

MUNICIPAL YEAR 2015/2016 REPORT NO. 10

MEETING TITLE AND DATE:

Cabinet 17th June 2015

Council 24th June 2015

REPORT OF:

Director of Finance, Resources and Customer Services

Agenda – part 1

Item: 17

Subject: Housing Gateway Limited Annual Report

Wards: All

Cabinet Members consulted: Cllr Oykenner, Cllr Stafford and Cllr Georgiou

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1. EXECUTIVE SUMMARY

- 1.1 In February 2014 Enfield Council's 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 homeless 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.
- 1.2 The local authority company – Housing Gateway Limited – 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.
- 1.3 Since the creation of the company in March 2014 it has become fully established as an independent legal entity and has robust processes and procedures in place for day to day operation, and a unique brand. A Board of Directors has been formed, which includes two independent directors, and meets on a monthly basis to provide strategic direction to the company and oversee performance.
- 1.4 As of 31st March 2015 the company was on track to meet the indicative targets in the business case for the first year by 30th June 2015, with 72 completions and 34 properties tenanted. An independent six month review was undertaken by Social Finance and concluded that significant measurable progress had been made across all areas of company operation and *“the business case underpinning the formation of HGL remains undiminished, with the pressure on Council spending on temporary accommodation intensifying”*.

- 1.5 This is illustrated by the fact that the number of households in temporary accommodation has risen from 2188 in December 2013 to 2764 on 31st March 2015; an increase of 26% resulting in Enfield being ranked 5th highest nationally for the number of households in temporary accommodation.
- 1.6 In addition, the number of households in expensive nightly paid accommodation has more than doubled to 1,150 (compared with 480 in February 2015) with a further 78 in B & B accommodation.
- 1.7 Housing Gateway Limited is successfully enabling the Council to discharge its statutory homeless duties into the private sector whilst reducing the temporary accommodation budget pressures. In addition the model has enabled the Council, via the company, to secure local properties for local people and should in time help to drive up standards by being an exemplar landlord and ensuring that all properties are let at an appropriate standard and are well managed.
- 1.8 The company has exceeded the target yield in the baseline financial model, whilst reducing General Fund budget pressures and enabling the Council to acquire a portfolio of assets, via the company. Financial viability was further enhanced as Housing Gateway Limited successfully secured £1.8 million of GLA grant funding for the renovation of 56 properties. An independent review of the financial position of the company after one year concluded that the financial standing is positive and the financial viability is better than expected when compared to the original business case.
- 1.9 The Council and Housing Gateway Limited have received national recognition for the innovative business model and contact has been made by a number of other local authorities seeking to replicate Enfield's model. The company has also featured in the Guardian and both national TV and radio broadcasts.

2. RECOMMENDATIONS

- 2.1 Note the contents of the Housing Gateway Limited First Annual Report, outlined in the body of this report and in Appendix 1.
- 2.2 Cabinet agree to refer this report to Council for information.

3. BACKGROUND

- 3.1 Over recent years there have been increasing pressures on the temporary accommodation budget, arising from an increase in the number of homeless households (for whom the Council has a statutory duty) as a result of a

complex range of socio-economic factors including market conditions in the Private Rented Sector, the Government's welfare reforms and a greater number of placements in Enfield by other boroughs. As a result, this has increased the Council's reliance on expensive Nightly Paid Accommodation and the Council faced an estimated budget pressure of £3.3 million in 2014/15 that was predicted to rise to up to £7.8 million if no action was taken.

- 3.2 Management action was therefore required to increase the supply of more cost effective accommodation and reduce demand for the service. In February 2014 Enfield Council's Cabinet agreed to establish a wholly owned local authority company to acquire and manage properties in the private rented sector that the Council could use to discharge its statutory homeless duties. It was agreed that the properties purchased by the company would be made available to those residents primarily with housing need or at risk of homelessness. The creation of a local authority company to purchase properties that the Council can use to discharge its statutory homeless duties was part of a wider strategy to reduce temporary accommodation budget pressures and secure local properties for local people.
- 3.3 Cabinet agreed that the company should initially focus on acquiring existing properties due to the immediate budget pressures but did permit the use of funding for new build developments over time if deemed to be financially viable. Cabinet also agreed a loan between the Council and the company to enable the acquisition of properties to be repaid by the company on an annual basis. It was accepted that the number of properties purchased would be determined by the local housing market but it was agreed that a phased approach to the acquisition of properties over a number of years would be adopted, to manage the risk and enable the Council to test the effectiveness of the model.

Year 1 Progress

- 3.4 The local authority company – Housing Gateway Limited – was established in March 2014. Housing Gateway Limited's remit is to identify suitable properties, complete the acquisition process, undertake any necessary renovation to bring the properties up to the required lettings standard and then provide ongoing property management.
- 3.5 Since the creation of the company in March 2014 it has become fully established as an independent legal entity and has robust processes and procedures in place for day to day operation, and a unique brand. A Board of Directors has been formed and meets on a monthly basis to provide strategic direction to the company and oversee performance. Two independent directors have been recruited to the Board of Directors and provide a wealth of experience in the housing and property field and independent challenge to the company's operation, paying particular regard to the performance data.
- 3.6 The Board of Directors has set guiding principles for property acquisition based on the financial model and suitability. The Board recognises that a placement that is not in the vicinity of Enfield is not always suitable for local

residents with housing needs, who may need to remain within, or near to, the borough to continue their education, maintain close proximity to family members or for proximity to their place of work. The Board has therefore agreed to purchase properties in Enfield and within a five mile radius.

- 3.7 The performance of the company during its first year of operation is outlined in the Chairman's Report in Appendix 1.
- 3.8 The Council and Housing Gateway Limited have received national recognition for the innovative business model and contact has been made by a number of other local authorities seeking to replicate Enfield's model. The company has also featured in the Guardian and both national TV and radio broadcasts.
- 3.9 Housing Gateway Limited successfully secured £1.8 million of GLA grant funding for the renovation of 56 properties, which has further enhanced the financial viability of the company.
- 3.10 During the first year of operation, Housing Gateway Limited has focused on the purchase of existing properties and conversion opportunities, to respond to the budget pressures in the fastest timescales possible. Consideration may be given to new build developments over the coming year but a second local authority company – Enfield Innovations Ltd – may be utilised for that purpose.

Review of the Business Case

- 3.11 Prior to the creation of Housing Gateway a robust financial model was prepared and an extensive amount of research was undertaken on the local housing market. Housing Gateway therefore commissioned an independent six month review from Social Finance, to assess progress against the original business case. The review concluded that *"HGL has made significant progress in its first six months of operations, with measureable progress in each area"*. In addition the review found that *"the business case underpinning the formation of HGL remains undiminished, with the pressure on Council spending on temporary accommodation intensifying"*. This is illustrated by the fact that the number of households in temporary accommodation has risen from 2188 in December 2013 to 2764 households (9670 people) on 31st March 2015. This reflects an increase of 576 households and over 26%. Enfield Council is currently ranked 5th highest nationally for the number of households in temporary accommodation.
- 3.12 In addition the number of households in expensive nightly paid accommodation has more than doubled to 1,150 (compared to 480 in February 2015) with a further 78 in B & B accommodation at 31st March 2015.
- 3.13 Both the independent six month review and the subsequent end of year review demonstrate that the business case for Housing Gateway Limited remains strong and provides a mechanism to secure local properties, whilst also delivering a saving to the Council per property and acquiring an asset.

- 3.14 In addition to a review on the business case, Social Finance conducted an analysis on all properties which came onto the market between 1st May 2014 and 13th November 2014 listed on primelocation.co.uk within the Enfield geographic boundaries. This was to review whether the development of the property portfolio was having a perverse impact on the market. This concluded that the percentage of properties purchased of the available stock at the target yield was in line with the approved business model and therefore that there was not any evidence of a perverse impact on the local market.
- 3.15 Housing Gateway Limited is successfully enabling the Council to discharge its statutory homeless duties into the private sector and reducing the temporary accommodation budget pressures. In addition the model has enabled the Council, via the company, to secure local properties for local people and should in time drive up standards by being an exemplar landlord and ensuring that all properties are let at an appropriate standard and are well managed, as outlined in the Chairman's Report in Appendix 1.
- 3.16 The company is now fully established and aims to continue the acquisition of properties during its second year of operation. The rents remain at a sub market level equivalent to Local Housing Allowance. From 6th April 2015 the Local Housing Allowance increased by up to 4% for some bedroom sizes, so the company is currently reviewing the acquisition price for individual properties. As the company has grown significantly during the first year of operation, a full time Housing Gateway Development Manager was appointed in April 2015 to ensure the company can continue with the scale and pace of acquisition during its second year of operation.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The alternative options were considered by Cabinet as part of KD 3782. Cabinet is asked to note the contents of the first Annual Report, as the sole shareholder of Housing Gateway Limited.

5. REASONS FOR RECOMMENDATIONS

- The Council is the sole shareholder of Housing Gateway Limited and it was agreed at Cabinet that an annual report would be prepared to update the Council on the progress made by the company.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

- 6.1.1 Properties have been purchased and are now owned by Housing Gateway Limited, a separate local authority company, in accordance with the Cabinet decision. The Council is providing a loan to cover the initial capital investment of properties and the renovation works, plus a start-up loan to cover the working capital requirements.

- 6.1.2 The ongoing financial monitoring demonstrates that the company remains financially viable and the business case is undiminished, as the demand for, and cost of, temporary accommodation in Enfield continues to increase.
- 6.1.3 Monthly Profit and Loss and Cashflow statements are being prepared for the Housing Gateway Limited Board of Directors to ensure that appropriate scrutiny can be given to the company.
- 6.1.4 Social Finance has undertaken a review of the financial model following a year of operation. This concluded that the overall financial standing of the company is positive and it has performance better than expected when compared to the original business case.
- 6.1.5 By utilising Housing Gateway Limited properties to discharge statutory homeless duties into the private rented sector the Council has successfully prevented a greater increase in the temporary accommodation budget.
- 6.1.6 Social Finance has updated the financial model based on year one costs and this will inform the Profit and Loss statements and rolling 12 month forecast.

6.2 Legal Implications

- 6.6.1 The establishment of Housing Gateway Limited has been undertaken in accordance with Section 95 of the Local Government Act 2003 and Section 1 of the Localism Act 2011 (the general power of competence).
- 6.6.2 The Board of Directors has the necessary company legal documentation including:
- Articles of Association
 - Entrustment Document - to set out the State Aid exemption
 - Facility Letter - to outline the terms of the loan agreement)
 - Nominations Agreement – to confirm that the Council has 100% nominations rights for the properties
 - Service Level Agreements – to set out the terms of the agreement between the Council and the company regarding services provided
 - Tenancy Agreement
 - Maintenance and Management Agreement – to set out the obligations for both parties with regards to property management.

6.3 Property Implications

- 6.3.1 Housing Gateway Limited is reviewing properties advertised by local estate agents, investigating direct referrals via the website or other contacts and paying consideration to properties being sold at auction.

6.3.2 An Investment Committee has been established to review the toolkits of all properties viewed. There is input from Housing, Property and Finance so this provides a check and balance process and provides a forum to review the individual property business cases against the financial model and guiding principles for acquisitions.

6.3.3 Independent valuations are undertaken for one in three properties purchased to ensure that properties are not purchased at more than market value.

6.3.4 All properties are viewed prior to purchase and this includes an estimate of the renovation work required so all costs can be factored into the individual property business case.

7. KEY RISKS

- **Legislation changes impact on the business model.** This remains a significant risk however mitigating actions have been deployed as far as possible. This has included building flexibility into the company structure to enable a joint venture or partnership in the future and to provide control of rents and the target population, so this can be adapted if required.
- **There is insufficient housing stock available in the borough that offers the target gross yield, thus reducing the potential to secure the intended portfolio size.** This is being mitigated by considering larger properties that offer the potential to refurbish and sub divide into smaller units and also considering properties in neighbouring boroughs, if they can meet the housing needs of Enfield residents.
- **Housing needs change and the demand for properties of this nature change.** This has been addressed by devising a flexible approach within the company so that the target population and thus the rental income can be altered over time, as well as the option to sell an asset if required.
- **Purchasing a significant number of properties could destabilise the local housing market and result in an increase in property prices and reduce the number of properties on the market for first time buyers.** This was mitigated by undertaking detailed market analysis of the trends and the purchase of properties in neighbouring boroughs in the development of the business case. Further mitigating steps have included instructing an independent six month review and implementing the screening process to target the searches.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

The business model of Housing Gateway Limited enables the Council to access finance to increase the supply of good quality, value for

money housing in the borough, to meet the objectives set out in Enfield's Housing Strategy (2012-2027). By increasing the supply of quality accommodation within the Council's control, this is enabling the Council to discharge its statutory duties and prevent homelessness, and is increasing access to more secure accommodation for some of the most vulnerable residents in the borough.

8.2 Growth and Sustainability

Access to good quality, stable housing is a key aspect of a person's health and wellbeing. By using long term finance Housing Gateway Limited reduces the risk of the need to refinance or sell properties after a few years. Furthermore by ensuring properties are maintained to a good standard, Housing Gateway Limited is increasing the supply of quality accommodation and in turn improving health and wellbeing and prospects of securing employment. All properties are renovated by the Repairs and Maintenance contractors appointed by Council Housing, so are therefore require to comply with the Council's standard contract clauses regarding the promotion of local employment and supporting apprentices.

8.3 Strong Communities

By increasing the supply of quality homes that the Council can access within the borough and the surrounding area, this is increasing opportunities for local residents to access employment and training and thus reducing the likelihood of them requiring additional services from the Council.

9. EQUALITIES IMPACT IMPLICATIONS

An Equalities Impact Assessment was drafted and attached to the Cabinet decision that approved the creation of Housing Gateway Limited. Allocations to individual properties are being made in line with existing Council policies, which have been equality impact assessed.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

Through Housing Gateway Limited, the Council has the opportunity to reduce the number of households in temporary accommodation and provide quality accommodation for some of the most vulnerable residents. This in turn, provides the opportunity for the Council to make a positive impact for wider objectives, such as reducing employment and improving health and wellbeing.

11. HEALTH AND SAFETY IMPLICATIONS

Housing Gateway Limited has devised a Lettings Standard and all properties are renovated to comply with this. Health and safety checks are carried out prior to occupation and the ongoing maintenance and management of the properties includes a review of essential checks, for example gas safety

checks. The Council's approach to asbestos management is being applied and tenants are notified of any known asbestos.

12. HR IMPLICATIONS

Housing Gateway Limited does not have any directly employed staff. Professional services are accessed from the Council and the obligations of each party and fee structure are defined in Service Level Agreements and a Housing Maintenance and Management Agreement.

13. PUBLIC HEALTH IMPLICATIONS

By increasing the supply of good quality housing in the borough across tenures, health and wellbeing of individuals will be improved. All properties purchased are fit for purpose or refurbished so that they fall in line with the company Lettings Standard. Where investment is used to provide quality housing to enable the Council to discharge its statutory homelessness duties, residents selected for these properties will be most at need and therefore most affected by the Government's housing benefit cap.

Through the other support mechanisms in place around the Council (e.g. the Welfare Reform Task Force), people will be actively encouraged and enabled to return to work, with all the positive outcomes associated with being economically active i.e. improved general well-being, self-esteem and longer term employability.

Background Papers

None.