



London Borough of Enfield

Report Title	Housing Gateway Limited (HGL) Business Plan 2024/25
Report to	Cabinet
Date of Meeting	June 2024
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Fay Hammond, Executive Director Resources Joanne Drew, Strategic Director Housing and Resources
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Ward(s) affected	All
Key Decision Number	KD 5725
Classification	Part 1

Purpose of Report

1. To present to Cabinet the Business Plan for HGL for the year 2024/25 for approval

Recommendations

I.	Approve the HGL Business Plan for delivery in 2024/25
II.	Delegate authority to the Executive Director of Resources to enter into a new borrowing facility agreement with HGL of up to £29.4m to finance planned capital spend in 2024/25 and refinance £3.9m of properties purchased by HGL but not yet financed by borrowing
III.	Delegate authority to Executive Director (Resources) to refinance the existing loans to HGL (i.e. revise the existing loan agreements) to ensure that loan repayments from HGL are fully reflective of Council borrowing costs
IV.	Delegate authority to the Executive Director (Resources) to enter into a working capital facility with HGL for up to £2m.

Background and options

1. Housing Gateway Ltd (HGL) was established in 2014 to provide LBE with good quality housing for its residents addressing temporary accommodation budget pressures. The Company's mission reflects its wider role and critical contribution to the Council's housing strategy.
2. HGL is a wholly owned Council company. It offers assured shorthold tenancies against which the Council can discharge its homelessness duties and these homes can be held in the company over the long term. This provides a tenure solution that the Council cannot provide.
3. Since HGL's inception, it has built up a portfolio of 647 homes. HGL has provided a quality solution to families and is well placed to scale up to tackle the Council's challenge of eradicating the use of temporary accommodation, preventing homelessness, as well as providing a wider range of rented products with more security than would otherwise be secured in the private sector.
4. The Business Plan, attached as an appendix, provides the outturn for 2023/24, a strategic review of 2023/24, strategic objectives for 2024/25, the financial strategy and risks and controls.
5. The Business Plan covers the following objectives that HGL is working towards over the next 3 years:
 - Deliver good quality housing
 - Maximise the financial return and benefits to the Council
 - Develop Enfield Let (an innovative ethical lettings agency, collaborating with the Council to complete a stock transfer of Temporary Accommodation)
 - Review HGL's operating model including growth strategy
 - Ensure effective governance
 - Support the Council's need for specialist accommodation

Preferred Option and Reasons For Preferred Option

6. Cabinet is asked to approve the HGL Business plan for the year 2024/25. During 2024/25, the Council and company will review the growth strategy and purpose of the company and bring forward a revised business plan for the longer term.

Relevance to Council Plans and Strategies

7. The HGL Business Plan supports the Council's homelessness approach as agreed by Cabinet in June 2023.

Financial Implications

8. HGL is a wholly owned Council company. It is funded via PWLB borrowing that the Council has taken out and lent to HGL, grants from external organisations and equity investment from the Council.

Revenue position

9. HGL's revenue position is presented in the table below:

	2023/24 draft outturn position	2024/25 budget
	£000	£000
Profit before tax & fair value adjustments	578	1,762
Cash position	755	2,069

10. In 2023/24 property revaluations as a result of housing market issues resulted in an adverse adjustment to the value of the portfolio resulting in a £2.2m loss which left the profit before tax figure at a £1.6m loss. This was an accounting adjustment rather than a cash loss.

Dividends

11. HGL's forecast profits in 2024/25 could be used to pay a dividend to its shareholders, if the HGL board decides that it is in the best interest of the company and its stakeholders. HGL is forecasting positive cash flows and profits for 2024/25.

12. In considering an approach to making dividend payments the Board has developed a financial framework to ensure a sustainable financial position.

13. This framework includes:

- (i) Holding a desirable (usable) reserve level, based on total risk factors of £1.3m and
- (ii) Maintaining a minimum cash balance, at the same level, £1.3m for 2024/25

14. In considering the approach to the desirable reserve and cash levels the following was considered:

- Ability to repay loans from surplus.
- Costs relating to building works to ensure buildings comply with new Health and Safety regulations including at
- Brickfield and Greenway which are underway and due to be completed in 2024/25.
- Increased bad debt provision arising from a change in rent policy.
- Changes in government legislation affecting private rented accommodation.

- Risk of increase in PWLB rates, leading to an increase in borrowing costs.

15. The company anticipates paying a dividend from any profits above these levels.

16. The 2024/25 Plan includes an assumption of a circa £0.5m nomination fee from the Council. The nominations fee is calculated to cover the loss arising from the management of temporary accommodation as rents do not cover costs. However, overall the transfer programme is delivering substantial financial savings to the Council. There is therefore a risk that the amount is different, and in particular could be higher. HGL and the Council will work collaboratively to minimise the nomination fee requirements and maximise the financial independence of Enfield Lets.

Capital expenditure

17. The Enfield Council capital programme envelope approved by Council in February 2024 below is as follows. Spend beyond 2024/25 will be requested in the light of the long term business plan to be agreed by Cabinet at a future date:

	2024/25	2025/26	2026/27	Total	Funded by Borrowing
	£m	£m	£m	£m	£m
Capital Budget	29.4	35.9	17.0	82.3	82.3

18. The Council continues to keep the purchasing programmes under review and every property in the pipeline will be subject to a review as to whether it is most efficient to finance it via HRA (for temporary accommodation) or HGL (for Private Rental Sector properties and/or TA). This may mean that the actual capital expenditure for HGL differs from the plans outlined in the Business Plan.

Borrowing

19. The existing loans to HGL as at 31 March 2024 are as follows:

<u>01.04.2023</u>	Start Date	End Date	Interest Rates	Amount Outstanding
PWLB (Refinanced) 2020	01/04/2020	01/04/2095	2.50%	£115,889,882
Long-term Loan 2020.21	31/03/2021	31/03/2071	2.08%	£4,562,443
Short-term Loan 2021.22	01/04/2023	31/03/2025 (rolled over on temporary basis)	6.25%	£6,000,000
Bridging loan	08/02/2024	31/03/25	6.25%	£6,500,000
Total				£132,952,325

20. The Council is currently in the process of reviewing and potentially refinancing the above loans to ensure that lending is provided at optimal and affordable rates for HGL, that there is prudent provision in place to repay these loans and that the costs are fully reflective of the Council's own borrowing costs for the borrowing used to provide the loans. Cabinet is asked to approve the refinancing of the existing loan portfolio.
21. The current loan facility agreement for £165.39m expired in March 2024. Cabinet is asked to delegate authority to the Executive Director of Resources to enter into a new loan facility agreement of up to £29.4m to finance the anticipated capital spend in 2024/25. This facility will be subject to more detailed business cases and cash flow checks as part of the drawdown process to ensure that HGL is able to repay any existing and future borrowing.
22. In addition, Cabinet is asked to delegate authority to the Executive Director (Resources) to enter into a £2m working capital facility with HGL that can be utilised in case of cash flows not coming through in the expected timescales. This is required because of potential timing differences in lease payments and nomination fee payments from the Council as a result of the temporary accommodation transfer programme.
23. The Council will work with HGL to minimise the use of the working capital facility.

Legal Implications

24. The Council has a general power of competence under s1(1) of the Localism Act 2011 to do anything that individuals may do, provided it is not prohibited by legislation, and subject to public law principles. Under sections 1(4) and 4 of such Act, the Council can use this general power to do something for a commercial purpose or otherwise for a charge so long as it does this through a company. Further statutory powers exist to establish and invest in HGL, 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).
25. In addition, there are a number of new duties under the Building Safety Act 2022 (as they relate to any works on higher risk buildings) and under the Building Regulations (Amendment)(England) Regulations 2023 (Building Regulations). The Building Regulations, which came into effect on 1 October 2023, apply to all building works and include the duty to make suitable arrangements for planning, managing and monitoring a project to ensure compliance with all relevant requirements under the Building Regulations.
26. Section 8 of the Housing Act 1985 imposes a duty on every local housing authority to carry out a periodical review of housing conditions in their district and the needs of the district with respect to the provision of further housing accommodation. Enfield is one of the local authorities with a high number of homeless families seeking housing assistance and in temporary accommodation. HGL was set up to assist the Council in reducing its

temporary accommodation budget pressure. It offers assured shorthold tenancies against which the council can discharge its homelessness duties.

27. In its dealings with HGL, the Council must be mindful of its different roles (shareholder, lender, commissioner) and understand the parameters and responsibilities of each. When taking certain actions as shareholder of the company, the Council must comply with the relevant provisions of the Companies Act 2006 where applicable
28. When supporting HGL, the Council must also be mindful of the current subsidy control regime in the UK (previously the EU state aid regime), and should seek legal and financial advice on a regular basis to ensure ongoing compliance. This relates not only to the loans and equity injections the Council makes into the company, but also applies to wider arrangements which could amount to a 'subsidy' such as payments under the nominations agreements.
29. Any Council contracts – including loan agreements and nominations agreements - that may be required as a result of the implementation of the Business Plan must be in a form approved by Legal Service on behalf of the Director of Law and Governance.
30. When it comes to procurement and compliance with the statutory regime in force (currently, the Public Contracts Regulations 2015 (PCR), and from 28 October 2024- the anticipated 'Go-Live' date - the Procurement Act 2024), it should be noted that HGL is likely to fall within the definition of a 'Teckal company'. This means that it can be treated akin to an in-house department for procurement purposes, and contracts can be awarded between the Council and HGL without the need for a competitive process. However, in being a Teckal company, this means that HGL would likely be considered a 'contracting authority' as defined under the PCR and therefore must itself comply with procurement legislation when awarding contracts.
31. The business plan refers to a number of different grants being used for the activities of HGL, and both the company and the Council must be mindful of any conditions attached to that grant funding to avoid inadvertently breaching the relevant grant funding agreements.

Equalities implications

32. A Stage 1 Screening Questionnaire has been completed and considered. An Equality Impact Assessment (EqIA) is not indicated for this stage and decision. However, a full EqIA may be required and will be developed to inform implementation.

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Appendices

Appendix 1: HGL Business Plan 2024/25

Background Papers

None