

MUNICIPAL YEAR 2014/2015 REPORT NO.

PORTFOLIO DECISION OF:

- Director of Finance, Resources and Customer Services
- Director of Health, Housing and Adult Social Care
- Cabinet Member for Finance
- Cabinet Member for Housing and Estate Regeneration

Agenda – Part: 1

Subject: Terms of Loan Agreement Between the Council and Housing Gateway Limited

Wards: All

Cabinet Member consulted: Cllr Oykenner, Cllr Stafford

REPORT OF:

Director of Finance,
Resources and Customer
Services

Contact officer and telephone number:

Hayley Coates (Hayley.coates@enfield.gov.uk or 020 8379 3087)

1. EXECUTIVE SUMMARY

- 1.1 In February 2014 Cabinet agreed to establish a wholly owned local authority company to own and manage a portfolio of houses, to make available to those residents primarily with housing need or at risk of homelessness (KD 3782). Cabinet agreed that properties would be purchased on a case by case basis using funding from the Public Works Loan Board (PWLB) or via external finance depending on the most viable option at the time of purchase.
- 1.2 Cabinet agreed to delegate to the Director of Finance, Resources and Customer Services; Director of Health, Housing and Adult Social Care; Cabinet Member for Finance; and Cabinet Member for Housing and Estate Regeneration, authority to finalise the timing, profile of acquisitions and detail of the funding arrangements. This included the terms of the loan agreement between the Council and the Company.
- 1.3 The local authority company - Housing Gateway Limited – has now been formed and as a small number of acquisitions have been completed and renovation work is underway, the company requires the first instalment of the loan so the properties can be transferred to Housing Gateway Limited.
- 1.4 Trowers and Hamlin have drafted a Facility Letter, which provides the mechanism for the loan agreement between the Council and Housing Gateway Limited. The Facility Letter has been approved by the Board of Directors for Housing Gateway Limited and this report seeks approval of the term of the loan agreement from the Council. 1

2. RECOMMENDATIONS

- 2.1** Note that the Facility Letter has been drafted by Trowers and Hamlin as part of the set up Housing Gateway Limited, to ensure a formal audit trail is in place for the loan to the company.
- 2.2** Approve the Facility Letter, which sets out the terms of the loan agreement between the Council and Housing Gateway Limited.

3. BACKGROUND

- 3.1** In February 2014 Cabinet agreed to establish a wholly owned local authority company to own and manage a portfolio of houses, to make available to those residents primarily with housing need or at risk of homelessness (KD 3782). Cabinet agreed that properties would be purchased on a case by case basis using funding from the Public Works Loan Board (PWLB) or via external finance depending on the most viable option at the time of purchase.
- 3.2** Cabinet agreed to delegate to the Director of Finance, Resources and Customer Services; Director of Health, Housing and Adult Social Care; Cabinet Member for Finance; and Cabinet Member for Housing and Estate Regeneration, authority to finalise the timing, profile of acquisitions and detail of the funding arrangements. This included the terms of the loan agreement between the Council and the Company.
- 3.3** The local authority company - Housing Gateway Limited – has now been formed and as a small number of acquisitions have been completed and renovation work is underway, the company requires the first instalment of the loan so the properties can be transferred to Housing Gateway.
- 3.4** Trowers and Hamlin have drafted a Facility Letter, which provides the mechanism for the loan agreement between the Council and Housing Gateway Limited. The Facility Letter has been approved by the Board of Directors for Housing Gateway Limited and this report seeks approval of the term of the loan agreement from the Council.
- 3.5** The Facility Letter will be agreed for the initial loan amount authorised as part of KD 3782. The Facility Letter has been drafted to enable the loan to be given to Housing Gateway Limited in instalments to minimise unnecessary interest repayment costs before the company has properties and tenants in place. The Facility Letter therefore contains a schedule that can be completed for every instalment. At the point the Facility Letter reaches the limit of initial loan amount agreed by Cabinet

(KD 3782), further approval will be sought for a second Facility Letter, to set the value of the second phase of the loan.

- 3.6 The Facility Letter sets out the terms of the loan agreement. This stipulates that the loan can only be used by Housing Gateway Limited to support the activities agreed by the shareholder. In line with the Cabinet decision, the remit of Housing Gateway Limited is to acquire and manage properties, for which the Council has full nomination rights and can use these properties to discharge its statutory duties. The loan can therefore only be used for this purpose, unless the shareholder agrees to additional activities at a later date.
- 3.7 The Council will set with interest rate for the loan. In addition there is an optional Arrangement Fee and Commitment Fee that can be charged by the Council. In line with the Facility Letter this will be determined by the Director of Finance, Resources and Customer Services.
- 3.8 Housing Gateway Limited is able to voluntarily repay the loan to the Council earlier than scheduled but this may involve additional financial consequences. This provides flexibility in case housing needs change and properties are no longer required and the company needs to sell them to release capital.
- 3.9 The Facility Letter provides the overarching terms of the loan agreement. To issue the instalments of the loan Schedule 3 will need to be completed by the Borrower (Housing Gateway Limited) and the Lender (Enfield Council). Schedule 3 sets out the drawdown date, amount and interest period. Schedule 3 enables the loan to be issued in instalments and after the threshold of the loan limit set by Cabinet is reached, approval will be sought for a revised Facility Letter with the second value agreed.
- 3.10 The Facility Letter has been produced by Trowers and Hamlin, acting on behalf of both the Council and Housing Gateway Limited.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 A Facility Letter with a single instalment could be agreed. However, this has been discounted as it does not provide the opportunity for the company to access funding in a phased approach based on the speed of acquisition.
- 4.2 The loan could be issued to the company with the absence of a formal agreement, given it involves the transfer of funds from the sole shareholder to the company. This is not considered a viable option as the loan will be a significant sum of money and the absence of a formal agreement would result in significant risk for both parties and would not meet audit guidelines.

5. REASONS FOR RECOMMENDATIONS

- A Facility Letter is required to facilitate the issue of the loan between the Council and Housing Gateway Limited and provide clear terms of repayment.
- The Facility Letter has been drafted by Trowers and Hamlin acting on behalf of both the Council and Housing Gateway Limited.
- The Facility Letter has been drafted to enable the company to access the loan in instalments, to coincide with the speed of acquisitions. This will enable the company to manage its cash flow and avoid accruing costly interest rates when the company does not require the loan.
- Schedule 3 of the Facility Letter provides the opportunity for the Council to set the interest rate for each loan instalment. This enables the Council to take into account the interest rate at the drawdown date, so the Council does not have to subsidise the interest rate. This also enables the Council to set a commercial interest rate for the loan, if Housing Gateway leases some properties at market rent and State Aid would be applicable, as set out in the company's Entrustment Document.
- Housing Gateway Limited's Board of Directors have approved the terms of the loan in the form of the Facility Letter.

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

6.1 Financial Implications

- 6.1.1 The Council will earmark the loans raised on behalf of the Company. The Treasury Management team will minimise the cost of interest costs and with reference to future interest trends. Borrowing on behalf of the company will be undertaken in conjunction with the Council's overall borrowing strategy.
- 6.1.2 The Council will also provide a line of credit to the company to facilitate its working capital and cash flow. This will be charged at the prevailing bank rate.

6.2 Legal Implications

- 6.2.1 The Council has power to establish and participate in Housing Gateway Limited in accordance with Section 1 of the Localism Act 2011 and section 95 of the Local Government Act 2003. In addition, section 111 of the Local Government Act 1972 permits a local authority to do anything (whether or not involving the

expenditure, borrowing or lending of money or the acquisition or disposal of any property or right) which is calculated to facilitate, or is conducive or incidental to the discharge of any of their functions. It also has the necessary powers to borrow funding pursuant to Section 1 of the Local Government Act 2003 and to provide a loan, grant funding and/or share capital to the SPV under Section 24 & 25 of the Local Government Act 1988.

6.2.2 The Facility letter is in a form approved by the Assistant Director of Legal Services.

6.3 Property Implications

None.

7. KEY RISKS

- **The interest rate of the loan the Council can access to then on-lend to Housing Gateway Limited is not at a constant rate so the Council has to subsidise the loan rate of this changes over the course of the loan period.** This has been addressed by providing the flexibility to set the interest rate for each instalment of the loan, as determined by Schedule 3.
- **Housing needs change and Housing Gateway Limited is no longer required to manage a property portfolio for use by the Council.** This has been mitigated by providing the flexibility for early repayment of the loan, for example if Housing Gateway Limited needed to sale a property to release capital.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

The formation 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 will enable the Council to discharge its statutory duties or prevent homelessness and increase access to secure accommodation for some of the most vulnerable residents in the borough. The Facility Letter and grant of a loan to Housing Gateway Limited is a key component of the model agreed by Cabinet and essential to the successful operation of the company.

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 the Council will remove concerns over refinancing or the need to sell properties after a few years. Furthermore by ensuring properties are maintained to a good standard, the scheme will be able to increase the supply of quality accommodation and in turn improve health and wellbeing and prospects of securing employment.

8.3 Strong Communities

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

9. EQUALITIES IMPACT IMPLICATIONS

An overarching Equalities Impact Assessment was undertaken as part of KD 3782.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

Through the establishment of 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. 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 will be fit for purpose or refurbished so that they fall in line with the Council's decent homes 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

