

MUNICIPAL YEAR 2016/2017 REPORT NO. 83

MEETING TITLE AND DATE
Council – 21 September 2016

REPORT OF: Director of Finance,
Resources and Customer Services

Contact officer and telephone number:
Kayt Wilson (020 8379 4566)
E mail: kayt.wilson@enfield.gov.uk

Agenda – Part: 1	Item: 16
Subject: Housing Gateway Block Property Purchase Proposal	
Wards: Southbury Ward Key Decision No: 4326	
Cabinet Members Consulted: Cllr Lemonides & Cllr Oykenner	

1. EXECUTIVE SUMMARY

- 1.1 In February 2014 Cabinet agreed to establish a wholly owned local authority company, Housing Gateway Limited (“HGL”), to acquire and manage properties that Enfield Council (“LBE” or “the Council”) could 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 HGL has been in operation since March 2014 and good progress has been made. The company now wishes to purchase a block of 124 units in order to assist the Council’s efforts to reduce its spending on Nightly paid accommodation and to grow the company’s portfolio.
- 1.3 This report seeks approval for a loan to HGL to enable it purchase the block. The terms of the loan are in accordance with the Facility Letter approved September 2014.
- 1.4 HGL has an existing portfolio which has already reduced LBE’s Nightly Paid costs considerably.

2. RECOMMENDATIONS

- 2.1 To note that the Leader had agreed, under the Cabinet Urgent Action Procedure, to recommend to Council that additional funding should be allocated to the Capital Programme to enable the purchase of a block of 124 units and its use as temporary accommodation.
- 2.2 For Council to agree to approve new Council borrowing (as set out in Part 2) and on-lend this to Housing Gateway Limited (HGL) in accordance with the Facility Letter, to allow the purchase of 124 units. This will require an addition to the existing capital programme fully funded by repayments from HGL.
- 2.3 For Council to approve new borrowing by the Council (as set out in Part 2) for the Affordable Housing Capital Programme (currently shown as part of the Indicative Capital Programme budget) and for this funding to be provided to HGL for the purchase of the Block.
- 2.4 To note that the project will result in a net cost saving to the Council which will help meet the pressure on nightly paid accommodation. This saving will be taking into account in the 2017-18 budget and medium term financial plan.
- 2.5 To 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 HGL Board of Directors in April 2014.
- 2.6 To note that the treasury management decisions regarding the Council's borrowing to enable the on-lending to HGL will be subject to the Council's existing Treasury Management Strategy.
- 2.7 To note that, although an offer has been submitted, the purchase of the block is not complete and negotiations are ongoing.

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, which were, for the most part, to be made available to residents 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 HGL aims to purchase 500 units in 5 years and has an established acquisition process in place which has enabled it to meet its year 2 targets. To date, the company has purchased 229 properties of which 194 are let.
- 3.4 Since June 2014, the effect of the Council discharging its statutory duties and moving families out of Nightly paid accommodation is estimated to be a reduction in the Council's costs by almost £1m.
- 3.5 HGL has identified a property block within the borough that would be suitable for purchase and enable the Council to discharge its statutory homeless duties. In order to proceed with this purchase, HGL requires an additional loan from the Council. This would require an addition to the Capital Programme to be funded by new borrowing primarily met by repayment from HGL.
- 3.6 If the block is not purchased by HGL there is a significant risk that another Local Authority could use the block to discharge its statutory homeless duty within Enfield. This is highly likely to lead to increased pressure on LBE's homeless provision and other Council Services over the Medium Term Financial Plan.

4. PURCHASE PROPOSAL

- 4.1 HGL continues to seek opportunities to expand and diversify its property portfolio by introducing permitted development or block purchases. A suitable block has been identified, within the borough, which would be suitable for purchase and enable LBE to discharge its statutory homeless duties.
- 4.2 The block has had a full internal reconfiguration and been refurbished to a high standard. The building has also been re-clad. The block consists of 124 units of which 115 are studios and 9 are one bedroom apartments.
- 4.3 The development is now complete and ready for sale.
- 4.4 Negotiations have been undertaken with the vendor and an offer has been placed on the property.

Advantages of Purchase

- 4.5 There has been significant interest in the block by other London Boroughs and institutional investors. There is a significant risk of further strain being placed on the Council's services and potential for additional price inflation in the wider private rented market if another organisation purchases the block.
- 4.6 If another Local authority were to purchase or lease the block and used it discharge their statutory homelessness duty, there is a strong

likelihood that the 124 families placed in these units would, in future, seek housing and other assistance from the Council. As the families would have a local connection to the Borough, by virtue of living in LB Enfield, the Council may have a duty to assist them.

- 4.7 By purchasing 124 units in one transaction HGL will gain scale at a faster rate than would be possible purchasing individual properties and the company will be ahead of target. This will ensure that HGL's financial viability improves at a faster rate and the Council's investment in HGL will be strengthened.
- 4.8 The purchase of the block provides a cost benefit to the Council in comparison to using more expensive Nightly paid accommodation. In addition the block represents a good investment for both HGL and LBE.

Disadvantages of Purchase

- 4.9 Managing the block is likely to be more challenging than the management of the single units that HGL usually purchases. It is also possible that the quantity and concentration of studio units will result in a higher than normal turnover of tenants. HGL intends to provide a full management service for the block and this cost has been included in the financial model.
- 4.10 The vendors initially intended to lease the block and they have refurbished the property to a very high standard. The standard of refurbishment will reduce the cost of short term maintenance and increase the units' resilience to everyday wear and tear. It will also delay the point at which HGL will need to consider major repairs. The refurbishment also confers a number of environmental and fuel efficiency benefits due to the installation of a new heating system and triple glazed windows.
- 4.11 Due to its size, the block is not as liquid as HGL's other assets, as the individual units owned by HGL can be disposed of on the open market as and when required. Given the current and projected demand for temporary accommodation, it is unlikely that HGL would need to sell the block with the next 5-10 years which reduces the liquidity risk. If disposal is required, HGL will adopt a staged approach to selling the units in the open market. The Valuers do not foresee HGL finding it difficult to dispose of the units and, as this is a long term investment, it is believed that the model will hold true. If LBE leases the building from HGL, the covenant will make the building attractive to institutional investors.
- 4.12 Due to the size and composition of the block there is a potential risk that the Council may not be able to supply sufficient tenants. However, the Council has indicated that there are sufficient families in need of temporary accommodation who would be able to fill these properties and demand is not expected to fall in the short to medium term.

Impact on Housing Gateway's Portfolio

- 4.13 To date HGL has purchased one, one bedroom unit and has not purchased any studio units. Therefore, there is scope for 115 studio units within the portfolio
- 4.14 However, the purchase of the block would require HGL to rebalance its portfolio, moving the focus from studio and one bedroom units. Increased volumes of 2 and 3 bed units would be required and these are particularly difficult to purchase in the current market.

5. FINANCIAL CONSIDERATIONS

Purchase Proposal

- 5.1 It is proposed that HGL purchase the block using an additional loan facility funded by new borrowing. This new facility would be supplemented by an LBE contribution drawn from new borrowing under the Affordable Housing Capital Programme. The building would then be leased to LBE on a guaranteed rent basis for 5 years.
- 5.2 Based on current assumptions, financial modelling indicates that net cash flow is mostly positive and no working capital is required. In the years that net cash flow turns negative there is a sufficient buffer from previous years to absorb the loss.

Funding

- 5.3 It has been identified that the Council could supplement the funds requested by HGL using the Indicative Affordable Housing Capital Budget. This budget can be used for projects which either increase the supply of temporary accommodation or help to facilitate a reduction in temporary accommodation costs to the Council.
- 5.4 The purchase of the block by HGL and use of the units for temporary accommodation meets the Affordable Housing Capital Budget's requirements. In addition, the Council would have nomination rights to dwellings in the property block for a maximum of 21 years.
- 5.5 The use of Affordable Housing Capital Budget requires a restriction to be placed on the title of the property to secure the Council's interest. The property could be sold, but only with the consent of the Council and following sale a proportion of the sale proceeds reflecting LBE's contribution via the Affordable Housing Capital Budget would be returned to the Council.

Cost Benefits for Housing Gateway Ltd

- 5.6 Purchasing the block represents good value for HGL, as it will allow the company to obtain both more rental income and more units for less outlay than if the same amount of funding was used to purchase single units.
- 5.7 Further details are contained within Part 2.

Savings to LBE

- 5.8 The purchase of the block provides a cost benefit to LBE. Financial analysis undertaken by LBE has indicated that an annual cost saving could be achieved by moving 124 2 person households from more expensive nightly paid accommodation into the block. Further details are available in the Part 2 report.

6. ALTERNATIVE OPTIONS CONSIDERED

- 6.1 HGL still has a portion of its original loan facility which has not yet been spent. However, the remaining money has been allocated to properties which have had offers accepted. HGL, in consultation with LBE, considered the viability of withdrawing from the transactions in which it is currently engaged and reallocating the money to the purchase of the block. If HGL chose to act in this way it is likely to cause severe reputational damage to both the Council and the company. The damage caused to HGL's reputation with local estate agents would also prevent it from resuming normal expansion in the event that the purchase of the block does not proceed. This will prevent HGL hitting its purchasing target and deny LBE the opportunity to further reduce its spending on nightly paid accommodation. In order to safeguard HGL's future purchasing power and the associated reduction in LBE's spending on nightly paid accommodation, it is recommended that the existing HGL budget is not diverted to fund the purchase of the block.
- 6.2 HGL and LBE have also investigated the possibility of utilising alternative letting strategies. However, it has been concluded that pursuing these options is likely to cause further price inflation in the local rental market and could lead to an overall increase in LBE's already overstretched nightly paid accommodation budget.

7. REASONS FOR RECOMMENDATIONS

- 7.1 The purchase of the block by HGL will reduce the Council's nightly paid accommodation costs. It will also prevent the sale and subsequent letting of the block from inflating the local nightly paid/temporary accommodation market.
- 7.2 The purchase of the block will provide HGL with a good return and will increase the pace of acquisition, leading to a faster expansion of the

current portfolio. This will benefit LBE by enabling it to reduce spending on nightly paid accommodation.

- 7.3 If HGL does not purchase the block there is a significant risk that another Local Authority or institutional investor will. Under these circumstances LBE would have no control over the building or its tenants and this could have a negative impact on the Council's Homelessness provision. In addition, an influx of new families will exert additional cost pressures on Council Services, in particular, education and social care.

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

8.1 Financial Implications

8.1.1 The recommendation to approve a loan and onward lend to HGL will result in an addition to the existing Capital Programme to be funded by repayments from HGL.

8.1.2 Inclusion of the Indicative Affordable Housing budget to supplement the acquisition of the block will result in a financial cost to borrow which would not be met by HGL but would require covering from the cost savings made in reduced nightly paid accommodation.

8.1.3 Further details are contained within Part 2.

8.2 Legal Implications

8.2.1 The Council has power under section 1(1) of the Localism Act 2011 to do anything that individuals generally may do provided it is not prohibited by legislation and subject to public law principles. This power may be exercised for the benefit of the local authority, its area or for persons resident or present there. Accordingly, the Council is empowered to enter into the proposed arrangement pursuant to this general power of competence.

8.2.2 Section 111 of the Local Government Act 1972 further gives the Council the power to do anything ancillary to, incidental to or conducive to the discharge of any of its statutory functions (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or right). The recommendation and proposals in this report are in accordance with those powers.

8.2.3 The Council also has the necessary powers to borrow funding under section 1 of the Local Government Act 2003 and provide

a loan or grant funding to the company under sections 24 & 25 of the Local Government Act 1988.

- 8.2.4 For the purposes of paragraphs 5.3, 5.4 & 5.5, HGL is providing services of general economic interest (“SGEI”) to the Council. To comply with state aid legislation, LBE must enter into an act of entrustment with HGL setting out the nature and duration of the SGEI obligations to be undertaken by HGL. The entrustment document must also set out the parameters for calculating, controlling and reviewing the amount of compensation provided to HGL, and the arrangements for avoiding and repaying any overcompensation.
- 8.2.5 The amount of compensation provided to HGL for performing the SGEI must be limited to what is necessary to cover the net costs incurred in discharging the SGEI obligations; taking into account costs, income and a reasonable profit necessary for discharging those obligations.

8.3 Property Implications

- 8.3.1 The proposed addition to the Capital Programme will result in a loan facility to HGL. This loan will be used to acquire property which is consistent with HGL’s remit viz.: to acquire and manage properties, for which the Council has full nomination rights and can use these properties to discharge its statutory duties.
- 8.3.2 The loan is secured by an underlying real asset (unencumbered freehold asset) which, given historic and current property market conditions, is expected to appreciate in value. However, historic performance of an asset should not be taken as a reflection of future performance.
- 8.3.3 Strategic Property Services has reviewed the details of the proposed acquisition, and has provided input into its appraisal. Life cycle costs are included and the over appraisal is considered to be viable and consistent with HGL’s investment criteria.
- 8.3.4 The draft terms of the acquisition have been reviewed by the Assistant Director (Property Services) in accordance with the Property Procedure Rules. Further due diligence will however be undertaken as part of the conveyancing process and appropriate assurances will be sought.
- 8.3.5 An external valuation has been obtained which supports the agreed purchase price.
- 8.3.6 An appropriate charge will be registered against the property’s title to ensure compliance with the Council’s funding obligations.

9 KEY RISKS

- **Housing needs change and the Council can no longer provide suitable tenants for the property block.** This has been mitigated by providing the flexibility that HGL can sell or lease individual blocks or properties and repay the loan earlier.
- **The interest rate of the loan the Council can access to then on-lend to HGL 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.
- For further information, please see part 2 report.

10 IMPACT ON COUNCIL PRIORITIES

10.2 Fairness for All

The formation of HGL 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 HGL is a key component of the model agreed by Cabinet and essential to the successful operation of the company.

10.3 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.

10.4 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.

11 EQUALITIES IMPACT IMPLICATIONS

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

12 PERFORMANCE MANAGEMENT IMPLICATIONS

Through the establishment of HGL, 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.

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 will be fit for purpose or refurbished so that they fall in line with the Council's decent homes standard. Properties will be used to provide quality housing to enable the Council to discharge its statutory homelessness duties.

Background Papers

- None.