

MUNICIPAL YEAR 2016/2017 REPORT NO. 140

MEETING TITLE AND DATE
Council – 9th November 2016

Agenda – Part: 1

Item: 10

Subject: Housing Gateway Ltd – Increased Budget Envelope

Wards: All
Key Decision No:

Cabinet Members Consulted: Cllr Lemonides, Cllr Oykenner & Cllr Georgiou

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, 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. In order to continue acquiring further properties to assist the Council’s efforts to reduce it’s spending on Nightly paid accommodation the company requires further funds.
- 1.3 This report seeks approval for an additional loan facility to HGL to enable the continued purchase of properties. The terms of the loan are in accordance with the Facility Letter approved September 2014.
- 1.4 HGL has an existing portfolio which the initial budget envelope was used to acquire. This 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 to agree new Council borrowing (as set out in Part 2) and on-lend this to Housing Gateway Limited (HGL) in accordance with the Facility Letter, allowing the purchase of additional units. This will require an addition to the existing capital programme fully funded by repayments from HGL.
- 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. This will require an addition to the existing capital programme fully funded by repayments from HGL.
- 2.3 To note that savings are expected to be achieved from the reduction in the use of nightly paid accommodation. These will help to contain the forecast cost pressure in Temporary Accommodation budgets.
- 2.4 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.
- 2.4 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.

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 The Council has a continuing need for properties supplied by Housing Gateway as there are now more than 3000 families in temporary accommodation. HGL's current void rate is 0.1%.
- 3.4 HGL wishes to continue acquisitions and enable the Council to discharge its statutory homeless duties. In order to proceed with further purchases, HGL requires an additional loan from the Council. This would require an addition to the Capital Programme to be funded by new borrowing met by repayments from HGL.
- 3.5 As per KD 3782, in April 2014, Cabinet agreed to approve a budget envelope to enable HGL to purchase properties. Since this time, a further decision was taken to utilise part of this budget envelope to fund Enfield Innovations Limited. This reduced the overall budget available for use by HGL.
- 3.6 Since 2014 when the original business case was modelled the property market within Enfield has changed dramatically causing significant increases 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 £386k. In comparison the average property in London is now £514k. 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.
- 3.7 The market increases are reflected in the actual acquisition costs that HGL is experiencing. The average acquisition cost has risen by 33% compared to the initial business case. Section 3.4 of the accompanying part two report provides further detail. Therefore, in order to continue the pace of acquisition an additional loan is required.
- 3.8 In addition in April 2016, there was an increase in Stamp Duty charges on the purchase of all second homes from April 2016. This change has had a significant impact on HGL. For example a property purchased for £300k would previously have attracted £9k Stamp Duty. Under the new regime the property attracts £14k Stamp Duty. The increased stamp duty has had a significant impact on the overall purchase of cost of HGL's acquisitions.

4. HOUSING GATEWAY'S CURRENT POSITION

- 4.1 HGL has now committed its full budget envelope on properties that have been purchased and are in the pipeline.
- 4.2 HGL's cash flow remains positive, largely due to excellent collection of rental income. In addition the company has had the benefit of the working capital loan which has been used to enable positive cash flow.

- 4.4 A valuation of HGL's property portfolio was completed in September 2016 to determine the capital appreciation. A desktop valuation was completed on a sample of the portfolio, on the basis of vacant possession. The portfolio has performed well over the past two years with a substantial growth. It is important to note that the HGL financial model does not account for capital appreciation of the portfolio. However, the capital appreciation provides assurance that HGL's investments and company viability is sound.
- 4.5 HGL carried out a customer satisfaction survey in July 2016. The overall tenant satisfaction rate was 85%, which compared favourably to other major Housing Associations.

5. FINANCIAL CONSIDERATIONS

- 5.1 In order for HGL to continue placing offers on properties and provide further savings to the Council, an additional loan facility is required.
- 5.2 It should be noted that if the additional loan is agreed, HGL's future purchases will need to reflect the changing needs of the Council. This is considered by reviewing the types of accommodation required by the Council on a quarterly basis.
- 5.3 HGL draws down each loan tranche as and when required, ensuring that unnecessary interest payments are not incurred.

6. ALTERNATIVE OPTIONS CONSIDERED

- 6.1 HGL could stop purchasing properties when the initial budget envelope has been exhausted. This would leave HGL with a limited portfolio. HGL would remain profitable and continue to function in order to maintain this portfolio. This portfolio would continue to deliver limited cost avoidance to the Council. However, if HGL continued to expand its portfolio of properties (with an additional loan), this would provide additional cost avoidance to the Council and further properties for clients who would otherwise be placed in expensive nightly paid accommodation.
- 6.2 HGL could seek to find alternative funding streams and approach external companies to provide a loan to facilitate further purchases. However, initial investigations indicate that it would be highly unlikely that HGL would be offered more favourable interest rates than it currently receives.

7. REASONS FOR RECOMMENDATIONS

- 7.1 The continuing purchase of units by HGL will reduce the Council's nightly paid accommodation costs.

- 7.2 The purchase of new units will provide HGL with a good return and continue the pace of acquisition, leading to an expansion of the current portfolio in line with agreed targets.
- 7.3 HGL will continue to have an influence in the local market and set exemplary landlord standards.

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

8.1 Financial Implications

- 8.1.1 Contained within the accompanying Part Two report.

8.2 Legal Implications

- 8.2.1 In accordance with Section 1 of the Localism Act 2011 the Council has a general power to lend the funding to HGL. 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. The proposed loan would be in accordance with that power. The Council also has the necessary powers to borrow funding pursuant to Section 1 of the Local Government Act 2003 and to provide a loan to HGL under Sections 24 & 25 of the Local Government Act 1988.
- 8.2.2 The loan facility to HGL is likely to be provided at below market rates. However, HGL is providing services of general economic interest ("SGEI") to the Council in that it enables the Council to provide affordable housing and other housing which the Council uses to discharge its statutory duties. In order to comply with State aid law, the Council must enter into an act of entrustment with HGL dealing with the proposed new loan arrangements and 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.
- 8.2.3 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.
- 8.2.4 External legal advice indicates that the Council has the power to provide HGL with additional loan funding subject to it complying

with the European Commission's requirements for giving aid to bodies providing SGEIs.

8.3 Property Implications

- 8.3.1 The extension of the loan facility to HGL will assist this Council owned company to continue with the acquisition of residential properties. These residential properties are acquired by HGL to relieve the growing demand for housing in the borough.
- 8.3.2 The loan facility is securitised against the properties purchased. HGL's property portfolio has performed well over the past two years and has appreciated significantly in value. This needs to be viewed against the backdrop of a buoyant property market especially in Enfield which has performed well over the last three years. The original assumptions made in the Company's business case at inception have therefore changed. This has in turn resulted in the original loan facility been drawn-down quicker than anticipated.
- 8.3.3 While the property market in Enfield remains buoyant, this needs to be viewed within a general climate of economic uncertainty due to Brexit, the effects of which will only become more apparent over the next several years. Investment decisions should therefore be cautiously undertaken despite current strong property market fundamentals.

9 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.

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.