

## **EAST HERTS COUNCIL**

**DATE OF MEETING: WEDNESDAY, 4 MARCH 2026**

**REPORT BY: JOINT REPORT BY THE EXECUTIVE MEMBER FOR  
FINANCIAL SUSTAINABILITY AND THE DIRECTORS OF**

**MILLSTREAM PROPERTY INVESTMENTS LTD**

**REPORT TITLE: MILLSTREAM BUSINESS PLAN: 2026/27**

**WARDS AFFECTED: ALL**

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### **Summary**

- East Herts Council established Millstream Property Investments Ltd in 2018 to provide a good rate of return on its capital within the range of options available at the time, however, much has changed since leading to the Council, Millstream's sole shareholder, having reviewed its options at the Council meeting of 26 February 2025. At last year's Council meeting, Council resolved that the company should dispose of its assets, thus giving the Council access to the money currently invested in the company.
- This report lays out the work to date by the company to dispose of its assets and the projected disposal programme up to the end of 2027/28, which will see all the company's properties sold.

### **RECOMMENDATIONS FOR COUNCIL, that:**

- (a) Millstream Property Investment Ltd's 2026/27 Business Plan, presented in the EXEMPT Appendix A, which includes the continued disposal of the company's properties, be approved.**

#### **1.0 Proposals**

- 1.1 As required by the Shareholder Agreement, Millstream has revised and updated its business plan and now puts before Council its new Business Plan commencing 2026/27.
- 1.2 As presented to Council on 26 February 2025, much has changed since the company's incorporation in 2018. Most notably, the Council has moved from internal borrowing to external borrowing,

that is, the Council now needs to fund its capital project from borrowing rather than use of its own resources (termed, internal borrowing). As a result of this, council officers have informed Millstream that it has had to prioritise how best to utilise the monies invested in the company.

- 1.3 The company understands that for every £100,000 the Council has to borrow to finance its capital programme, revenue costs from interest and minimum revenue provisions of £7,000 accrue. At the same time, £100,000 invested in Millstream yields £3,480. Clearly, the company understands that the Council can make better use of its money than continuing to hold its resources in the form of loans to and shares in Millstream. It is for this reason that Council (Millstream's sole shareholder) decided to seek to liquidate its investment in the company by resolving that the company should sell its properties and return the monies to the council through loan repayments and dividends.
- 1.4 Millstream commenced its programme of disposals in 2025/26 and projects that all its properties will be sold by the end of 2027/28.
- 1.5 This report recommends that Council, as the company's shareholder, approves Millstream's business plan to dispose of all its properties by the end of 2027/28.

## **2.0 Background**

- 2.1 At its meeting of 5 September 2017, the Executive approved the establishment of a property investment company wholly owned by East Herts Council, subsequently incorporated in February 2018 as Millstream Property Investments Ltd.
- 2.2 The Council established the company as a commercial endeavour. Since inception, the company has produced a revenue income stream for the council arising from:
  - interest on loans made by the council to the company
  - council officer time and services sold to the company at a 5% premium

- operating surpluses available as dividends, on the assumption that the company pro-actively manages surpluses so as to legitimately minimise losses to corporation tax, which has in fact resulted in no such dividends to date.

2.3 At its meeting of 26 February 2025, Council approved the use of the power reserved for the shareholder in the Shareholder Agreement (between the council and company) over decision-making on a series of important matters including, among others, *‘the sale, transfer or **disposal** of the whole or a substantial part of the Business’* [emphasis here added] (paragraph 10.1.5). Consequently, Council resolved that the company should sell its entire property portfolio.

### 3.0 Reasons

3.1 The company understands that as the Council has moved from a position of funding capital expenditure from its own reserves to relying on borrowing, which incurs interest and minimum revenue provision costs, the annual income to the Council created by Millstream’s activities in return for the capital invested in the company is now *lower* than the costs of borrowing. This is shown in the tables below:

#### ***Return to the council per £100,000 invested in Millstream***

3.2 For each £100,000 the council has invested in Millstream, the council *receives* each year:

	<b>Annual return to the council per £100,000 investment</b>
Interest payment on 63%* of the £100,000 at 4.73%**	£2,980
Proportion of the total value of services sold by the council to Millstream***	£500
Dividend to the Shareholder^	£0
<b>TOTAL income to council</b>	<b>£3,480</b>

\* To avoid ‘thin capitalisation’, that is, the company relying on a level of borrowing that would

be unacceptable to HMRC, a maximum (average) loan-to-value of 63% applies to all properties. The remaining 37% paid over from the council to Millstream to enable property purchase has resulted in the council holding shares in the company to a commensurate value.

\*\* This is the fixed 30-year loan rate that, on consultants' advice, the council charges. This rate was originally set in relation to (the now defunct) LIBOR. There are no penalties payable by the company for earlier repayment.

\*\*\* Based on an average recharge of £25,000 a year. Pro rata-ing £100,000 as a proportion of the council's total investment equates to £500 of the recharge per £100,000 of invested funds.

^ The company has sought to minimise profits to legitimately avoid/minimise leakage to Corporation Tax.

***Opportunity cost of using money invested in Millstream to pay down existing council debt and/or avoid new debt***

3.3 As the Council now borrows to fund its Capital Programme, unlike at the time of Millstream's inception, £100,000 of capital use (for whatever purpose) now costs the council. This is illustrated in the table below:

	<b>Annual cost to the council per £100,000 borrowed</b>
Interest payment on £100,000 at 5%*	£5,000
Minimum revenue provision over 50 years**	£2,000
<b>TOTAL cost to the council</b>	<b>£7,000</b>

\* Typical 30 year PWLB borrowing rate.

\*\* This is the lowest applicable minimum revenue provision (MRP). Of note, if applied to borrowing to purchase waste collection vehicles, the MRP term would be eight years and thus the annual MRP would be £12,500 in this example, making the opportunity cost losses due to investment in Millstream even higher.

3.4 The tables above show that revenue to the council from Millstream's activities of c£3,480 a year comes with a negative opportunity cost for the council in that every £100,000 'tied up' in Millstream requires the council to borrow £100,000 to fund its capital programme. This borrowing comes at a cost of c£7,000 per £100,000. There is thus a net loss in opportunity costs of c£3,520 per £100,000 or c£177k a year given the level of council resources 'tied up' in Millstream.

***Does this mean that the council was wrong to set up and invest in Millstream?***

- 3.5 The Council was not wrong to set up and invest in a wholly owned property investment company as the reasons for doing so in 2018, along with the financial and regulatory environment at that time, made this a sound financial decision. It is unforeseen changes to the national regulatory environment, notably the obligation to make a minimum revenue provision on any investments in a property company which was not the case in 2018, in combination with the Council's switch to external borrowing discussed above, which mean that the original business model is no longer viable. Consequently, it was financially prudent for Council, as the shareholder, to resolve in 2025 that the company should liquidate its assets.
- 3.6 In following this course of action, by the time the Council's loans to Millstream have been repaid and the Council has benefitted from dividends arising from the disposals, the company will have provided the Council with an internal rate of return on its investment since 2018/19 of 6.3%. This is better than interest rates available for cash held on deposit and underlines the financial probity of the Council's decision to establish Millstream eight years ago.

***Millstream's Business Plan 2026/27***

- 3.7 Millstream's directors contend that the proposed business plan as presented in the **EXEMPT Appendix A** meets the requirements of the Shareholder Agreement. It shows how the company itself can continue to operate as a going concern given its existing loans and liabilities while it follows a programme of property disposals that will see all the company's properties sold by the end of 2027/28.

**4.0 Options**

- 4.1 Do not adopt the revised Millstream Business Plan and retain the

existing plan approved by Council on 26 February 2025. NOT RECOMMENDED because while the previous plan included an illustration of property disposal, it did not include a detailed projection for disposals for the company to follow.

- 4.2 Preparation of an alternative plan that would see the Council's loans and shares liquidated by means of the company refinancing its borrowing from a 'high street lender' and repaying its loans to the Council and buying back (all but one) of the shares it has issued to the council. NOT RECOMMENDED because financing the company in this way has been investigated before – members are directed to the report to Council of 1 March 2022 for a more detailed discussion – and has been found to not be feasible. In short, even with an uplift in the value of the company's property portfolio, refinancing would require borrowing at a loan-to-value ratio of around 90% which would not be attractive to the market. Even if a loan on these terms were available, an interest and capital repayment loan would require payments of c£300k per year and an interest only loan would require payments of £220k per month. At present, the company would be able to only fund c£180k at best, thus this option is not viable.
- 4.3 Approve the revised Millstream Business Plan as presented, including provisions for the disposal of the company's portfolio prior to the end of 2027/28. RECOMMENDED for the reasons outlined in this report.

## **5.0 Risks**

- 5.1 Millstream's directors have identified a series of risks and mitigations.
- 5.2 Risk 1: a slow property market could see the company having difficulty achieving the surveyor's valuations on disposal. This risk is being mitigated by the directors' decision to keep investing in the maintenance of the properties up until the point of any future disposal. To date, the company has achieved one sale and has sold another property subject to contract. A third property is currently on the market. The company always seek the expert

advice of local estate agents on pricing. At all times, the directors act so as to maximise shareholder value, that is, by seeking to attain best consideration for the properties.

- 5.3 Risk 2: the preference to only dispose of properties when an existing tenant choose to relinquish their tenancy could mean that not all properties would become vacant through this route in time to dispose of the entire portfolio by the end of 2027/28. Directors will keep this under review and seek possession, though only if absolutely necessary, adhering to the incoming provisions of the Renters' Rights Act 2025 at all times and providing advice about how the council can provide assistance if someone is unable to find suitable alternative accommodation in the open market. If needing to serve notice to sell, the company would first explore whether the sitting tenant would wish to acquire the property themselves.

## **6.0 Implications/Consultations**

- 6.1 The company has shared the revised business plan with members of the Shareholder Advisory Group and council officers.
- 6.2 Detailed tax advice continues to be sought to ensure that the company's finances are managed in the most tax efficient way.

## **Community Safety**

Yes/No

## **Data Protection**

Yes/No

## **Equalities**

Yes/No

National evidence has found that those with a number of protected characteristics under the Equality Act 2010 are likely to experience lower incomes than others. Millstream provides good quality homes at the lower rental end of the private market and thus provides opportunities for those struggling to afford average private rents.

## **Environmental Sustainability**

Yes/No

Millstream pays close attention the Energy Performance Certificate ratings of the properties it acquires. In addition, it prioritises works to its properties to increase energy efficiency, for example, high efficiency condensing boilers and internal insulation.

## **Financial**

Yes/No

See the discussion above.

## **Health and Safety**

Yes/No

## **Human Resources**

Yes/No

## **Human Rights**

Yes/No

## **Legal**

Yes/No

## **Specific Wards**

Yes/No

## **7.0 Background papers, appendices and other relevant material**

7.1 EXEMPT Appendix A – DRAFT Millstream Business Plan 2026/27.

## **Contact Member**

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