

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 7	
Wards: All Key Decision No: 4290	
Cabinet Member consulted: Cllr Lemonides 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 208 acquisitions have been completed, the company requires the next

instalment of the loan to enable the acquisition process to continue. This will mark the seventh 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 sixth Facility Letter, so the seventh 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 seventh 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 seventh 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.

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 seventh 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

- Investment in Private Rented Sector (KD 3782).
- Terms of Loan Agreement between the Council and Housing Gateway Limited.