London Borough of Enfield

Appendix

Report Title	LBE Companies Period 6 Performance Monitoring Report 2023/24
Report to	Cabinet
Date of Meeting	15 November 2023
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Fay Hammond – Executive Director of Resources Olga Bennet - Director of Capital and Commercial
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Ward(s) affected	All
Key Decision Number	N/A
Classification	Part 1 Public
Reason for exemption	By virtue of paragraph(s) marked below with * of Part 1 of Schedule 12A of the Local Government Act 1972: 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Purpose of Report

1. To update Cabinet on the performance of all Enfield Council Companies as at Quarter 2 of 2023/24 and provide an estimated outturn position for 2023/24, based on company loan drawdowns, which are treated as Capital expenditure and form part of the Council's capital programme. Performance relates to financial (capital and revenue) and non-financial aspects of each company.

2. The report looks at the financial position of each company from the Shareholder point of view (i.e. Council capital investment) as well as from the Company's point of view, as a separate legal entity.

3. The report also provides an update on ongoing work between the Council and the Companies, to respond to changing market conditions, and looks forward at forthcoming decisions.

4. The report covers Lee Valley Heat Network Operating Company Limited (t/a Energetik, hereinafter 'Energetik'); Housing Gateway Limited(HGL); Enfield Let; Montagu 406 Regeneration LLP (Joint Venture); and the Meridian Water Estate Management Company.

Recommendations

It is recommended that

I. Cabinet notes

   a. The 2023/24 forecast loan drawdown for each company;

   b. The 2023/24 performance of each company at Quarter 2;

   c. The current financial position of each company;

   d. HGL is exploring the option of changing current rents to reflect market rent levels.

Background and Options

5. Reporting on the Council's capital investment in its companies has previously, formed part of the quarterly capital monitoring report. In future the financial monitoring of the companies will be reported separately in this report. The report will also provide an overview of their individual performance in the context of their financial accounts and in year financial performance against budget.

6. The background to each company and main considerations are set out below.

Energetik

Executive Summary - Energetik

7. Energetik is a limited liability company which has been set up by Enfield Council to develop, own and operate a series of community energy networks throughout the borough. Since its inception in 2015 Energetik has created 4 satellite heat networks through the use of repayable loan financing from the Council. The Council has secured the low interest rate Tranche 1 loans and has onward lent to Energetik.

8. Total funding of £94m has been secured for the project. The Council has secured a total of £67m in loan funding and £17m grant funding from external organisations. A further £10m loan is yet to be secured from the Public Works Loan Board (PWLB) to finance a proportion of the Council's match funding. The loan and grant funding are split into different 'tranches' (the batch of funding secured). Table 1 below provides further information.

9. The satellite networks are operational. Tranche 1 loans of £16m were secured by the Council of which Energetik has drawn £13.4m

10. Energetik is currently constructing an energy centre near the Meridian Water development, which is expected to become operational at the end of the 2023 calendar year.

11. The Council has secured Tranche 2 Government loans and grant. The energy centre is being financed from £29.8m of low interest rate loans. Energetik has drawn £24.0m of the loans via an on-lending agreement, and £5.0m grant was passed to the Company in the form of an equity investment in return for shares.

12. In March 2021, the Council was successful in securing a Tranche 3 HNIP loan (£11.9m) and HNIP grant (£12m) for the expansion of the heat network from the Meridian Water Energy Centre to west of the Borough. Council approved the works in June 2021. Since the Council approval, the economy has undergone a dramatic change caused by global geo-political events. This has resulted in rising inflation and the Bank of England accelerating the Bank Rate. Rising inflation has meant the cost of raw materials and labour is now more expensive than first anticipated, whilst a rising bank rate has had an adverse effect on the cost of borrowing. The impact of these factors has meant the Council is now reviewing its capital programme including housing and regeneration developments upon which Energetik has built its business model.

13. To date £12m of Tranche 3 financing has been passed to Energetik in the form of an equity investment in return for company shares. A £15m loan was secured from the Mayor of London's Office in April 2023 to fund part of the match funding (the remainder to be funded from the Public Works Loan Board). In June 2023 Contractors have started capital works to connect the Meridian Water energy centre to the Ponders End heat network. The works have been part funded from the grant and there is a need for loan financing to fund the remainder of works. The loan funding will be made available through

a loan agreement that is currently being drafted by the Council's Lawyers and will be funded from the HNIP loan. Further contractual works are on hold subject to a business plan review. The Council continues to hold all undrawn loan balances.

14. Energetik is able to generate cashflows from the 863 customer connections that it has secured. As a result, Energetik has been able to service its debt to the Council in a timely manner. However due to a delay in large Council developments and the impact on future connection fees Energetik does require a working capital facility from the Council to fund operational costs until such time income from developments is realised. The Executive Member for Finance has approved a working capital facility of £3.5m. The legal agreement for this has been signed. The facility was part of the HNIP grant conditions.

15. The Company made a financial loss in the last financial year but is forecasted to return to profit in the current financial year. Energetik continues to remain solvent. As at 1 April 2023 Energetik had an opening loan balance of £33.9m and as at 30 September Energetik had a debt balance of £35.4m owed to the Council. Debt balance at 31 March 2024 is anticipated to be £41.5m, the increase in debt representing the works undertaken at the Energy Centre and contractually committed Tranche 3 works.

16. The Council in turn had an opening debt balance of £45.6m on 1st April 2023 relating to loans it has secured for onward lending to Energetik. The Council is projected to have a loan balance of £59.5m at 31 March 2024. The change relates £15.0m of new debt secured for Tranche 3 investment.

17. Work is ongoing with the company to refresh its business plan in light of delays and rephasing of the developments in the borough and the changes in the wider economic climate, i.e. rising interest rates and inflation, particularly construction inflation. In July 2023, the Council appointed an independent sector specific external consultant to review the financial model used by Energetik to supports its business plan.

18. Energetik are not entering any new contractual commitments until this work is completed. The Council and Energetik are also reviewing the opportunities for external partnerships to facilitate the long-term growth of the network.

Background

19. The company was established in 2015 by the Council to provide better value energy that is reliable and environmentally friendly. Enfield Council owns 100% of the company shares. A shareholder agreement sets out the remit of the company and the extent of its delegated powers and those matters that the Council reserves for its own decision making.

20. The total funding to be provided by the Council is £94.0m. The Council will in turn fund this as follows:

    - £57.6m in the form of low-cost loans from organisations backed by the Government including the Mayor of London's office.

- £10.0m from the European Investment Bank
- £17m in Government grants
- £9.4m borrowed by the Council from the Public Works Loans Board (PWLB).

21. The funding has been divided into three tranches as summarised in table 1:

Table 1: Energetik Funding

Funding Source	Tranche 1	Tranche 2	Tranche 3 (External)	Total Loan Approvals
	£m	£m	£m	£m
EIB Loan	10.0			10.0
LEEF Loan	6.0			6.0
MEEF Loan		15.0		15.0
HNIP Loan		9.8		9.8
HNIP Grant		5.0		5.0
HNIP 2 Loan			11.9	11.9
HNIP 2 Grant			12.0	12.0
MEEF 2			15.0	15.0
PWLB			9.4	9.4
	16.0	29.8	48.3	94.0
Amount drawn (Loans & Grant)	13.4	28.1	12.0	53.5
Loans remaining from 2021 approval	2.6	1.7	36.3	40.5

22. Table 1 details the funding the Council has put in place to support the development of the heat network. The Council has approved three tranches of investment, funded by low-cost government funded loans and grants. (KD4642) in 2019 approved an investment of £30m (£25m on-lending and £5m grant invested as equity). This was to fund the construction of the main heat network at Meridian Water, as well as other satellite schemes. The financial aspects of Energetik's business case are mainly predicated on the delivery of connections at the Meridian Water and Joyce & Snells schemes. which generate connection fees for the company and on which the business plan is underpinned. Around 17,000 customer connection numbers are required to be achieved for revenues to cover operational costs (excluding connection fees). In the early years connection fees are critical to pay operational costs.

23. KD5304 in 2021 approved a further £49m (£37m on-lending made up of £12m HNIP2 £25m PWLB and £12m HNIP grant invested as equity to fund pipework extensions north from Meridian Water to reach Southbury road and then Enfield Town and west to connect and decarbonise the satellite schemes. The key anchor developments, detailed in the report, were Edmonton Green shopping centre, Colosseum Retail Park, and Palace

Gardens, the Civic Centre, North Middlesex University Hospital and GLA home sat NMUH.

24. The business plan was approved in June 2021 (KD5277) as part of the approval process for the Tranche 3 expansion of the heat network.

25. Gross loans of £36.5m have been advanced by the Council to Energetik as at 30 September 2023. £13.4m relates to Tranche 1 and £23.1 relates to Tranche 2. Grants of £5m and £12m have also been passed over to Energetik in the form of equity investment relating to Tranche 2 and Tranche 3, respectively. Total funding given o Energetik amounts to £53.5m as at 309 September 2023.

Overview of Council Investment

Capital Programme

26. Table 2 details the 2023/24 approved capital budgets that fund Energetik's loan drawdowns and forecast drawdowns at year end. The budget was approved by Council on 23rd February 2023 as part of the Council's ten-year capital programme (KD5502).

27. Energetik's capital spend is funded by Council repayable loans and GLA/Government grants that have been invested in Energetik, as equity (shares).

Table 2: Energetik's capital programme and financing 2023/24

	Loan drawdown @ Period 6 2023/24	Approved Budget 2023/24	Forecasted drawdown@ 31 March 2024	Variance
	£m	£m	£m	£m
Energetik Tranche 1&2 (Phase 1)	1.6	5.1	2.5	(2.6)
Energetik Tranche 3 (Phase 2)	0.0	12.4	6.2	(6.2)
Total Capital Expenditure	**1.6**	17.5	8.7	(8.8)
Financed by				
Tranche 1 loans	0	2.6	0	(2.6)
Tranche 2 loans	1.6	2.5	2.5	0.0
Tranche 3 loans (HNIP2)	0	11.9	6.2	(5.7)
Tranche 3 loans (MEEF/PWLB)	0.0	0.5	0.0	(0.5)
Total Financing	**1.6**	**17.5**	**8.7**	**(8.7)**

28. During the period 1 April 2023 to Period 6, a loan of £1.6m was drawn down to finance capital spend relating to works being undertaken at the Meridian

Water Energy Centre , the Meridian Water One Development and to extend pipework west to the Joyce and Snells development.

29. To date capital works have been centred around the development of the Meridian Water Energy Centre, which is anticipated to be completed imminently. Capital works have commenced on the Phase 2 construction of the heat network, with pipe work being installed from the Meridian Water Energy Centre north towards Edmonton Green, which will connect to the Ponders End heat network before continuing north/west.

30. Connection of the Electric Quarter development to the Alma Road development was funded as part of the Tranche 2 loan, and this is complete. The works to take the pipeline north are anticipated to be financed from the Tranche 3 HNIP2 loan under an Interim Loan On-Lending Agreement (KD5646).

31. Energetik forecast capital loan drawdowns of £8.7m in the year 2023/24, compared to a budgeted draw down of £17.6m at 2023/24 budget setting.

32. The significant change in the estimated drawdown is due to programme revisions in light of regulatory and economic conditions (rising interest rates; high inflation; high construction costs, changes to fire regulations) that have affected the Council’s and private sector developments that, in 2021, were anticipated to be further ahead than they currently are. Programme changes at these developments has had a knock-on effect on new homes connecting to Energetik’s heat network. A delay in connections means connection fee income, and subsequent revenue income from heat sales is delayed. Consequently, there is less revenue available to meet operating costs whilst servicing capital loans that are required to develop other parts of the heat network.

33. Energetik review the affordability and viability of each line prior to entering into contract. The Shareholder has asked Energetik not to enter into any new major contracts until the refreshed business plan is brought to Cabinet.

Revenue Finance

34. Energetik purchases a number of services from the Council under Service Level Agreements. These cover accommodation, accountancy, procurement, and exchequer services. The cost of these services in 2022/23 was £59k.

Overview of Company Performance

Business Plan Update

35. Cabinet last reviewed Energetik’s financial business model in June 2021 when it approved the Tranche 3 funding to extend the heat network along the "green" and "yellow" lines. Since then, there has been significant global challenges which has resulted in a combination of increases to energy prices, construction costs & interest rates. In addition, there have been changes and

delays to the phasing of housing developments. Cumulatively, all of these factors have had a significant impact on the company's financial business model. The business plan is currently being updated and will be reported to members later in the financial year.

Connections update

36. As at 31st August 2023, there were 865 total connections to the heat network. This is unchanged from 31st March 2023, but is 25% down on Energetik's budget which was based on the Council's delivery plan for developments made in Q4 2022/23. The forecasted connections at 31st March 2024 is expected to be 1,506. This new forecast is 19% lower than the 2021 original forecast for this point of 1,870.

Financial Performance

Financial Accounts 2022/23 Update

37. The audit has almost concluded and has not found any issues that may lead to a qualification of the accounts. It is anticipated that the audited accounts are to be published by December 2023.

38. Draft financial results from the draft accounts are detailed in Tables 3 and 4.

Table 3: 2022/23 Unsigned Profit and Loss

(£m)	2022/23	2021/22	Change	Change as %
Total Turnover	2,940	2,965	(25)	-0.8%
Gross Profit	2,044	2,604	(560)	-21.5%
Operating Profit/ (Loss)	1,010	1,289	(279)	-21.6%
Net Profit/ (Loss)	380	108	272	251.9%

Table 4: 2022/23 Unsigned balance sheet

(£m)	2022/23	2021/22	Change	Change as %
Total Fixed Assets	45,768	30,454	15,314	50.3%
Current Assets	7,519	12,340	(4,821)	-39.1%
Current Liabilities	(1,914)	(10,925)	9,011	-82.5%
Total Assets Total Assets less Current Liabilities	51,373	31,869	19,504	61.2%
Net Assets	15,602	15,222	380	2.5%
Call-up Share Capital	17,750	17,750	0	0.0%
Retained Earnings	(2,148)	(2,528)	380	15.0%

39. The unsigned profit and loss account and balance sheet show:

- While total turnover was relatively stable year on year, the revenue from heat and electricity sales increased by £350k 43%, with connection fee income reducing by £375k 17%;
- Gross profit reduced by 21.5% as cost of sales increased year on year (YoY) by 148%. This was caused by the unprecedented turmoil in the energy markets, with gas costs increasing by 321% and electricity costs by 93% Combined these increases totalled £541k and was only partially recovered in higher heat and electricity revenues.
- Operating profit fell by 21.6% YoY, due to the impact of increasing cost of sales offset by a reduction in administrative expenses.
- Net profit before tax at £30k, was down £622k YOY as net interest costs increased by £343k 54%, reflecting further loans taken in the year to finance the capital programme. Net profit after tax of £380k increased YOY as a reduction to the deferred tax provision added £350k to profit.
- Total fixed assets increased by 50% YoY upon realisation of new capital assets being constructed.
- Overall net assets of Energetik increased by 3% YoY. Total growth in the Energetik's total assets was offset by an increase in long-term creditors (in recognition of new capital loans raised from the Council, a YoY change of 129%);
- Energetik's share capital remained unchanged whilst the deficit in retained earnings reserve was reduced by 15% YoY, by the in year profit after tax.

Current Year Financial Update

40. Refer to Part 2 of the report.

Risks and opportunities

41. Listed below are key risks identified by Council and Energetik and are under review.

42. **Funding conditions:** The grant and loan offered by HNIP for Tranche 3 was on the basis of the scope assessed at the time. The Council will need HNIP agreement to vary the scope and maintain the cost at the original level. **Mitigation:** Alongside Energetik, engage HNIP's advisors about grant reprofiling.

43. **Development fluidity**: Both private projects and projects led by the Council are fluctuating in delivery commitments and/or timescales, continually impacting the company's projected cash flow and therefore the Council's risk exposure.

44. Delaying capital spend increases grant funder risk as we go beyond backstop dates, and also increases inflation on core build costs, reducing what can be delivered with grant funding.

Mitigation: continue to monitor through the Interdependency Board and encourage Energetik to secure major connections to existing institutions and/or other heat networks. It should be noted however that for Energetik to secure such major connections to existing buildings/heat networks, that additional funding would be required to extend its network and connect.

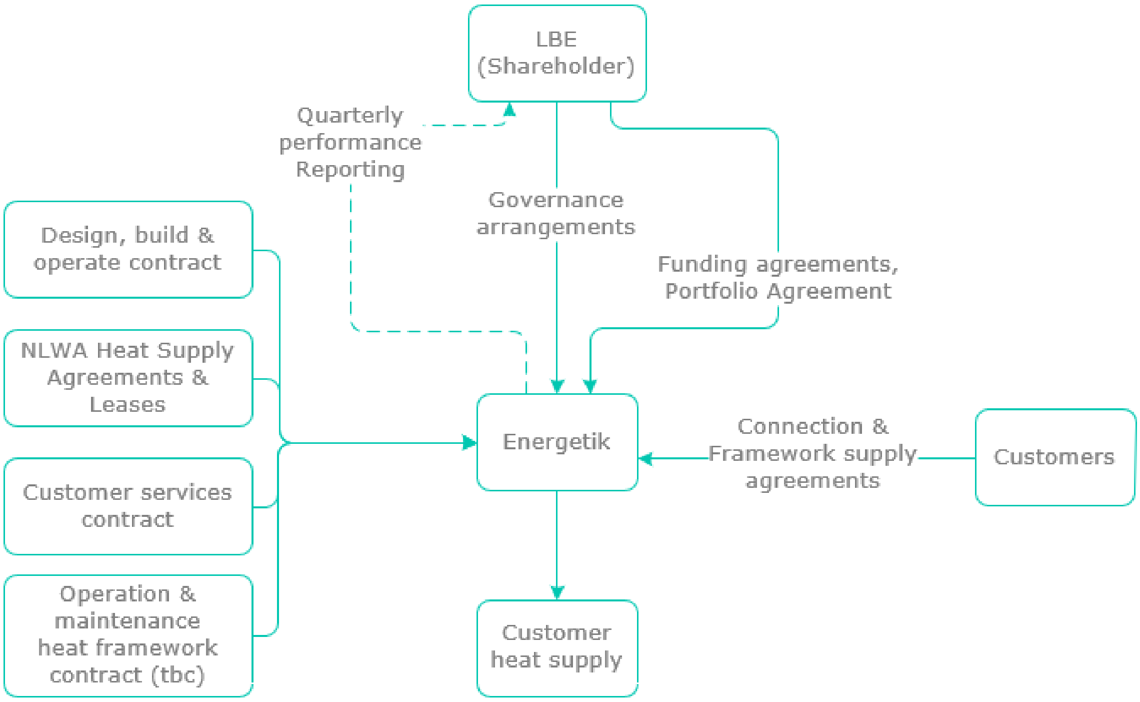
45. **Future growth:** Energetik cannot expand without further investment but making full use of the waste heat from the incinerator requires Energetik to grow. Expansion requires additional up front capital investment.
46. **Mitigation:** Explore further central Government funding opportunities to enable Energetik to continue to grow

47. **Regulation**: Government is bringing in industry regulation for heat networks in late 2023/early 2024, with secondary legislation being introduced over the next two years. Part of the regulation will be to develop heat network zones, obliging heat networks to be built out within zones and mandating certain buildings to connect (new development, large heat consumers in existing buildings etc). This will create an obligation for many buildings to connect to Energetik's heat network over time.
Mitigation: Enfield, via Energetik, is currently participating in a regulatory Heat Network Zoning pilot project, and will have a significant head start when regulation comes into force, building on the work currently being undertaken.

48. **Construction cost:** aggravated by construction being deliberately slowed to match the delayed delivery of developments.
49. **Mitigation:** enter into contracts sooner where permissible to lock into prices.

Governance

50. Energetik reports to the Council via various formal channels:
    - Quarterly performance reporting
    - 'Client' meetings with Council directors
    - Interdependency board meetings
51. The diagram below outlines the corporate structure of Energetik and identifies the high-level governance and commercial arrangements that have been in place. Energetik is set up as the delivery vehicle. The current arrangement is based on Council led governance reviews to determine the most appropriate structure:



52. **Management structure:** The Board of Directors currently comprises five Directors made up of one Councillor Director, two Non-Executive Directors (NED) from the district heating industry and two executive directors. The Managing Director and the Technical Director (executive) are experienced directors in the delivery and operation of complex heat networks and infrastructure projects of this nature.
53. The day to day business is run by a small but highly experienced in-house management team, which has more than 100 years combined operational, financial and technical expertise in the district and community heating industry, in both the UK and Europe.

Housing Gateway Limited (HGL)

Executive Summary - HGL

54. In February 2014 Cabinet agreed to establish a wholly owned local authority company to acquire and manage properties in the private rented sector, to be used by the Council to discharge its statutory homelessness duties. This was in response to the £3.3m budget pressure facing temporary accommodation in 2014/15, which was predicted to rise to up to £7.8 million if no action was taken.

55. The local authority company – Housing Gateway Limited (HGL) was established in March 2014 and is responsible for the identification of properties; property acquisition; undertaking any necessary renovation to bring the properties up to the required lettings standard and ongoing property management.

56. As at 31 March 2022, the Council has avoided costs of £13.3m in temporary accommodation costs and a further £1.5m is expected in the current financial year.

57. HGL's property acquisitions are financed through loans raised via Enfield Council, as well as grants secured from the Government and the GLA. HGL services the loans annually. HGL had an opening debt balance of £126.8m on 1st April 2023 and is projected to have a loan balance of £120.1m at 31 March 2024 and assumes no further loans drawn. The underlying book value of the fixed assets totalled £157m at the end of 2022/23.

58. The Council has financed the HGL loans through the Public Works Loan Board (PWLB) and onward lent the loan. The Council had an opening debt balance of £109.3m on 1st April 2023. The Council is projected to have a loan balance of £107.9m for specific HGL-related loans at 31 March 2024. The Council has also lent £10.7m to HGL from the overall PWLB loan pool.

59. HGL has made a financial profit in the last two financial years and is forecasted to make a profit in the current financial year. HGL continues to remain solvent.

60. HGL's loan portfolio will be reviewed, with the aim to refinancing loan terms to suit both party's needs. This includes reviewing HGL's internally borrowed position and the impact on a potential dividend to the Council.

61. Following discussions with the Council, HGL are evaluating the implications of increasing existing tenants' rents to market rent from April 2024. The proposal is to issue new tenancies after April 2024 ,at market rent, where the new rent is affordable for the tenant, assuming the Council's affordability criteria can be met

62. HGL has historically let all properties at rents no greater than Local Housing Allowance(LHA). HGL will continue to assist residents who cannot readily access private rented (PRS) accommodation by not requiring credit checks, deposit or rent in advance. However, in order to provide a PRS offer in line

with the private rented market as a whole, creating fairness and responding to the current changes in the market, HGL's rents will be increased to market rent from April 2024.

63. It should be noted that if LHA rates had risen in line with the rents in the private sector, tenants in receipt of benefits would be entitled to benefits equal to the full market rent. HGL's product remains sub-market for purposes of subsidy control as there is not a requirement for a credit check, rent in advance, or a deposit

Background

64. Formed in 2014, Housing Gateway Limited (HGL) is a wholly owned Enfield Council company. Its founding purpose was to assist the Council to manage its Temporary Accommodation challenges. HGL offers assured shorthold tenancies against which the Council can discharge its homelessness duties. Since Housing Gateway's inception, it has built up a portfolio of 632 homes and a strong balance sheet. It has provided a quality housing solution for families who would otherwise be placed in temporary accommodation and hopes to continue expanding to support the Council's aims, to eradicate the use of temporary accommodation, and prevent homelessness[1].

65. HGL's strategic objectives are as follows:

a) Deliver demonstrably good quality housing for residents ensuring the portfolio meets decency standards and aligns with the Shareholders decarbonisation strategy.

b) Maximise the financial return to the Shareholder, contributing to the alleviation of the Council's financial pressures arising from the shortfall in the provision of temporary accommodation, whilst balancing the needs of our residents and condition of housing stock.

c) Develop Enfield Let, an innovative ethical lettings agency, collaborating with the Council to complete a stock transfer of Temporary Accommodation.

d) Review HGL's operating model to ensure that residents in the most need are prioritised and the number of residents who benefit from HGL's stable, affordable accommodation, are maximised.

e) Promote the company's governance processes ensuring recruitment and training of key posts.

f) Support the Council's need for specialist accommodation by developing innovative housing solutions.

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[1] www.enfield.gov.uk/housinggateway

Overview of Council Investment

Capital Programme

66. HGL's capital budget was approved by Council on 23rd February 2023, as part of the Council's capital programme (KD5502).

67. Actual capital spend is undertaken by HGL and is funded by the Council via repayable loans or GLA/Government grants that are passported on, via the Council.

Table 5: HGL's capital programme and financing

	Loan drawdown Period 6 2023/24 £m	Approved Budget 2023/24 £m	Year end forecast £m	Variance £m
Housing Gateway Ltd	0.0	2.2	4.2	2.0
Housing Gateway Ltd (subject to Cabinet second level approval)	0.0	9.0	6.0	(3.0)
Total Capital Expenditure	0.0	11.2	10.2	(1.0)
Financed by:				
Grant	0	0	2.0	2.0
Borrowing	0	11.2	8.2	(3.0)
Total Financing	0.0	11.2	10.2	(1.0)

68. There have been no loan drawdowns as at 30 September, as HGL has been minimising their debt exposure by planning to use existing cash to temporarily fund capital purchases. The year end forecast is based on a drawdown of £10.2m, financed by a new LAHF grant award of £2m and Enfield Council loans. In response to the challenges faced by the Council in temporary accommodation, it is anticipated that this will result in the following capital works and acquisitions:

- In line with budget HGL anticipates 50 purchases between Oct 23 – Mar 24. Following the Council's agreement for HGL to use its equity differently in June 23 has mobilised the Acquisitions team to secure a healthy pipeline of 31 properties with offers accepted.

- HGL will also be conducting major works at Brickfield and Greenway House – Revenue £2.4m, capital £3.7m.

Overview of Company Performance

69. **Business Plan Update:** The Council last reviewed HGL's/ financial business plan in depth in March 2021 (KD5277). The business plan covered the period 2021 to 2024. The plan set out key strategic target for the core portfolio is to expand by 300 properties by March 2024. The business plan is currently being updated to reflect its new business model including the management of temporary accommodation and will be reported to Cabinet and Council on completion.

70. **Financial accounts 2022/23:** The external audit of the 2022/23 financial accounts has been completed and the accounts were signed off at the HGL Board meeting on 26th September 2023. Key financial results from the draft accounts are detailed in Tables 7 and 8.

Table 6: Audited profit and loss account

(£m)	2022/23	2021/22	Change	Change as %
Total Turnover	12.97	11.14	1.84	16.5%
Gross Profit	9.08	8.53	0.55	6.4%
Operating Profit & Loss	5.14	0.69	4.45	642.9%
Net Profit & Loss	1.99	2.49	(0.50)	-20.0%

Table 7: Audited balance sheet

(£m)	2022/23	2021/22	Change	Change as %
Total Fixed Assets	156.74	147.16	9.58	6.5%
Current Assets	4.34	10.60	(6.26)	-59.0%
Current Liabilities	(17.36)	(18.06)	0.71	-3.9%
Total Assets	143.72	139.70	4.03	2.9%
Net Assets	12.11	10.11	1.99	19.7%
Callup Share Capital	5.00	5.00	(0.00)	0.0%
Retained Earnings	7.11	5.11	1.99	39.0%

71. The audited profit and loss account and balance sheet show:

- Turnover increasing by 17% year on year (YoY) due to the purchase of 37 properties and a full year impact of the 49 purchased in 2021/22.
- Gross profit increased by 6.5% YoY, as a result of increased property purchases versus new let properties
- Operational profit significantly increased by 643% YoY due to a sizeable reduction in administrative expenses (47%) driven by a large increase in accrued cost in 2021/22 for the major repairs work identified at Greenway and Brickfield House.
- Year on year net profit fell by 20% as 2022 had a significant revaluation on investment properties of £5.7m versus £0.5m in 2023. This large valuation

increase outstripped the large major works identified at Greenway and Brickfield House.

- Total fixed assets increased by 7% YoY upon realisation of new capital assets being acquired.
- Overall net assets of HGL increased by 19% YoY.
- HGL's share capital remained unchanged whilst the retained earnings reserve increased by 39% YoY to reflect in the year profit.

Financial Performance:

72. Refer to Part 2 of the report.

Other activity at Period 6

73. Following the Council's agreement for HGL to use more equity per purchase in June 23, HGL has quickly mobilised the acquisitions team to secure a healthy pipeline of 31 properties with offers accepted.

74. HGL successfully bid for and secured £2m grant funding from DULAC to deliver 10 properties (Afghan refugee and TA accommodation.)

75. HGL has also procured main contractors and a professional team to deliver major works at Brickfield House. Additionally, HGL has aligned with the Council's stock condition survey to provide data which will form a capital works strategy.

76. Additionally, the Finance Team have procured new accounting software to streamline processes and are currently implementing and evaluating the system prior to it going live.

Key risks identified

77. If property values substantially reduced, the company's asset base and balance sheet would reduce, and HGL may not be able to raise sufficient cash to repay its Council debt should the Council seek to dispose of its HGL Loan portfolio.

78. Rising interest rates will make new debt (to fund acquisitions) more expensive and reduce future profits and dividend opportunities. Current debt remains fixed at relative low interest rates.

Governance

79. HGL has a board of Directors who report to the sole shareholder, Enfield Council. The Chair of the HGL board is a Council appointed Councillor, Cllr Sabri Ozaydin.

80. In addition, HGL has two committees; Finance and Investment, which govern the company's financial and investment decisions. The operational business

is reported on the board of Directors via regular board meetings and the Shareholder via a quarterly report.

Enfield Let

Executive Summary

81. Established in 2020, Enfield Let is a division of Housing Gateway Limited (HGL). Enfield Let's financial affairs are consolidated within HGL's finances but are shown here, separately, for transparency. Enfield Let deals with letting accommodation to Borough residents and works collaboratively with the Enfield Council to tackle temporary accommodation.

82. Enfield Let's operation continues to remain in an infancy stage in comparison to other Enfield Council companies. This is reflected in the number of properties it has.

Background

83. Enfield Let is a division of Housing Gateway Limited (HGL). It was established in 2020 by the Council to help tackle social injustice in the private rental sector, assisting those who would otherwise struggle to access private housing and ensuring residents are not discriminated against because of their financial status. By providing an effective and affordable early intervention option Enfield Let aims to divert residents from presenting as homeless. This in turn will provide significant savings to the temporary accommodation budget by avoiding expensive nightly paid accommodation costs. Enfield Let aims to ensure quality and standards in the marketplace, building on the existing market offer with a secure and supported nature. Enfield Let is an ethical lettings agency ensuring the usual barriers to letting are removed.

Overview of Company Performance

Financial Performance

84. Refer to Part 2 of the report

Other activity at Period 6:

85. The Council have opted to deliver the temporary accommodation stock transfer via Enfield Let, Housing Gateway's ethical letting agency. Enfield Let have been collaborating with the Council to assist in the delivery of this project. This has involved the procurement of a new IT system, new processes & procedures, legal documents, and financial modelling. Resources have been focused to assist with the delivery of the TA stock transfer as a priority.

86. **Governance:** Enfield Let is the ethical lettings division of HGL, therefore subject to the same governance processes as HGL.

Montagu 406 Regeneration LLP (Joint Venture)

Executive Summary - Montagu

87. Established in 2018 with the Council participating in a 50:50 joint venture with Henry Boot Developments Ltd ('HBD') via an LLP to redevelop the Montagu industrial estate for the regeneration benefits, as well as increasing the quality and value of the site. Phase 1 of the scheme is complete, and most units let.

88. Spend for 2023/24 is anticipated to be £300k split between Capital and Revenue.

89. Income in the budget for 2023/24 is £300k. The Council is currently reviewing its strategy for Montagu in partnership with HBD.

Background

90. Established in 2018 with the Council participating in a 50:50 joint venture with Henry Boot Developments Ltd ('HBD') via an LLP. The objective is to redevelop the Montagu industrial estate for the regeneration benefits, as well as increasing the quality and value of the site. Phase 1 of the scheme is complete, and most units let.

Capital Programme

91. As part of the development of the 2024/25 capital strategy the capital budget of £49.8m has been moved to the pipeline, this means that further capital expenditure will be subject to the refresh of the joint venture financial model and business plan. £150k revenue funding was approved to cover the professional fees (Legal, consultancy and valuation) associated with the current review.

Revenue Finance

92. £150k of spend is anticipated during 2023/24 (P5 forecast) in relation to Legal fees for new lettings and property management consultancy fees.

93. The MRP charge forecasted for FY23/24 is £67k, excluding MRP charge on the £150k capital spend anticipated this year. MRP relates to capital expenditure incurred in years 2016/17 to 2022/23 with respect to land and building acquisitions.

Overview of Company Performance

Business performance:

94. Refer to Part 2 of the report.

Governance

95. The Montagu 406 LLP Board meets on a Quarterly basis with 2 Board Members from HBD and 2 Board Members from the Council. This Board takes all major and strategic decisions.

96. Nick Denny (Director of Property) and Cllr Boztas are the Councils Elected members of the LLP Board.

97. Montagu Operational Board meetings take place on a monthly basis and makes all decisions of an operational nature and implements LLP Board decisions.

98. The Council has a Financial Governance Monthly Call with HBD to discuss any Management Accounts issues which include Forecasting and Budgeting.

99. Further Internal Governance is provided via reporting on the Montagu LLP to the Property Board and risks are also reported to the Assurance Board.

100. A Risk Register is also updated every Quarter.

Meridian Water Estate Management Company (MWEMC)

Background:

101. Cabinet approved the formation of the Meridian Water Estate Management Company Limited (MWEMC) on 8th December 2021 (KD 5309) to comply with the terms of the Development Agreement with Vistry/Countryside Partnerships and the company was incorporated 31st March 2022 (company registration 14014705).

102. The primary purpose of the company is to set up a framework for the procurement and provision of services to residents of Meridian 1 and 2 and future phases. Services include highway and grounds maintenance, waste, and utilities.

103. These services would be provided by external contractors with some from the Council, to private as well as HRA tenants with MWEMC co-ordinating the provision of these services, collection of service charges, establishing sinking funds and managing payments to the Council and contractors.

Capital Programme:

104. There is no impact on the capital programme as the responsibilities of MWEMC will be the provision of services funded from revenue resources.

Revenue Finance:

105. It was originally envisaged that the costs of setting up and running MWEMC would initially be funded by the Council, through providing a working capital loan.

106. MWEMC would then repay this loan, with interest (to comply with Subsidy Control rules), to the Council, using surpluses accumulated in the performance of its function as service charge provider and collection agent on behalf of the Council.

107. To comply with the Council’s Treasury Management Strategy Statement (details below) such a working capital loan can only be extended once a satisfactory business plan has been submitted which demonstrates that MWEMC is viable and capable of repaying the loan with interest within a reasonable time horizon.

108. After set-up costs, it is expected MWEMC will now no longer require financial support from the Council ,as service charge income should be sufficient to support MWEMC in the medium term.

109. Set up and running costs estimated at £60k in 2023/24 and £30k 2024/25 will have to be contained within existing Council revenue budgets as these costs are not eligible for billing to residents through MWEMC.

110. A working capital facility is now not expected to be required, as it is envisaged MWEMC will become self-funding in the medium term.

Business performance:

111. MWEMC, which is incorporated by Guarantee (Council’s liability is £1), is required to file accounts to 31st March 2023 with Companies House by 31st December 2023.

112. Although there was no activity during 2022/23, handovers of units started in September 2023.

Key risks identified:

113. The main risk to the Council, is the cost of running MWEMC until it becomes operational and able to fund its own operations. These costs will not be recoverable, as they are not eligible to be charged to residents in the form of service charges.

114. Another risk is the development of service charge billing mechanisms, which are compliant with HM Revenue & Customs rules. Given the mix of supplies and the role of MWEMC as collection agent and supplier of services, care is required to ensure the correct rates of VAT are applied by the entities involved.

115. This will include the Council as Principal and MWEMC as an agent, where services originate from the Council and Service Level Agreements, are in existence.

Governance

116. The Meridian Water Estate Management Governance Board is responsible for oversight of all MWEMC activities. A review of the terms of reference is in progress and will be reported to the Council through this Board.

Preferred Option and Reasons For Preferred Option

117. This report is reporting on performance to date in the current financial year, and there is option analysis for consideration.

Relevance to Council Plans and Strategies

118. Energetik: in line with Enfield Council's Vision to make Enfield a better place to live and work, delivering fairness to all, growth, sustainability, and

strong communities, Energetik provides the Council with the opportunity to reduce carbon emissions as properties and businesses connect over time.

119. Energetik shares the Council's values and principles and is working to improve Enfield for the long term. The company's activities play a key role in creating good homes in well-connected neighbourhoods and supports the borough's ambitious regeneration and housebuilding programme through its provision of an environmentally friendly heat source.

120. HGL (including Enfield Let): Good Homes in Well Connected Neighbourhoods. An opportunity for us to develop homes and neighbourhoods for people on different incomes, which help people of all ages live healthier and more environmentally sustainable lives.

121. Montagu: The redevelopment of Montagu Industrial Estate will generate employment, encourage economic growth and provide improved industrial accommodation thereby sustaining strong local communities and with improved working conditions in new accommodation, a more-healthy workforce.

122. The Meridian Water Estate Management and Place-keeping Framework supports the delivery of the following Council Plan priorities:

- Enfield Council Plan 2020-2022
- Enfield Council Commercial Framework 2018
- Enfield Council Economic Development Framework 2021
- Enfield Council Green & Blue Framework 2021
- Meridian Water Employment Framework 2020
- Meridian Water Environmental Sustainability Strategy 2020
- Meridian Water Reserved Matters Application for Phase 1a and Outline Planning Permissions for Phase 1 and Phase 2

123. The Estate Management and Placekeeping Framework supports the Meridian Water Employment Strategy, generating the need for employment on site, as well as offering the opportunity to deliver on wider objectives within the Meridian Water Environmental Sustainability Strategy such as increasing resident recycling rates, promoting the circular economy, and reducing operational carbon emissions.

Financial Implications

124. Financial implications are citied throughout the report. In general, loans advanced to Enfield Companies are accounted for in two ways. Firstly, interest and capital repaid to the Council's Lender(s). Interest is then charged to the Corporate Debt Management Budget. Capital repayments reduce the Councils debt liability on its balance sheet and reduces cash balances. And secondly, interest collected from Companies is recorded as interest income, which is used to offset the Council's debt costs. All interest is recognised in the Comprehensive Income & Expenditure Statement and in the respective accounting period. Company loans are recorded as long-term debtors on the

Council's balance sheet and capital repayments received from Companies are used to reduce the long-term debtor.

125. Loan capital payments received from Companies are regarded as equivalent to the Minimum Revenue Provision (MRP) charge, in accordance with current capital finance regulations. Current MRP Regulations allow for loan repayments received from Council companies to be treated as the equivalent MRP charge for the respective year. Therefore, the Council is not required to set aside any MRP to cover the loan.

126. In the event of an Enfield Council Company being unable to make a scheduled loan repayment in the relevant financial year, the impact would firstly be a higher Council overall debt interest charge, resulting in an overspend against budget, creating a revenue pressure. Secondly a cashflow risk resulting in the Council's Treasury Management Team having to cover the incoming payment by borrowing from the capital markets, a cost that is not reflected in the loan rate. And thirdly the Council would be required to make an MRP charge to cover the loan repayment, creating an additional revenue pressure.

127. Energetik- The Council will be funding the working capital facility of £3.5m from General Fund Balances, as the facility is required to support operational costs and cannot be financed from debt. There will be an accounting charge of up to £0.5m to comply with the IFRS 9 and determine an accounting adjustment 'expected credit loss' for 2023/24. The charge will impact the General Fund balances in 2023/24. For clarity, the Council's central estimate is that all loans will be repaid in full.

128. HGL- The Council makes MRP payment on the HGL equity as this was financed by Council borrowing. No MRP is paid on the Energetik equity investment as the investment was financed by a Central Government grant.

129. With respect to Montagu, the MRP charge forecasted for FY23/24 is £67k, excluding MRP charge on the £150k capital spend anticipated this year, which is currently forecast to be funded by Capital receipts.

Legal Implications

130. The Council has the power under Section 1(1) of the Localism Act 2011 to do anything which individuals generally may do provided it is not prohibited by legislation and subject to public law principles. Further statutory powers exist for the Council to establish and invest in its companies, and Section 1 of the Local Government Act 2003 permits the Council to borrow and lend (subject to complying with the Prudential Code for Finance in Local Authorities). When taking decisions to invest in the companies, the Council must have proper regard to its fiduciary duty to act prudently with public monies.

131. In its dealings with the companies, the Council must be mindful of its different roles – for example, shareholder, lender, commissioner - and understand the parameters and responsibilities of each. When taking actions

as shareholder, it must comply with the relevant provisions of the Companies Act 2006.

132. When supporting the companies, the Council must also ensure compliance with the Subsidy Control Act 2022 and should seek legal and financial advice on a regular basis.

Equalities Implications

133. There are no direct equalities implications as the report is primarily about reporting on performance of each Council company and Council, as the Shareholder. Direct equalities implications as relevant are detailed in respective individual Company reports .

Environmental and Climate Change Implications

134. There are no direct environment and climate change implications as the matter is primarily about reporting on performance of each council Company and Council, as Shareholder, exposure. Direct environment and climate change implications are detailed in respective Council reports.

Property Implications

135. There are no direct property implications as the matter is primarily about reporting on performance of each council Company and Council, as Shareholder, exposure. Property implications are detailed in respective Council reports.

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