

MUNICIPAL YEAR 2015/2016 REPORT NO.

ACTION TO BE TAKEN UNDER DELEGATED AUTHORITY

OPERATIONAL DECISION OF:

Director – Regeneration and
Environment

Director – Finance, Resources and
Customer Services

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Agenda – Part: 1

KD Num: 4080

Subject:

**Approval to Drawdown the Lee Valley Heat
Network's Operational Budget, April-
September 2016**

**Wards: Cockfosters, Southgate Green,
Upper Edmonton, Edmonton Green and
Ponders End**

1. EXECUTIVE SUMMARY

- 1.1. The Lee Valley Heat Network (LVHN) is a major infrastructure project, underpinning the low carbon regeneration of Meridian Water, and estate renewals at Ladderswood, Alma Estate and New Avenue. The Mobilisation and Operation of Lee Valley Heat Network (LVHN) was the subject of a report to Cabinet and Full Council in June 2015. Approval was granted.
- 1.2. In June 2015, Council agreed (KD4080) the addition of £2.143M to the approved 2015/16 capital programme. This funding was requested to enable LVHN to operate for the 12 months from October 2015 to September 2016. At this point it was forecast that £1.096 million would cover expenditure between October 2015 and March 2016, with £1.047 million expenditure authorised for the period April 2016 to March 2016.
- 1.3. It was stipulated that drawdown of the remaining £1.047 million from the Capital Programme to fund LVHN's Limited's costs for the period April 2016 to September 2016, required authorisation by both the Director of Regeneration and Environment, and the Director of Finance, Resources and Customer Services. This is the purpose of this report.
- 1.4. The mobilisation and operation of LVHN is on track. Planning application submission for the Strategic Heat Network and District Heating Energy Centre is anticipated in July 2017. The updated Business Plan referred to in the Cabinet/ Council Report is nearing completion. The LVHN/*energetik* project is supported by the Greater London Authority, Department of Energy and Climate Change, European Investment Bank and London Energy Efficiency Fund.
- 1.5. A further report to inform the Council's main investment decision in the Strategic Heat Network is scheduled for Cabinet and Full Council in September 2016.
- 1.6. Drawdown is now requested for £560k of the £1.047 million to enable the continued mobilisation and operation of LVHN through to September 2016.

2. RECOMMENDATIONS

- 2.1 The Director of Regeneration and Environment, and the Director of Finance, Resources and Customer Services authorise the drawdown of £560k of the already approved £1.047 million from the approved capital program to fund the forecast operational costs for the six months from April 2016 to September 2016. This is the final requirement to complete the work set out in the Cabinet Report of June 2015 and establish LVHN/ *energetik* as an innovative local energy supplier.
- 2.2 Authorisation for any further draw down from the £1.047 million is delegated to the ~~Assistant~~ Director of Finance.

3. BACKGROUND

- 3.1 The Lee Valley Heat Network (LVHN) is a major infrastructure project, underpinning the low carbon regeneration of Meridian Water, and estate renewals at Ladderswood, Alma Estate and New Avenue. Lee Valley Heat Network Operating Company Ltd trades as *energetik*. *energetik* will initially use heat from the Energy from Waste facility at the Edmonton EcoPark, which already generates enough heat to kick-start the Strategic Heat Network at Meridian Water, subject to approval of the Heat Supply Agreement and Cabinet approval of the associated Parent Company Guarantee.
- 3.2 In addition, LVHN is on track to provide heat to the Ladderswood, Alma and New Avenue estates, with the first of 40 customers at Ladderswood set to 'go live' with a heat supply from August 2016.
- 3.3 The LVHN Business Plan from July 2014 demonstrated the original project's viability, securing Cabinet approval in July 2014 of £1.285 million final stage development costs to September 2015. In June 2015 the Council approved a further £2.143 million in operational and mobilisation costs to September 2016.
- 3.4 Significant progress has been made during the first seven months of operations from September 2015 to March 2016.
- 3.5 The funding has been utilised to:
- Procure the Design Build and Operate contract for the Strategic Heat Network;
 - Procure the Customer Services contractor;
 - Procure a 12 month interim Operations and Maintenance contract for Ladderswood;
 - Develop a Portfolio Agreement between LVHN and the Council to promote district heating schemes on Council-led developments;
 - Develop a Service Level Agreement between LVHN and the Council for a range of support services;
 - Negotiate the Heat Supply Agreement with NLWA;
 - Develop technical and commercial specifications for developers;
 - Develop an operational financial model;
 - Seek State Aid advice;

- Significant engagement with *energetik*'s first consumers at Ladderswood;
- Undertake feasibility studies for business development opportunities.

The forecast spend for the 6 months from April to September 2016 is shown in the Table below.

Table 1: Breakdown of Operating Costs April-September 2016

Operating Expenditure Budget Allocations	
Ladderswood	£244,960
Alma/ Electric Quarter	£42,906
Design-Build-Operate Contract	£54,736
Heat Sale Agreement	£69,918
Due Diligence & Governance	£133,710
Business Plan & Funding Advice	£139,875
Management & Finance	£29,213
Housing Revenue Account (HRA)	£3,117
General	£81,770
Contingency	£75,000
TOTAL	£875,204

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Drawdown of any portion the £1.047million second tranche of capital funding is not authorised.** Failure to provide the approved funding for the first full year creates a number of risks. Without Enfield Council's continued investment to mobilise LVHN and make it operational for its first full year, it will not be possible to finalise and present the revised Business Plan to Cabinet, secure investment decision approval and proceed to develop the Strategic Heat Network at Meridian Water, for which the master developer will soon be in place. A different energy strategy would then be required for this flagship development, noting that there will be a contractual requirement for the master developer to take its heat from *energetik*.
- 4.1.1** The *energetik* project could no longer proceed to the main investment decision in September 2016, as the company would run out of money. The *energetik* team and project would need to be disbanded. The most immediate risk would be the absence of ongoing operational funds to enable *energetik* to supply heat to the first 40 residents at Ladderswood, which goes 'live' in August 2016.
- 4.2 Identify alternative source of funding:** the combination of low cost funding from both the European Investment Bank and London Energy Efficiency Fund are cheaper than traditional borrowing available through the Public Works Loan Board. No realistic alternative source of cheaper borrowing exists.
- 5.1** Enfield Council, with the support of the Greater London Authority, has already invested significant resource and funding to develop the LVHN Business Plan and support the initial six months of mobilisation and operation. The European Investment Bank (EIB) and London Energy Efficiency Fund (LEEF) have since demonstrated external investor confidence in the scheme by providing £12million in loan investment, subject to Cabinet approval for full draw down.

- 5.2 The consolidated financial model is well developed and following internal due diligence, demonstrates the ongoing viability of the project. The business model enables operational costs to be recovered, subject to the main investment decision. The associated Business Plan and main investment decision will be the subject of Cabinet approval in September 2016.
- 5.3 Without Enfield Council's continued investment to mobilise LVHN and make it operational for its first full year, it will not be possible to finalise and present the revised Business Plan to Cabinet, secure investment decision approval and proceed to develop the Strategic Heat Network at Meridian Water.

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

6.1 Financial Implications

- 6.1.1 Full Council (KD4080) approved the addition of £2.143m to the Council's capital program to fund LVHN Limited's costs for the period October 2015 to September 2016. At this point it was forecast that £1.096m would be required for the period October 2015 to March 2016, and £1.047m expenditure required for April 2016-September 2016.
- 6.1.2 The actual spend to 31st March 2016, against the £1.096m budget, is £781k (which includes the accrued costs of £375k). This has been used to fund management services (£436k), admin support (£68k), legal (£120k), technical support (£84k) and the balance for marketing and energy network design.
- 6.1.3 The current request is to drawdown £560k of £1.047m approved, drawing down the balance of £487k in September, subject to the main investment decision. LVHN/ *energetik* will use the £560k funding (in addition to £315k underspend from the previous period) for the continued mobilisation and operation of the company through to September 2016.

6.2 Legal Implications

- 6.2.1 The Council has power under section 1(1) of the Localism Act 2011 to do anything which generally may do provided it is not prohibited by legislation and subject to public law principles. In addition, section 111 of the Local Government Act 1972 gives a local authority power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions (such functions including its housing and related economic development functions). The recommendation within this report is in accordance with these powers.
- 6.2.2 External legal advice will be sought to address any state aid implications arising from the project as a whole, including the funding detailed in this Report, and will need to be refreshed as the scheme develops.

6.3 Property Implications

None

7. KEY RISKS

- 7.1 Failure to release the funding would result in LVHN being unable to continue operations. This would halt the supply of heat to the first residents at Ladderswood beyond September 2016. It would prevent finalisation of the revised Business Plan to inform the Council's investment decision in the heat network at Meridian Water in September 2016, for which the master developer will soon be in place. A different energy strategy would then be required for this

flagship development, noting that there will be a contractual requirement for the master developer to take its heat from energetik. LEEF and EIB funding would also revert to the lenders and a penalty will be incurred if LVHN is unable to enter into contract for works.

- 7.2 If the Council declines to approve the main investment in September, little value will be realised from any funds invested up to that point, including the 2nd tranche of operational funding. Any monies carried forward would be released back to the Council.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

LVHN aims to charge all of its customers a fair price for heat. LVHN Ltd is being set up as an 'ethical operator' to help protect local consumers by ensuring a fair price and customer service terms.

8.2 Growth and Sustainability

LVHN is one of over 50 large-scale sustainability projects in the Enfield 2020 Action Plan (www.enfield.gov.uk/enfield2020), helping to deliver the Sustainability Programme's 'Managing your Energy' and 'Regenerating the Borough' themes. It will also deliver significant carbon reduction, helping to meet Enfield 2020's 40% carbon reduction target for the Borough by 2020.

8.3 Strong Communities

Based on its ambition to expand to include existing buildings, LVHN has the opportunity to help reduce fuel poverty, 'Improve public health' and 'Support local jobs and businesses,' which are also key Enfield 2020's themes.

9. EQUALITY IMPACT IMPLICATIONS

An EQIA Assessment was undertaken. It identified that the recommendations for LVHN set out in the June 2015 Cabinet Report are unlikely to have a significant impact on the protected characteristic groups or the way that individuals access information or services. An EQIA Action Plan has been created and will be regularly reviewed and updated.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

Lee Valley Heat Network Ltd has been trading since September 2015 in accordance with its Articles of Association. The performance of the company is managed through one-to-ones; energetik team meetings; the monthly Operating Company Board meeting; and regular Holding Company Board meetings. Regular reports are prepared on the programme, budgets, the project's Risk Register and the company's overall performance, including Highlight Reports. An Audit Committee has also been established.

11. PUBLIC HEALTH IMPLICATIONS

- 11.1 LVHN will deliver significant economic, environmental and social benefits.
- 11.2 Climate change is a major threat to public health. LVHN will help to reduce its impact:
- 11.3 The carbon footprint of a home due to heating will be reduced at least 50% compared to conventional fuel.
- 11.4 LVHN is hugely important for meeting London's carbon reduction targets.

- 11.5 LVHN will deliver competitively priced heat to new homes, and possibly, at a later stage of development to existing homes. Well heated homes help to promote the general health of the people who live in them.

Background Papers -

None

MUNICIPAL YEAR 2016/2017 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

Item:

Subject: Investment in Private Rented Sector – Loan Instalment 6

Wards: All

Key Decision No: 4286

Cabinet Member consulted: Cllr Stafford and Cllr Oykenner

REPORT OF:

Director of Finance, Resources and Customer Services

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1. EXECUTIVE SUMMARY

- 1.1 In February 2014 Cabinet agreed to establish a wholly owned local authority company to acquire and manage properties that the Council can use to discharge its statutory duties. This was in response to the significant temporary accommodation budget pressures facing the Council, resulting from an increase in demand for housing and rising rental prices.
- 1.2 Cabinet, and later Council, agreed the financial model, which provided authority for the Council to borrow funding up to an agreed amount and lend this to the company in a number of instalments. The first instalment of the loan was agreed in February 2014 and authority for further instalments was delegated 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.
- 1.3 The company has been in operation since March 2014 and good progress has been made. The company has an established acquisition process in place and now requires the next instalment of the loan to continue the acquisition of properties in line with the agreed criteria.
- 1.4 This report seeks approval for the next instalment of the loan to the company – Housing Gateway Limited – in line with the delegated authority granted in KD3782 and in accordance with the terms of the Facility Letter.

2. RECOMMENDATIONS

- 2.1 Note that Cabinet delegated authority 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, to finalise the timing, profile of acquisitions and the detail of the funding arrangements for each phase of the portfolio development, based on the most viable finance stream available, type and level of housing need at that time, and the Council's best interests (KD 3782).
- 2.2 Note that the terms of the Facility Letter were agreed by 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 in September 2014 and the Housing Gateway Board of Directors in April 2014.
- 2.3 Agree to access the next instalment of the loan and on-lend this to Housing Gateway Limited in accordance with the Facility Letter.
- 2.4 Note that the treasury management decisions regarding the Council's borrowing to enable the on-lending to Housing Gateway Limited will be subject to the Council's existing arrangements for governance and specialist advice.

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 with an established acquisition process in place. As 174 acquisitions have been completed, the company requires the next

instalment of the loan to enable the acquisition process to continue. This will mark the sixth instalment of the loan.

- 3.4 A Facility Letter was agreed in September 2014 by 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 acting for the Council, and by the Housing Gateway Board of Directors in April 2014. This was drafted by Trowers and Hamlin and provides the mechanism for a loan agreement between the Council and Housing Gateway Limited.
- 3.5 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.
- 3.6 The Facility Letter enables 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 separate instalment. The loan has now almost reached the limit set in the fifth Facility Letter, so the sixth instalment of the loan is required. The terms of the Facility Letter will remain unchanged but the Facility Letter will be re-issued to the agreed amount.
- 3.7 The sixth instalment of the loan will enable Housing Gateway to continue to acquire properties that can then be used by the Council to discharge its statutory homeless duties.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 As outlined in KD 3782, a number of alternative options were considered in the development of the Investment in Private Rented Sector business case.
- 4.2 In the development of the Facility Letter a number of alternative options were also considered, including a loan with a single instalment or the absence of a formal agreement. These options were discounted, as a formal agreement safeguards the interests of both the Council and Housing Gateway and the ability to access the loan in instalments provides greater flexibility.

5. REASONS FOR RECOMMENDATIONS

- Cabinet approved the business case, financial model and overall financial envelope in February 2014 as per KD 3782.
- Housing Gateway Limited was established in February 2014 and the company is now fully operational. The acquisition process is well established and the next phase of the loan is required to enable the acquisitions to continue.
- A Facility Letter has been agreed by the Council and Housing Gateway Limited which sets out the terms of the loan agreement and provides clear terms of repayment. This was drafted by Trowers and Hamlin acting on behalf of both the Council and Housing Gateway Limited.
- The Facility Letter enables Housing Gateway Limited to access the sixth instalment of the loan in a series of instalments, under Schedule 3 of the Facility Letter. This will enable the company to access funding to coincide with the speed of acquisitions and better manage its cash flow.
- A six month review has been undertaken by Social Finance which reviewed the assumptions in the original business case and progress to date. This concluded that the business case remains undiminished and measurable progress has been made in all areas of the company's operation.

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

6.1 Financial Implications

- 6.1.1 The overall loan value was agreed by Cabinet in February 2014 (KD 3782) and authority was delegated to agree the instalments of the loans as they are required. Furthermore in February 2014, Council agreed to add the borrowing for the Investment in Private Rented Sector scheme to the capital works programme. The sixth instalment of the loan to the company falls within the budget envelope set by Cabinet.
- 6.1.2 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 of the Facility Letter.
- **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.
- **The business case assumptions are not realised and the company does not achieve the objectives set.** This has been mitigated by commissioning an external review of the company's operation and by the exit strategies set out in KD 3782 to approve the original business model.

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.

Background Papers

None