for up to a three-year period.

The properties being managed and the rents charged at November 2022 are as follows:

No.	Address	Property Type	Beds	Total Rent and Charge per month £
7	Aylesborough Close	House	3	£1,345.00
7A	Aylesborough Close	House	3	£1,345.00
41	Aylesborough Close	House	3	£1,345.00
42	Aylesborough Close	House	3	£1,345.00
43	Aylesborough Close	House	3	£1,380.00
44	Aylesborough Close	Flat	2	£1,110.00
45	Aylesborough Close	Flat	2	£1,110.00
46	Aylesborough Close	Flat	2	£1,110.00
47	Aylesborough Close	Flat	2	£1,110.00
48	Aylesborough Close	Flat	1	£970.00
49	Aylesborough Close	Flat	2	£1,110.00
50	Aylesborough Close	Flat	2	£1,110.00
51	Aylesborough Close	Flat	2	£1,135.00
52	Aylesborough Close	Flat	2	£1,110.00
15	Jolley Ford Court	House	3	£1,345.00
16	Jolley Ford Court	House	3	£1,345.00
17	Jolley Ford Court	House	3	£1,345.00
6	Water Lane	Flat	2	£1,200.00
7	Water Lane	Flat	1	£975.00

No.	Address	Property Type	Beds	Total Rent and Charge per month £
8	Water Lane	Flat	2	£1,185.00
9	Water Lane	Flat	2	£1,170.00
10	Water Lane	Flat	1	£975.00
11	Water Lane	Flat	2	£1,185.00
Total rental per month				**£27,350.00**

The average rent increase achieved across the portfolio between 2021/22 and 2022/23 was 3.4%.

Current Leased Housing Stock

The properties leased by the Company from the Council's Housing Revenue Account at the time of writing this report are listed in the table below. The properties are let under Assured Shorthold Tenancies (AST's) for an initial period of 6 months.

No.	Room	Address	Property Type	Status	Rent per month £
16	1	Ekin Road	Shared House	Abandoned	421.49
16	2	Ekin Road	Shared House	Let	421.49
Total potential rental per month					**842.98**

Section 4
Business Approach

Business Offering

The company offers quality accommodation to tenants renting in the private sector at sub-market rent levels. The company provides such housing predominantly through the purchase of services from Cambridge City Council, in accordance with Service Level Agreements for: housing and tenancy management services; rent collection; arrears management; and repairs and maintenance.

The company has trialled diversifying into providing shared housing for rough sleepers moving on from temporary accommodation provided by the Council as part of the response to the coronavirus pandemic, but this has not proved viable on an ongoing basis.

Letting and Tenancy Management

Properties are managed on behalf of the Company, currently by the Council's Town Hall Lettings Service, and are let under Assured Shorthold Tenancies (AST's). Owned stock is let on a 12 month tenancy, with a view to renewing at the end of this period. If renewal is delayed for any reason, the tenancy converts to a statutory open periodic tenancy until it is renewed.

Rent and Lettings Policies are in place to ensure a clear understanding by all parties. The properties are managed in accordance with these policies through a Service Level Agreement. Properties are advertised using nationally recognised lettings websites such as 'I am the Agent' and 'Rightmove' as well as Town Hall Lettings' own website.

Prospective tenants are subject to a credit and tenancy check. The company uses Creditsafe, the system utilised by the Council. Successful applicants are informed of the rent payable in advance and the required deposit. The deposit is registered with a government recognised rent deposit scheme, via the Deposit Protection Service (DPS). The deposit required is 5 weeks rent.

New tenants are 'signed up' at the property and are given their assured short hold tenancy agreement, a key receipt, a copy of the gas safety certificate (CP12), the EPC for the property, the electrical safety certificate and the inventory for the property. The inventory is an important document, as it will be used to settle any dispute regarding the return of the deposit. New tenants are also provided with information regarding repairs reporting including out of hours.

In terms of housing management Town Hall Lettings has a designated telephone line and email address to accept any enquiries concerning tenancies and repairs. Town Hall Lettings arrange tenancy renewals and have processes for terminating tenancies and serving relevant notices. All information is recorded on the appropriate IT systems providing an audit trail for the process. The company is currently using the Council's Orchard Housing database to create tenancies, record and process repairs and register the properties on an asset database.

Rent Collection and Arrears Recovery

The Company uses the Council's Orchard Housing system to create rent accounts that interface with the Council's financial management system, providing the financial management capability for the Company.

It is stressed to new tenants that paying rent on time is non-negotiable and failure to pay rent will result in legal action to terminate the tenancy and regain possession of the property. The company has a Rent Arrears and Eviction Policy to provide clear guidance on the approach to recovery of arrears.

Rent reviews are carried out annually, or at re-let, and decisions are made by Town Hall Lettings, on behalf of the Company, about the level of increase that the market can sustain. Decisions are made with the assumptions in the business plan taken into consideration, but also factors such as market rental performance and lettings performance (market saturation) at the time. When rent increases are recommended, appropriate notices are sent to tenants by Town Hall Lettings.

At the end of October 2022, rent arrears stood at £888.36 in respect of the owned portfolio and £23,853.24 across the leased portfolio. Maintaining arrears at a low level across the owned stock in the current economic climate is a huge achievement. Recovery of rent arrears in the leased dwellings has proved incredibly challenging, with many residents refusing to engage. As the decision has now been taken to collapse the remaining lease, with the majority of occupants already have vacated the properties it is anticipated that the arrears will be recovered in full from the Council under the indemnity agreement. For the owned portfolio, the bad debt assumption of 1% has been retained.

Voids

Void levels reduced in 2021/22 to a figure of 1.4%, compared to a figure of 4.9% for the previous year. The total sum is still skewed by the inclusion of the leased dwellings, where the Company is fully indemnified for any loss. If the impact of the leased dwelling void loss is excluded, the void loss would have been 0.4% for the year, against the business plan assumption of 2%. Worryingly, the performance in 2022/23 to date shows a worsening position in respect of the owned portfolio, with a 3% void loss in the first 7 months of the year.

A void rate of 2% has been retained in the business planning assumptions that form part of this business plan update, on the assumption that the performance to date in 2022/23 can be quickly addressed.

Repairs and Major Works

The Company relies predominantly on repairs contractors used by the Council and the Council's in-house team. Repairs are logged on the Orchard Housing Management Information system providing a record of work undertaken and an audit trail for invoicing. Invoices are paid and are then recorded on the Council's financial management system, Tech 1.

The Company has systems in place through a Service Level Agreement with the Council to ensure that gas safety checks are carried out annually. Portable appliance testing (PAT) is conducted annually where appliances are included as part of the tenancy.

Expertise, in the form of consultancy provided by experienced property maintenance staff employed by the Council, will be bought in as deemed necessary, to provide advice and guidance to the Company, specifically in relation to property safety requirements, including gas safety monitoring and fire safety compliance.

Following approval of the Reserve Policy last year, the Company will employ consultants to prepare an asset management plan for the existing 23 properties to inform future repair and maintenance liability for budgeting purposes, and to identify appropriate values for contribution to a sinking fund.

Section 5
Financial Impact / Projections

Financial Considerations

VAT

The assumption is made that the Company does not provide sufficient services which are deemed as a supply of vatable services, to be in a position where registering with HMRC for VAT purposes is advantageous.

The financial impact of this for the Company is that any VAT incurred on the purchase of supplies and services, including the supply of services from Cambridge City Council in the form of a recharge for staff working for the company, will be payable by the Company, and will not be recoverable from HMRC. The only exception to this would be any staff employed on joint employment contracts, an area which is still being explored by the Council.

The position in respect of VAT registration is periodically reviewed, to confirm that the Company is not delivering sufficient vatable services to require VAT registration. This level is currently £85,000 per annum, on a rolling 12-month basis.

Corporation Tax

As a registered limited company, the Housing Company is subject to payment of Corporation Tax, at the prescribed rate (19% for 2022/23, then 25% ongoing), on any taxable profit made.

The definition of profit includes profits from trading activity, investments and from the sale of assets. The profit from selling an asset is deemed to be the 'chargeable gain' from the sale of the asset, and can be represented as; the sale proceeds, less the cost of acquiring the asset, all fees associated with the acquisition and disposal and the value of any investment in improving the asset. An indexation adjustment is also applied to recognise that the asset will have increased in value whilst held, and this is deducted before reporting any taxable profit.

Some items of expenditure are excluded for tax calculation purposes, with one of these potentially being a proportion of the interest payable to Cambridge City Council each year on the loan portfolio (see transfer pricing).

Profits are calculated for Corporation Tax purposes, on an accumulated basis, but due to deductible expenditure, the Company's trading activity for tax purposes has reported a cumulative profit from 2018/19 onwards, with tax due to HMRC each year since then.

The Government has announced an increase in the rate of corporation tax from April 2023 to 25% and this has been incorporated into the business plan. The Company needs to explore options for operating in a more tax efficient way where possible.

Subsidy Control (previously State Aid)

Based upon the premise that Cambridge City Council is interacting with Cambridge City Housing Company in the form of lending within a formal loan facility, and that the purpose of the company is first and foremost to provide a sub-market / intermediate housing product, state aid has not been a consideration, taking account of advice received prior to forming the company. Due to the primary nature of the company, it was considered by legal advisors to the Council, that the principles of "Altmark" would apply, in that the company is meeting the Council's strategic obligations in the supply of intermediate housing to meet identified housing need and would therefore not be subject to State Aid.

Following the UK's exit from the European Union, the state aid legislation was replaced by the Subsidy Control Act 2022.

The Council / Company is in the process of securing an external legal opinion on any potential impact of this legislation and will respond accordingly once the advice is received.

Depreciation of Assets (Owned Investment Property)

For accounting purposes, the Company is not required to depreciate the owned housing stock, as the properties are being held by the Company as investment properties for rental purposes, and the financial forecasts reflect this.

Lease Accounting and Depreciation of Leased Property (IFRS 16)

For accounting purposes, the Company is required to comply with IFRS 16 in respect of accounting for the properties which it has leased from the City Council's Housing Revenue Account.

This accounting policy requires the recognition of each lease as an asset on the Company's balance sheet, with the use of the asset accounted for in the Income Statement each year in the form of depreciation / revaluation loss and interest, with the asset value on the balance sheet being written down by the value of the depreciation or revaluation loss each year. This compares to the previous method of accounting, which simply saw the annual lease rental being recorded through the Income Statement each year as a direct expenditure. However, over the life of each asset, the effect will be broadly comparable.

The Company fully complied with the accounting requirements under IFRS 16 when preparing accounts for 2021/22, but expect to terminate all remaining leases during 2022/23, mitigating the need to account for IFRS 16 from April 2023.

Transfer Pricing / Thin Capitalisation

The Company continues to need to consider transfer pricing rules, which require an adjustment to profit for any transactions between connected parties which are not performed at arm's length, with corporation tax calculated and paid accordingly.

Recharges for services between the Council and the Company are charged at full cost, including an appropriate uplift for any management costs and overheads, to ensure arm's length operation.

In respect of the lending by the Council to the Company, the arm's length arrangements are considered through the thin capitalisation rules, which evaluate whether the funds could have been raised on the same terms in an arm's length arrangement, both in terms of interest rate and loan to value. This determines how much of the interest paid on the debt should be deductible for tax purposes.

To ensure that the Company reports the appropriate level of profit for corporation tax purposes, and pays the correct level of tax to HMRC, a thin capitalisation review is performed on behalf of the Company, which requires update based upon HMRC guidelines at least every 4 years.

The latest review, carried out for the Company in 2020/21 by Ensors, concluded that the rate of interest being charged on the loan portfolio represented an acceptable arm's length rate by reference to third party lenders' margins.

The review also concluded that where the Company is unlikely to meet the requirements, is in respect of the interest cover ratio, which expects the level of profit (calculated for this purpose using EBITDA - Earnings Before Interest, Taxes, Depreciation, and Amortisation) to be a multiplier of at least 1.4 times the interest payments.

The projected profits for the Company do not exceed 1.4 times the annual interest payment, and as a result a transfer pricing adjustment is required to exclude a proportion of the interest paid as a taxable expense for the purposes of corporation tax calculations.

The profit, as measured by EBITDA, is divided by the multiplier of 1.4 to arrive at the level of interest that can be included as a taxable expense.

The business plan assumptions and forecasts continue to incorporate this approach to corporation tax calculations.

If a business expansion model is ever adopted, the Company will need to review its corporation tax position, with the potential for the company to breach the £2,000,000 corporate interest restriction, which could limit the interest deductible to £2,000,000 per annum for tax computation purposes.

Asset Valuation

For accounting purposes, the property portfolio is re-valued annually, and the appropriate accounting adjustments are made in respect of any asset re-valuations. The work is carried out by a qualified valuer, with Wilks, Head and Eve contracted to provide the service for one further year, the year ended 31 March 2023. The valuations are usually carried out in late March of each year for the 31 March year end.

Interest on Cash Balances

Now that the Company is beginning to slowly accumulate small cash reserves, it is considered prudent to explore options for the Company to earn interest on these sums. Until now the Company's cash has been held solely in a non-interest-bearing bank account.

The options to be explored include:

- The potential for the Company to make staged payments against the principal sum of the loan from the Council
- The options available to the Company to invest cash balances in its own right, in some form of interest-bearing investment
- The opportunity for the Company to consider investing on a group basis alongside the Council

All of these options still need full exploration, with all benefits and any risks fully identified before the Board can make any formal decision, and as such the financial forecasts included in this iteration of the business plan still assume a nil return on cash investments until such time as a decision is made.

Trading Activity

Working Capital / Start-Up Loan

Cambridge City Housing Company expected to experience significant costs during the pilot period of trading. To ensure that the Housing Company had sufficient resources to meet its cash flow obligations in its first year, the Council supplied a working capital / start-up loan of £162,559, as part of the £7,500,000 loan facility, which also funded the capital acquisition of the properties and all associated professional fees and acquisition costs. The interest rate for the loan facility is currently fixed at 2.02% and the Housing Company paid interest of £151,500 on this borrowing in the 2021/22 financial year.

The loan was reviewed by the Council in February 2022, with approval to re-finance the lending from April 2022, for 5 years at a fixed rate of 2.02%, subject to a set of prescribed conditions. The conditions allow the Council to review and terminate the loan if the Subsidy Control Regime adversely impacts the legality of the loan, MRP is found to apply, or the Council becomes a net borrowing authority, and the loans impacts the viability or value for money of the Council's support for the Company.

Income and Expenditure

The financial performance over the past 2 years is as follows and shows a trading profit of £251,150 (£68,414 after removal of adjustment in property values and the associated deferred corporation tax):-

	Period ended 31 March 2022 £	**Period ended 31 March 2021 £**
Revenue *[1]	360,219	348,274
Administrative expenses	(121,218)	(107,616)
Gain/(Losses) on revaluation	225,600	(30,100)
Investment revenues	0	6
Finance costs	(154,539)	(153,840)
Profit/(Loss) before tax	310,062	56,724
Income tax	(58,912)	(10,778)

Total comprehensive income	251,150	45,946

*1 Revenue (Turnover) represents income in respect of rental income and service charges from investment properties and payments under the lease indemnity agreements.

Over the past 12 months, rent reviews were due across the property portfolio. Despite the financial climate, an average rent increase at rent review of 3.2% was achieved across the owned portfolio, compared to 2.8% in the previous 12 months.

Overall, however, rent levels are still lower than was anticipated in the original business plan, which assumed rent levels at 80% of the upper quartile market rent and above inflationary increase in rents for the life of the plan of CPI plus 1%.

This iteration of the business plan assumes rent increases of 2% per annum on an ongoing basis, recognising that this sits below the currently forecast level for CPI across the next two years and also results in 50 year business projections where the Company can service its debt, but is not able to set-aside sufficient resource to repay the loans at maturity. The company will be forced to re-finance a significant proportion of the debt at the end of 50 years, or alternatively to dispose of a significant proportion of its asset base to redeem the loans.

The projected Income and Expenditure Account from 2022/23 is included at **Appendix D** and details the anticipated operational income and expenditure for the Company. The Housing Company's letting performance was stable during 2021/22 with very low void levels and minimal arrears.

Balance Sheet

At the end of each trading year, the Company is also required to prepare and present a balance sheet, providing details of all of the assets owned by the company, and all of the liabilities which the company carries, which will include any outstanding loans, or payments for services, to the Council.

The projected Balance Sheet position from 2022/23 is included at **Appendix E.**

Audit

The company is required to have its accounts independently audited at the end of each trading year. Williamson and Croft were appointed as auditors for the financial year 2021/22 onwards. The tender exercise secured Williamson and Croft as the auditors for the Company for the next 3 years, with the potential to extend the contract by a further 2 years.

Current Loan Portfolio

To date, Cambridge City Housing Company Limited has taken a single loan (with multiple drawdowns) from Cambridge City Council, which has been extended to have a current termination date of 30 April 2027.

The table below details the current loan portfolio, with the interest rate applicable.

Loan No	Loan Draw Down Date	Loan Maturity Date	Loan Value	Interest Rate	Annual Interest Payable
Loan 1	03/05/2016	30/04/2022	5,631,660.57	2.02%	113,759.54
Loan 2	06/05/2016	30/04/2022	436,575.09	2.02%	8,818.82
Loan 3	17/06/2016	30/04/2022	286,457.36	2.02%	5,786.44
Loan 4	04/07/2016	30/04/2022	1,145,306.98	2.02%	23,135.20
			7,500,000.00		151,500.00

The company currently needs to regularise the lending from the Council, following a number of extensions to the original loan facility, some of which have not been executed as intended, and after recognising that the loan needs to be registered with Companies House to afford the Council the security it requires. Sharpe Pritchard have been employed by the Council to carry out this regularisation work, which is expected to be concluded shortly.

Financial Projections

The Income and Expenditure Projections, Cash Flow Forecasts and Balance Sheet are reviewed annually as part of the outturn process for the previous financial year and again as part of the process to update the business plan and set the budget for the coming year.

The latest projections and forecasts for the 10-year period from 2022/23 to 2031/32 are shown in **Appendices C, D and E**.

The base assumptions included in the financial forecasts are made by drawing upon historical data, external expert opinion and by using local market intelligence. However, very few of the assumptions are fixed, and therefore are subject to change due to external economic factors such as interest rates, inflation rates and housing market performance. There are significant risks attached to the business model, and the base assumptions are reviewed regularly to allow the company to respond to any perceived change in risk or in any of the assumptions.

CPI has been assumed at the higher level of 9.4% for 2023/24 before returning to the long-term assumption of 2% from 2024/25, taking account of the latest predictions being made by the Office for Budgetary Responsibility. Rent increases, however, have been assumed at the lower level of 2% on an ongoing basis, for prudency whilst the cost of living crisis and higher utility bills still impacts tenants' incomes. Every effort will be made to achieve rent increases at rent renewal or re-let, where the market at the time allows.

The Company has a Reserves Policy which requires general reserves to be maintained at a level calculated by taking account of 10% of the budgeted income in each year combined with 10% of the operational expenditure (excluding interest, tax, depreciation and any contribution to the bad debt provision). This is calculated and presented at the bottom of the Balance Sheet fro the Company, ensuring that any decision made in respect of debt redemption or further investment can be taken with this sum excluded for prudency.

The Reserves Policy also allows for a sinking fund for major works to the portfolio. This will be calculated once the Company has concluded a stock condition survey and has produced the resulting Asset Management Strategy.

The latest business planning assumptions are detailed as **Appendix A.**

Performance Management

Monitoring of the Company's performance is key to ensure that financial planning assumptions are amended based upon learning and that the business continues to perform as anticipated. Regular performance monitoring reports are produced and shared with the Board, highlighting financial performance and any letting / management issues arising.

In addition to a regular written report from the Town Hall Lettings Team, the suite of quarterly performance indicators includes rental performance, arrears levels, void levels and gas servicing compliance.

Performance data is also captured in respect of the rate of return / rental yield for the properties as this will inform any future acquisition strategy and any changes to the lettings policy. Attached at **Appendix B** is the gross rental yield in respect of the current property portfolio. This demonstrates the current rental income measured solely against the current value of the asset but does not include any costs incurred during or subsequent to the acquisition.

Scenario Modelling / Sensitivities

Recognising that the potential for the Company to expand its operation is constrained currently, no expansion scenarios have been incorporated into this iteration of the business plan.

Sensitivities have however been modelled, at Appendix H, to demonstrate the financial impact on the business of a number of changes in key assumptions.

Section 6
Conclusions

Summary and Conclusions

The Housing Company is performing well in terms of letting its owned stock, with relatively low void levels and minimal arrears over the past year. Rents have been reviewed in line with market conditions and increased where appropriate. Capital values saw a reasonable increase in 2021/22, with a loan to value of 92% on 31 March 2022.

Performance in 2022/23 in respect of the residual leased dwellings has not been good, with increased rent arrears and further management issues being experienced. Although the Company is fully indemnified against the rent arrears, it has been concluded by both the Council and the Company that this is not the best use of these valuable, and in demand, 3 bedroom assets.

The Board have continued to meet regularly throughout the last year, convening additional meetings outside of the standard meeting calendar when there is an arising need.

The Company holds an Annual General Meeting each year, with Cambridge City Council Councillors invited as representative of the shareholder.

Key City Council officers continue to support the Housing Company and manage both the Company and the properties on a day to day basis. This has worked well and has enabled the flexibility and decision making needed.

Town Hall Lettings have continued to provide good management services and have dealt with all day to day matters arising, including ongoing management of the issues in the remaining leased dwelling let to rough sleepers.

The assumption of a 2% increase in property values has been retained in the business plan from 2022/23 onwards, but there is a recognition that property prices may be subject to some fluctuation over the coming months. The risks associated with the need to sell property to reduce borrowing are still considered minimal.

In the longer-term if rent rises can't be maintained, or the general level of inflation assumed in the business plan is understated, the ongoing impact will be significantly detrimental to the Company's ability to repay any debt. It is currently projected that at the end of the 50-year business plan period, the Company will need to re-finance approximately 44% of its borrowing, with the ability to service this level of debt, or alternatively dispose of assets to be in a position to redeem the loans.

Business Planning Assumptions Appendix A

Key Area	Assumption	Comment	Status
General Inflation (CPI)	**9.4% for 2023/24, then 2%**	**General inflation on expenditure included using government CPI projections, with 2% target predicted long-term**	**Amended**
Capital Inflation	**10.4% for 2023/24, then 3%**	**Increase above CPI of 1%**	**Amended**
Capital Appreciation	2% ongoing	Capital appreciation in the owned stock is assumed to be 2% on an ongoing basis	Retained
Rent Increase Inflation	2% ongoing	Rent increases assumed at 2% on an ongoing basis	Retained
Acquisition Basis	100% debt	CCC benefit from interest on lending for 100% of the asset value for owned stock	Retained
Acquisition Profile (Owned Stock)	23 dwellings	Assumption that only the 23 properties are in ownership	Retained
Acquisition Profile (Leased Stock)	**0 dwellings from 2023/24**	**Assumption that the remaining property is returned to the Council's HRA in 2022/23**	**Amended**
Annual Dividend Payable	0%	No share dividend assumed for CCC equity at this stage, as all acquisitions are based on 100% borrowing	Retained
Borrowing Rate (100% Debt)	2.02%	Based upon Bank of England base rate at time of company inception plus 1.52%	Retained
Short-Term Borrowing Rate (Equity Element)	N/A	No share capital currently assumed	Retained
Interest on Balances	0%	Interest earned on cash balances invested assumed to be at 0% as Company does not currently hold interest bearing accounts. This is under review.	Retained
Rent Approach	80% Market Rent	80% average market rent using latest market intelligence based upon the location of the dwelling	Retained
VAT	Assumed to be payable	Included at 20% on management, maintenance and major repairs expenditure	Retained
Corporation Tax	19% for 2022/23, then 25% from	Assumed to be payable now that cumulative trading surplus is achieved	Retained

Key Area	Assumption	Comment	Status
	2023/24		
Debt Repayment	Maturity Loans	Assumes borrowing is facilitated with maturity loans from CCC	Retained
Void Rates	2%	Retain at 2% per annum recognising an improvement in 2021/22, but a deterioration in 2022/23 to date	Retained
Bad Debts	1%	Assumes 1% per annum based upon continued strong performance to date.	Retained
Fixed Overheads	**£40,230 per annum inclusive of VAT**	**Initial fixed overheads based on hours of staff 'employed' by the company plus third party specialist input. Increases in year of thin cap review**	**Amended**
Management Costs	**£894.93 plus VAT per annum**	**Assumes a management cost at £852.93 per property to Town Hall Lettings, plus £42.00 per property for Council Tax and compensation payments, which is subject to an annual inflationary review**	**Amended**
Responsive Repairs Expenditure	£1,000 plus VAT per annum	Assumes response repairs, void repairs and redecoration as required, recognising new requirement for electrical safety check	Retained
Capital Investment (Owned Stock Sinking Fund)	£1,500 plus VAT over 30 years, but back end weighted	Assumes planned works in years 1 to 5 of £600 per annum, then £1,680 per annum in years 6 to 30. This equates to £1,500 per annum on average	Retained

Gross Rental Yield Appendix B

The yield below reflects the gross rental yield, i.e., the rental value as a proportion of capital value. The rent is gross rent, unadjusted for management or unrecovered repair and maintenance costs. The capital values are as per the latest valuation dated 31st March 2022.

No.	Address	Rent per month	Values March 2022	Gross Rental Yield
7	Aylesborough Close	£1,345.00	£439,900	3.67%
7A	Aylesborough Close	£1,345.00	£439,900	3.67%
41	Aylesborough Close	£1,345.00	£439,900	3.67%
42	Aylesborough Close	£1,345.00	£440,000	3.67%
43	Aylesborough Close	£1,380.00	£439,800	3.77%
44	Aylesborough Close	£1,110.00	£309,900	4.30%
45	Aylesborough Close	£1,110.00	£309,900	4.30%
46	Aylesborough Close	£1,110.00	£309,500	4.30%
47	Aylesborough Close	£1,110.00	£309,700	4.30%
48	Aylesborough Close	£970.00	£267,700	4.35%
49	Aylesborough Close	£1,110.00	£309,500	4.30%
50	Aylesborough Close	£1,110.00	£309,500	4.30%
51	Aylesborough Close	£1,135.00	£309,700	4.40%
52	Aylesborough Close	£1,110.00	£309,900	4.30%
15	Jolley Ford Court	£1,345.00	£446,600	3.61%
16	Jolley Ford Court	£1,345.00	£446,600	3.61%
17	Jolley Ford Court	£1,345.00	£446,000	3.62%
6	Water Lane	£1,200.00	£319,700	4.50%
7	Water Lane	£975.00	£280,000	4.18%
8	Water Lane	£1,185.00	£319,700	4.45%
9	Water Lane	£1,170.00	£320,000	4.39%
10	Water Lane	£975.00	£279,700	4.18%
11	Water Lane	£1,185.00	£319,600	4.45%
	Total	**£27,350**	**£8,122,700**	**4.04%**

Business Plan Expansion Metrics Appendix C

Key Assumption	Assumptions Spring 2022	Autumn 2022	Direction
Borrowing interest rate	3%	4.82%	✗
CPI inflation	6.2%	10.1%	✗
Acquisition cost – 1 bed (lower quartile)	£220,000	£225,000	✗
Acquisition cost – 2 bed (lower quartile)	£315,400	£336,000	✗
Acquisition cost – 3 bed (lower quartile)	£430,000	£440,000	✗
Acquisition cost – 4 bed (lower quartile)	£600,000	£600,000	⟶
80% intermediate rent per week – 1 bed	£175	£202	✓
80% intermediate rent per week – 2 bed	£235	£258	✓
80% intermediate rent per week – 3 bed	£267	£295	✓
80% intermediate rent per week – 4 bed	£350	£406	✓
Outcome		Using the revised market assumptions, expansion of the property portfolio is not considered financially feasible as this point in time. The increases in borrowing costs, inflation and property prices outstrip any benefit of increases in rent levels	

Income & Expenditure Account 2022/23 to 2031/32 Appendix D

Description	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Income										
Rent	(346)	(335)	(342)	(349)	(356)	(363)	(370)	(377)	(385)	(393)
Void Losses	7	7	7	7	7	7	7	8	8	8
Bad Debts	3	3	3	3	4	4	4	4	4	4
Total Income	**(336)**	**(325)**	**(331)**	**(338)**	**(345)**	**(352)**	**(359)**	**(366)**	**(373)**	**(381)**
Expenditure										
Management Fee	26	27	28	28	29	29	30	30	31	32
Service Charges	8	9	9	10	10	10	10	10	11	11
Responsive Repairs	30	30	31	31	32	33	33	34	35	35
Planned Repairs	17	18	19	19	20	58	59	61	63	65
Other Operating Costs	40	44	45	51	47	48	49	50	51	52
Depreciation	10	0	0	0	0	0	0	0	0	0
Total Expenditure	**132**	**129**	**131**	**139**	**137**	**177**	**181**	**185**	**190**	**194**
Increase in Fair Value of Investment Properties	(162)	(166)	(169)	(172)	(176)	(179)	(183)	(187)	(190)	(194)
Operating (Profit) / Loss	**(367)**	**(362)**	**(369)**	**(371)**	**(384)**	**(354)**	**(360)**	**(367)**	**(374)**	**(381)**
Interest Receivable	0	0	0	0	0	0	0	0	0	0
Interest Payable	152	152	152	152	152	152	152	152	152	152
Corporation Tax Due	56	55	57	57	59	57	58	60	61	62
(Profit) / Loss for Year	**(159)**	**(155)**	**(161)**	**(163)**	**(173)**	**(145)**	**(151)**	**(156)**	**(162)**	**(167)**
(Profit) / Loss b/f	**(831)**	**(990)**	**(1,145)**	**(1,306)**	**(1,468)**	**(1,642)**	**(1,787)**	**(1,937)**	**(2,093)**	**(2,255)**
(Profit) / Loss c/f	**(990)**	**(1,145)**	**(1,306)**	**(1,468)**	**(1,642)**	**(1,787)**	**(1,937)**	**(2,093)**	**(2,255)**	**(2,422)**

Cashflow Forecast 2022/23 to 2031/32 Appendix E

Description	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Opening Cash Balance (Positive) / Negative	**(306)**	**(335)**	**(354)**	**(388)**	**(422)**	**(464)**	**(472)**	**(485)**	**(502)**	**(521)**
Operating (Surplus) / Deficit	(203)	(196)	(200)	(199)	(208)	(175)	(178)	(180)	(183)	(187)
Interest Received	0	0	0	0	0	0	0	0	0	0
Interest Paid	152	152	152	152	152	152	152	152	152	152
Change to Creditors	28	0	0	0	0	0	0	0	0	0
Corporation Tax	0	25	14	14	14	15	12	13	13	13
Net Cash (Inflow) / Outflow from Trading	**(29)**	**(19)**	**(34)**	**(33)**	**(42)**	**(8)**	**(14)**	**(16)**	**(19)**	**(22)**
Construction/Acquisition of Properties	0	0	0	0	0	0	0	0	0	0
Major Repairs Capitalised	0	0	0	0	0	0	0	0	0	0
Net Cash (Inflow) / Outflow before Financing	**(29)**	**(19)**	**(34)**	**(33)**	**(42)**	**(8)**	**(14)**	**(16)**	**(19)**	**(22)**
Loans Drawndown	0	0	0	0	0	0	0	0	0	0
Loans Repaid	0	0	0	0	0	0	0	0	0	0
In Year (Increase) / Decrease in Cash	**(29)**	**(19)**	**(34)**	**(33)**	**(42)**	**(8)**	**(14)**	**(16)**	**(19)**	**(22)**
Closing Cash Balance (Positive) / Negative	**(335)**	**(354)**	**(388)**	**(422)**	**(464)**	**(472)**	**(485)**	**(502)**	**(521)**	**(543)**

Balance Sheet Forecast 2022/23 to 2031/32

Appendix F

Description	Opening Position	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fixed Assets											
Investment Properties	8,123	8,285	8,451	8,620	8,792	8,968	9,147	9,330	9,517	9,707	9,902
Right of Use of Assets	100	0	0	0	0	0	0	0	0	0	0
Property, Plant and Equipment	0	0	0	0	0	0	0	0	0	0	0
Current Assets											
Inventories	0	0	0	0	0	0	0	0	0	0	0
Trade Debtors	27	27	27	27	27	27	27	27	27	27	27
Other Debtors	4	0	0	0	0	0	0	0	0	0	0
Cash and Cash Equivalents	306	335	354	388	422	464	472	485	502	521	543
Current Liabilities											
Payments Received on Account	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Lease Liabilities	(101)	0	0	0	0	0	0	0	0	0	0
Trade Creditors	(27)	0	0	0	0	0	0	0	0	0	0
Amounts Owed to Group Undertakings	(0)	0	0	0	0	0	0	0	0	0	0
Current Taxation	(94)	(151)	(181)	(223)	(266)	(311)	(353)	(399)	(446)	(494)	(542)
Total Assets less Current Liabilities	**8,331**	**8,490**	**8,645**	**8,806**	**8,968**	**9,142**	**9,287**	**9,437**	**9,593**	**9,755**	**9,922**
Long-Term Liabilities											
Amounts Owed to Group Undertakings	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)

Net Liabilities	**831**	**990**	**1,145**	**1,306**	**1,468**	**1,642**	**1,787**	**1,937**	**2,093**	**2,255**	**2,422**
Capital and Reserves											
Called Up Share Capital	0	0	0	0	0	0	0	0	0	0	0
Profit and Loss Account	831	990	1,145	1,306	1,468	1,642	1,787	1,937	2,093	2,255	2,422
Shareholder's Funds	**831**	**990**	**1,145**	**1,306**	**1,468**	**1,642**	**1,787**	**1,937**	**2,093**	**2,255**	**2,422**

Target General Reserves		**46**	**46**	**47**	**48**	**49**	**53**	**54**	**56**	**57**	**58**

Budget 2022/23 and 2023/24

Appendix G

I&E Category	Expense / Income Description	Chart of Accounts Code	2022/23 Current Budget	2022/23 Revised Budget	2023/24 Original Budget
Income	Rental Income	20-0-9500-1001-56002	(312,050)	(321,860)	(328,300)
Income	Rental Income (leased)	20-0-9500-2138-56002	(40,430)	(17,680)	0
Income	Bad Debt Provision	20-0-9500-1001-65500	3,180	3,280	3,350
Management Fee	Management Fee to THL	20-0-9500-1001-62403	28,840	26,470	27,020
Management Fee	Service Charges to CCC	20-0-9500-3503-60401	8,330	8,410	9,200
Responsive & Cyclical Repairs	Repairs (In-House)	20-0-9500-1001-60231	40,690	36,190	38,230
Responsive & Cyclical Repairs	Repairs (External)	20-0-9500-1001-60235	7,500	7,430	7,500
Responsive & Cyclical Repairs	Utility Costs	20-0-9500-1001-60236	550	520	550
Responsive & Cyclical Repairs	Void Council Tax	20-0-9500-1001-60404	2,200	2,100	2,200
Other Operating Costs	Staff Recharges	20-0-9500-3503-68648	20,360	22,080	24,160
Other Operating Costs	Insurance	20-0-9500-1001-63000	2,700	2,770	3,030
Other Operating Costs	Audit Fees	20-0-9500-1001-62400	14,400	13,200	14,440
Other Operating Costs	Valuation Fee	20-0-9500-1001-62400	2,160	2,080	2,280
Other Operating Costs	Bank Charges	20-0-9500-1001-62200	100	100	100
Increase in Fair Value of Investment Property	Impairment / Revaluation	20-0-9500-1001-58510	(161,100)	(162,450)	(165,700)
Interest Payable	Interest Payable	20-0-9500-3503-69190	152,530	151,500	151,500
Depreciation	Depreciation	20-0-9500-2138-67400	23,380	10,310	0
Corporation Tax	Corporation Tax	20-0-9500-1001-60408	41,360	56,360	55,440
(Surplus) / Deficit for the Year	**Check Total to I&E**		**(165,300)**	**(159,190)**	**(155,000)**

Sensitivities

Appendix H

Base Assumption	Sensitivity	Impact
Base Scenario	No sensitivity modelled	£2.8 million (37% of the debt) needs re-financing at year 50
Rent increases in 2023/24 of 2%	The cost of living crisis makes rent increase unachievable, with no rent increase achieved in 2023/24	£3.4 million (45% of the debt) needs re-financing at year 50
Rent increases in 2023/24 of 2%	The rental market remains buoyant and rent increase of 5% can be achieved in 2023/24	£2 million (27% of the debt) needs re-financing at year 50
Inflation of 9.4% in 2023/24, then 2% ongoing	Stability takes longer to achieve than anticipated and Inflation is at 7%, then 5% before returning to 2% by 2026/27	£4 (53% of the debt) million needs re-financing at year 50
Bad Debts of 1%	The costs of living crisis causes an increase in arrears, with bad debts of 5%	£4 million (54% of the debt) needs re-financing at year 50
The above sensitivities are modelled independently of each other. Any combination of more than one of the scenarios will have a greater impact on the business plan if both sensitivities are favourable or both are adverse. One combined sensitivity is shown below to demonstrate this		
Rent increase of 2%, inflation of 9.4%, then 2% and bad debts of 1%	No rent increase in 2023/24, inflation at 7%, 5%, then 2% and bad debt of 5%	£5.7 million (76% of the debt) needs re-financing at year 50

Cambridge City Housing Company Reserves Policy

Introduction

The purpose of this policy is to explain the approach that Cambridge City Housing Company will take to holding an appropriate level of reserves.

Background

At inception in 2016, Cambridge City Housing Company began trading in a pilot capacity with 23 homes. Now that the Company is operating in a business as usual capacity, has taken on a number of leased dwellings from the Council and is actively exploring expansion options, it is prudent to consider a formal approach to holding reserves.

Reserves are held to ensure that the Company's ability to continue to trade is not impaired by unforeseen events or circumstances, such as a pandemic and that the Company is in a position to react to known pressures, such as the future investment need of the asset portfolio.

Policy Statement

Cambridge City Housing Company's Reserves Policy focuses on the following statements of principle:

- The Company should hold a prudent level of general reserves to allow response to any unforeseen events or circumstances.

- The Company should hold a specific sinking fund for the lifecycle costs associated with ensuring the continued existence of dwellings in a state that allows rental.

- The Company should hold a specific ear-marked reserve for bad and doubtful debts, allowing for timely write off for uncollectable debt.

- The Company shall review both the approach to holding reserves and the appropriate level of reserves to be held, as part of its annual business planning and year end processes.

Policy Objectives

The objectives of the reserves policy are:

- To identify how Cambridge City Housing Company will arrive at a prudent level of general reserves to be held by the Company.

- To identify how Cambridge City Housing Company will arrive at an annual contribution to a sinking fund for the replacement of major building components.

- To identify how Cambridge City Housing Company will calculate at annual contribution to a bad and doubtful debt provision.

General Reserves

General reserves are held to allow the Company to respond to any unforeseen circumstances or unanticipated event, such as a pandemic, an inability to let a number of the homes for a period of the year, or a significant and unplanned increase in costs.

A target general level of reserves will be calculated, and subject to sufficient balances being available will be held on the Company's balance sheet under 'retained earnings'. When approving the annual budget and business plan for the Company, the Board will seek to retain the target level of reserves, before considering any future debt repayment or further investment.

The target level of general reserves will be calculated using a combination of a proportion of the budgeted rental income combined with a proportion of the budgeted operation costs.

- 10% of the budgeted rental income for the year.
- 10% of the budgeted operational costs for the Company, excluding interest, depreciation, contributions to the bad debt provision and corporation tax.

The sum of these two amounts will be held as a target level of general reserves and will be reviewed each year when the budgets are considered and approved by the Board.

Lifecycle Costs Sinking Fund

The asset portfolio will need significant investment over the life of the business plan to ensure that homes are maintained in a lettable condition. Day to day and void repairs are an annual revenue expense, with marginal variation in the level of expenditure between years. Lifecycle costs, are however far more variable, with major building components falling due for replacement at a variety of intervals throughout the life of the asset, i.e.; kitchen replacement, bathroom replacement, heat source renewals, rewiring, roof replacement, etc.

To address this investment need, and to ensure that the Company has sufficient resource to meet the costs involved, a sinking fund will be held as an ear-marked reserve on the balance sheet.

The annual contribution to the fund will be derived from the anticipated cost of replacing each of the building components, with the expected timeframe for replacement of each of these items factored in. A stock condition survey and asset investment plan will be used as the basis for the calculation.

Bad Debt Provision

The Company's core business is the sub-market rental of homes in Cambridge. An inherent risk in the property rental market is the potential for rent arrears, which if they remain uncollected, often result in bad debt.

Whilst every effort is made to recover rent arrears, by working proactively with tenants, ensuing that they obtain any financial assistance to which they are entitled or by taking enforcement action, inevitably there are occasions where recovery procedures are exhausted, and the rent debt has to be written off.

To address the potential for the write off of bad debt, and to avoid huge costs (loss of rental income) in any one financial year, a bad debt proviso will be held on the Company's balance sheet. The level of provision will be reviewed annually as part of the ear end process, taking into account the age and value of arrears at the time.

The bad debt provision will be calculated using a formula as detailed in the tables below:

Age of Debt	Former Tenants Percentage Provision	Current Tenants Percentage Provision
Less than 1 month	90%	0%
1 month to 3 months	90%	20%
3 months to 6 months	90%	40%
6 months to 9 months	90%	60%
9 months to 12 months	90%	80%
Over 12 months	90%	90%

Value of Debt	Former Tenants Percentage Provision	Current Tenants Percentage Provision
Less than £250	90%	0%
£250 to £499.99	90%	20%
£500 to £999.99	90%	40%
£1,000 to £1,999.99	90%	65%
Over £2,000	90%	90%

The calculation will be performed based upon both age and value of debt, and the average of the two calculations will be used to arrive at the provision required.

The annual contribution to or from the bad debt provision in any year will be the sum required to adjust the provision to arrive at the calculated provision required.

Review of the Reserves Policy

The Reserves Policy will be reviewed and approved by the Cambridge City Housing Company Board every 3 years, or as otherwise required. The level of reserves held will be reviewed annually as part of the business planning and year end processes, with recommendations made to the Cambridge City Housing Company Board for approval.

Policy Date January 2022

Review Date January 2025