

# MUNICIPAL YEAR 2016/2017 REPORT NO. 65

**MEETING TITLE AND DATE:**

Cabinet 6<sup>th</sup> September 2016

**REPORT OF:**

Director of Finance, Resources and Customer Services

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<b>Agenda - Part:</b> 1	<b>Item:</b> 10
<b>Subject: Housing Gateway Limited Annual Report</b>	
<b>Wards: All</b>	
<b>Cabinet Members consulted: Cllr Oykenner, Cllr Lemonides and Cllr Georgiou</b>	

## 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. (KD3782). This was in response to the £3.3 million 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 operational by June 2014. Housing Gateway Limited 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. The company 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. The Board meet on a monthly basis to provide strategic direction to the company and oversee performance.
- 1.4 As of 31<sup>st</sup> March 2016 the company was on track to meet the indicative targets in the business case for the second year by 30<sup>th</sup> June 2016, with 174 completions and 143 properties tenanted.
- 1.5 Housing Gateway Limited continues to provide the Council with a much needed viable alternative to using expensive nightly paid accommodation. The number of households in temporary accommodation has risen from 2188 in December 2013 to 2877 on 31<sup>st</sup> March 2016; an increase of 31% resulting in Enfield being ranked 5<sup>th</sup>

highest nationally for the number of households in temporary accommodation.

- 1.6 In addition, the number of households in expensive nightly paid accommodation has tripled to 1,563 (compared with 480 in February 2015) with a further 108 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 set good property 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 is meeting 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. The 2014/15 audited accounts reported a positive cash flow and small loss for the first year, as was anticipated due to high set up costs.
- 1.9 The Council and Housing Gateway Limited have continued to receive 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 was also a finalist in the Local Government Chronical Awards.

## **2. RECOMMENDATIONS**

- 2.1 Note the contents of the Housing Gateway Limited First Annual Report.

## **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

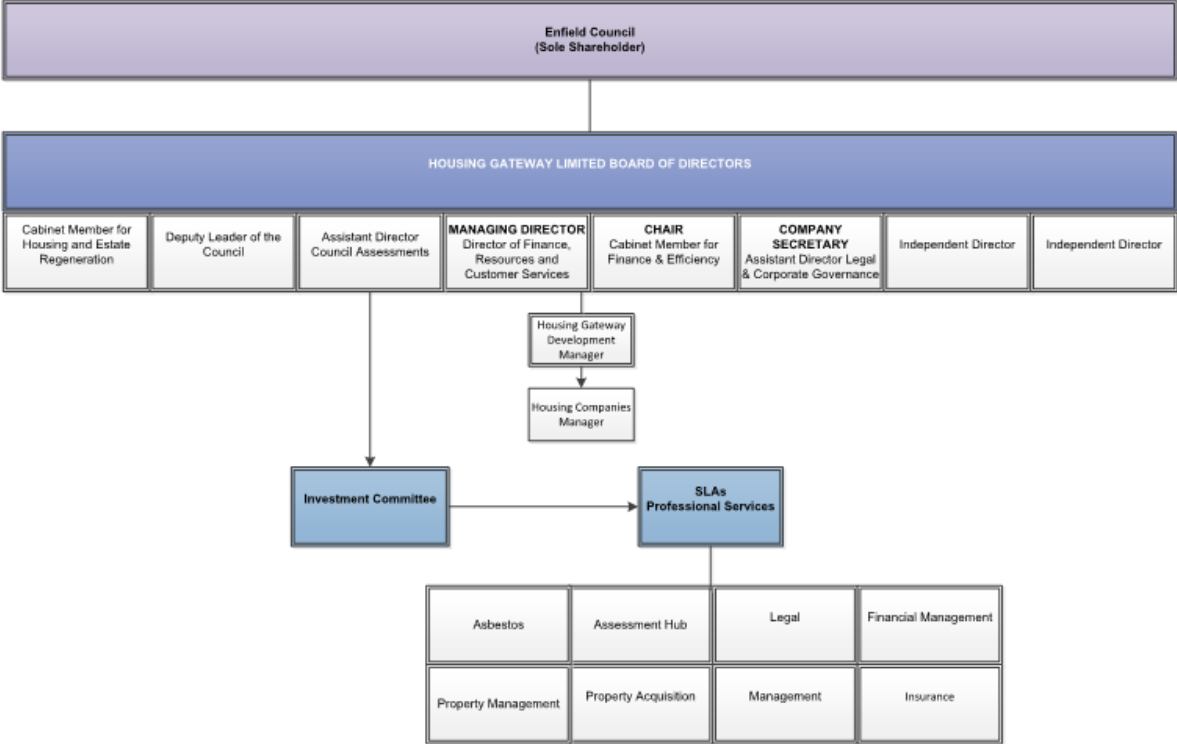
sector that the Council could use to discharge its statutory homeless duties. It was agreed that the properties purchased by the company would be made available to those residents at risk of homelessness. The creation of a local authority company to purchase properties that the Council can use to discharge 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.

#### **4. YEAR 2 – COMPANY PROGRESS.**

- 4.1 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.
- 4.2 The Board of Directors continue to meet on a monthly basis to provide strategic direction to the company and oversee performance. Two independent directors sit on the Board of Directors and provide experience in the housing field and independent challenge to the company’s operation, giving scrutiny to the performance statistics.
- 4.3 During year two of operation one of the two independent directors tendered their resignation and recruitment was undertaken to appoint to this role. Significant interest was shown in the role and through a robust recruitment exercise an appointment was made. The independent director was chosen to complement the skill set already held by the Board of Directors and provide additional scrutiny to the financial model.
- 4.4 The Board of Directors continue to delegate decisions on the acquisition of individual properties to an Investment Committee, with input from Property, Finance and Housing. The Investment Committee considers properties that have been viewed by a surveyor and makes a decision about whether to make an offer on the basis of the individual property business case. If the properties are deemed to be suitable and financially viable, the Investment Committee will agree a target and maximum price, to provide scope for negotiation by the officers in liaison with the agents. The Investment Committee is responsible for governing decisions on individual property purchases, to manage the financial interests of Housing Gateway Limited and the Council as sole shareholder.

4.5 Housing Gateway Limited does not have any directly employed staff and accesses professional services from the Council via a series of Service Level Agreements. These include: Property acquisition, financial management, allocations, rent collection, property management, legal, asbestos surveys, company management and insurance.



4.6 Over the course of the second year of operation the Service Level Agreements have been reviewed and amended to reflect the changing resources required to service the company’s expanding portfolio. All changes to the Service Level Agreements have been negotiated and agreed within the constraints of the Company’s financial model.

4.7 Additionally a Development Manager has been recruited to enable robust company management and smoother working practices for Housing Gateway Limited. To further support this expansion and provide efficiencies for the Council a Housing Companies Manager role has been created to provide support and management across both Housing Gateway Limited and Enfield Innovations Limited. This role reports directly to the Development Manager.

4.8 At March 2016 the key statistics are as follows:

Measure	2014/15	2015/16	Total
Number of properties viewed and considered by the Investment Committee	323	313	636
Number of properties approved by the Investment Committee	238	246	484
Number of offers made	238	206	444
Number of offers accepted	152	151	303
Number of offers accepted and progressing*	125	145	270
Number of contracts exchanged	84	93	177
Number of completions	72	102	174
Number of properties tenanted	34	109	143
Number of properties under renovation	38	31	N/A

*\*On occasions an offer is accepted and then later withdrawn by the vendor, so the number of offers accepted and progressing reflects the acquisitions proceeding.*

4.9 As of 31<sup>st</sup> March 2016 the company was on track to meet the indicative targets in the business case for the second year by 30<sup>th</sup> June 2016, with 174 completions and 143 properties tenanted.

4.10 The Council and Housing Gateway Limited have received national recognition for the innovative business model and contact has made by a number of other local authorities seeking to replicate Enfield's model. The company was also a finalist in the LGC Awards Housing Initiatives category.

## 5. YEAR 2 – BUSINESS CASE.

5.1 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 to establish the viability of securing local properties. Research was also undertaken to establish the Council's requirement for properties. This is illustrated by the fact that the number of households in temporary accommodation has risen from 2188 in December 2013 to 2877 households on 31<sup>st</sup> March 2016. This reflects an increase of 689 households and over 31%. Enfield Council is currently ranked 5<sup>th</sup> highest nationally for the number of households in temporary accommodation.

- 5.2 In addition, the number of households in expensive nightly paid accommodation has tripled to 1,563 (compared to 480 in February 2015) with a further 108 in B & B accommodation at 31<sup>st</sup> March 2016.
- 5.3 These figures 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.
- 5.4 As part of the original business case Social Finance conducted an analysis on all properties which came onto the market between 1<sup>st</sup> May 2014 and 13<sup>th</sup> 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 an adverse impact on the market. Following this analysis, procurement guidelines were set. Continuous monitoring is in place to ensure that the purchase of the available stock at the target yield is in line with the approved business model and procurement guidelines.
- 5.5 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 improve standards by being an exemplar landlord, ensuring that all properties are let at an appropriate standard and well managed.
- 5.6 The company is now fully established and aims to continue the acquisition of properties during its third year of operation. The rents remain at a sub market level equivalent to Local Housing Allowance. From 6<sup>th</sup> April 2016 the Local Housing Allowance has been frozen for four years. As a result the company did not impose a rent increase in 2016/17.
- 5.7 Year 2014 / 15 accounts received a clean audit report. The financial management was found to be in good order, showing a positive cash flow. A small loss was reported in line with the expectations of the business model.
- 5.8 In the Chancellor's 2015 Autumn Statement it was announced that a 3% increase in Stamp Duty would be applied to all purchases of additional properties. As a result Housing Gateway Limited will be liable to pay the additional Stamp Duty on all property purchases with effect from 1<sup>st</sup> April 2016 and will provide a challenge for 2016/17.

## **6. YEAR 2 – STRATEGIC PROGRESS.**

- 6.1 During the second year of operation Housing Gateway Limited has faced several challenges brought about by external factors. For example the housing market continues to be extremely buoyant, with house prices rising. In addition the freeze on the LHA rate has meant that the rent received by the company has not increased in line with other costs. Both of these factors have necessitated further innovative solutions to be examined.

- 6.2 In the last 12 months the property market within Enfield has changed dramatically causing a significant increase in house prices. According to Land Registry, house prices in Enfield increased by an average of 14.47% from March 2015 to March 2016 and the average price of a property in Enfield is now £386,047. In comparison the average property in London is now £514,000. This market increase puts even more pressure on outer London Borough's such as Enfield where house prices are relatively cheap compared to the rest of London. Whilst demand for higher end properties has dropped, the market for the types of properties Housing Gateway purchase, at the lower end of the market, is very buoyant. Demand has increased in this sector, especially amongst investors. As a result house prices have continued to increase and the margins within which Housing Gateway operates have significantly reduced.
- 6.3 Housing Gateway Limited have examined wider market options including the acquisition of permitted development sites. Extensive research has been undertaken to complete financial and operational analysis of several permitted development sites. Work continues to progress in this area and will be an area for development in 2016/17.
- 6.4 Over the past year Housing Gateway Limited has set to expand its partner working by creating innovative projects with our departments within the Council. Work has begun on a project to utilise the empty decant properties bought about by the Alma estate regeneration. This project seeks to use the properties currently vacant providing additional units for the Council to use as an alternative to expensive nightly paid accommodation and additionally an income stream to both Housing Gateway and the Council.
- 6.5 Housing Gateway is also working in partnership with the councils Learning Disability Team to utilise a grant provided by the Affordable Capital housing Program. The grant will enable Housing gateway to procure properties meeting the specific needs of individual service users with low levels of care requirements. This enables a saving to the Council by releasing expensive supported accommodation and provides an income stream to Housing Gateway from the rental income. In addition the service users are provided with more suitable accommodation which meets their needs. Work will continue on this project in 2016/17.

## **7. YEAR 2 – OPERATIONAL PROGRESS.**

- 7.1 Processes and procedures continue to be refined and developed to ensure they are fit for purpose. In the past year several operational changes have been implemented including the decision to purchase one bedroom and studio properties.
- 7.2 During the second year of operation, Housing Gateway Limited has purchased properties suitable for conversion. This has enabled the Company to diversify its portfolio and continue to meet the financial criteria in an increasingly

competitive market. In addition the conversions provide larger accommodation for clients, meeting the housing needs of the Council.

- 7.3 Housing Gateway Limited has purchased three sites for development. All sites were carefully assessed to ensure their development and financial viability prior to purchase. The sites involve the creation of additional units via the conversion of the existing building and construction of new buildings to echo the housing stock in the vicinity.
- 7.4 Data is presented at monthly Board meetings to analyse the expanding property portfolio. The Board of Directors provide scrutiny for the portfolio and ensure an appropriate balance of stock is maintained.
- 7.5 During autumn 2015 a marketing campaign was undertaken to increase awareness of the Company and encourage property owners to offer their property to Housing Gateway for sale. Adverts were placed in Local newspapers, Housing News and placed on the website. In addition A5 flyers were distributed to properties throughout the Borough. The marketing campaign was productive and several purchases have resulted from it.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

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

## **9. REASONS FOR RECOMMENDATIONS**

- 9.1 The Council is the sole shareholder of Housing Gateway Limited and it was agreed at Cabinet that an annual report would be presented to update the Council on the progress made by the company.
- 9.2 The information held in the annual report (part 1) will also be used to inform the annual Chairpersons Report which is published on the company's website.

## **10. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS**

### **10.1 Financial Implications**

10.1.1 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 capital investment of properties and the renovation works, plus an additional loan to cover the working capital requirements.

10.1.2 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.

10.1.3 Monthly Profit and Loss and Cash flow statements are being prepared for the Housing Gateway Limited Board of Directors to ensure that appropriate scrutiny can be given to the company.

10.1.4 Social Finance undertake a review of the financial model when assumptions in the original model change, to ensure the company is still in line with the original business case.

10.1.5 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.

## **10.2 Legal Implications**

10.2.1 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).

10.2.2 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.

## **10.3 Property Implications**

10.3.1 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.

10.3.2 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.

10.3.3 Independent valuations are undertaken for one in three properties purchased to ensure that properties are purchased at an appropriate value. Market conditions are also reviewed regularly to identify opportunities and potential upcoming market/regulatory constraints. These are reported to the Board and Investment Committee as appropriate.

10.3.4 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. Thorough due diligence checks are also undertaken for all properties.

## 11. 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 (which can be adapted as required) to enable a joint venture or partnership in the future and to provide control of rents and the target population.
- **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 has become an increased risk in year two due to the changes in the housing market. This is being mitigated by considering properties in surrounding areas, 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. In addition the Council's housing need is reviewed on a quarterly basis by the Board of Directors.
- **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 include the screening process to target the searches, and regular reviews to monitor the percentage of the available market purchased by Housing Gateway Limited.

## **12. IMPACT ON COUNCIL PRIORITIES**

### **12.1 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.

### **12.2 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 required to comply with the Council's standard contract clauses regarding the promotion of local employment and supporting apprentices.

### **12.3 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.

## **13. 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.

## **14. 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.

## **15. 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, including gas safety and electrical checks. The Council's approach to asbestos management is being applied and an asbestos survey undertaken on all new acquisitions.

## **16. 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.

## **17. 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.

Through the other support mechanisms in place around the Council (e.g. the Welfare Advice Support Hub), 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.

## **18. Background Papers**

None