

# MUNICIPAL YEAR 2017/2018 REPORT NO. 139

**MEETING TITLE AND DATE:**  
Cabinet - 24<sup>th</sup> January  
2018

**REPORT OF:**  
Executive Director of  
Finance, Resources and  
Customer Services

Agenda – Part 1

Item: 10

**Subject: Housing Gateway Limited Annual  
Report 2016-17**

**Wards: All**

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## 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 successfully enabling the Council to discharge its statutory homeless duties into the private sector whilst reducing the temporary accommodation budget pressures.
- 1.3 Housing Gateway Limited reports to the sole shareholder, Enfield Council via the company's Annual Report. Subject to approval, part 1 of the Annual Report will be formatted and published on the Housing Gateway website.
- 1.4 The Annual Report includes Housing Gateways excellent performance to date. The 414 properties purchased significantly exceeded the indicative target of 300 purchases by the end of year 3. In doing so Housing Gateway has achieved its four-year target one year early. By March 2017 the Council had realised £2.5m cost avoidance by moving families out of expensive nightly paid accommodation into HGL properties.

## 2. RECOMMENDATIONS

- 2.1 Note the contents of the Housing Gateway Limited Annual Report 2016-17.

### **3. CHAIRPERSONS STATEMENT**

3.1 Dear Shareholder,

3.2 Housing Gateway Ltd was originally established in March 2014. Since then, the housing market conditions which precipitated its inception have only intensified. For the third consecutive year, the company has met and exceeded its property purchase target, and the portfolio as of March 31<sup>st</sup> 2017 stands at 414 homes. Housing Gateway is proud of its achievements in providing so many homes for Enfield residents and reducing the costs incurred by the local authority but there remains an urgent need for accommodation and very significant pressure on the local authority's budget.

3.3 With no foreseeable diminution in demand, Housing Gateway is proactively and creatively examining how to evolve the approach, with ambitious housing developments now supplementing the existing homes that the company has been purchasing for the past three years. In addition to its core activities Housing Gateway has also embarked on an exciting project involving Enfield Council's Learning Disability team, which will see the company provide homes for tenants with learning difficulties enabling them to live independently. Two properties have already been purchased and are in the process of being adapted to meet the specific needs of the clients.

3.4 Housing demand and housing policy continue to present challenges but despite this the company has had its most successful year for new housing acquisition. By 31st March 2017 we had purchased 414 properties, with the vast majority (399) being tenanted.

3.5 In April 2017, Asmat Hussain (Director) and Kerry Kyriacou (Non-Exec Director) left the board. I would like to warmly thank them, along with the current board members, for the commitment and contribution they have given to Housing Gateway. My thanks must also go to the Housing Gateway staff whose hard work has ensured that the company has outperformed its own high expectations in the past year. I am sure that we will build on this and I look forward to working with everyone over the coming year so that we can make further progress.

3.6 Dino Lemonides  
Chairperson.

### **4. BACKGROUND**

4.1 Enfield currently has 3244 households living in temporary accommodation – the 2nd highest number of any local authority area in England. This has been a growing problem for several years, with London's housing crisis and changing demographics in the borough exacerbating the housing challenges faced by our communities. The

lack of suitable available accommodation has resulted in the Council placing increasing numbers of families in nightly paid accommodation. This is not only an unsatisfactory solution for families, but creates a huge budgetary pressure on the Council - £3.3m in 2014/15, estimated to rise to £7.8m if nothing was done.

- 4.2 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.
- 4.3 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.
- 4.4 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.

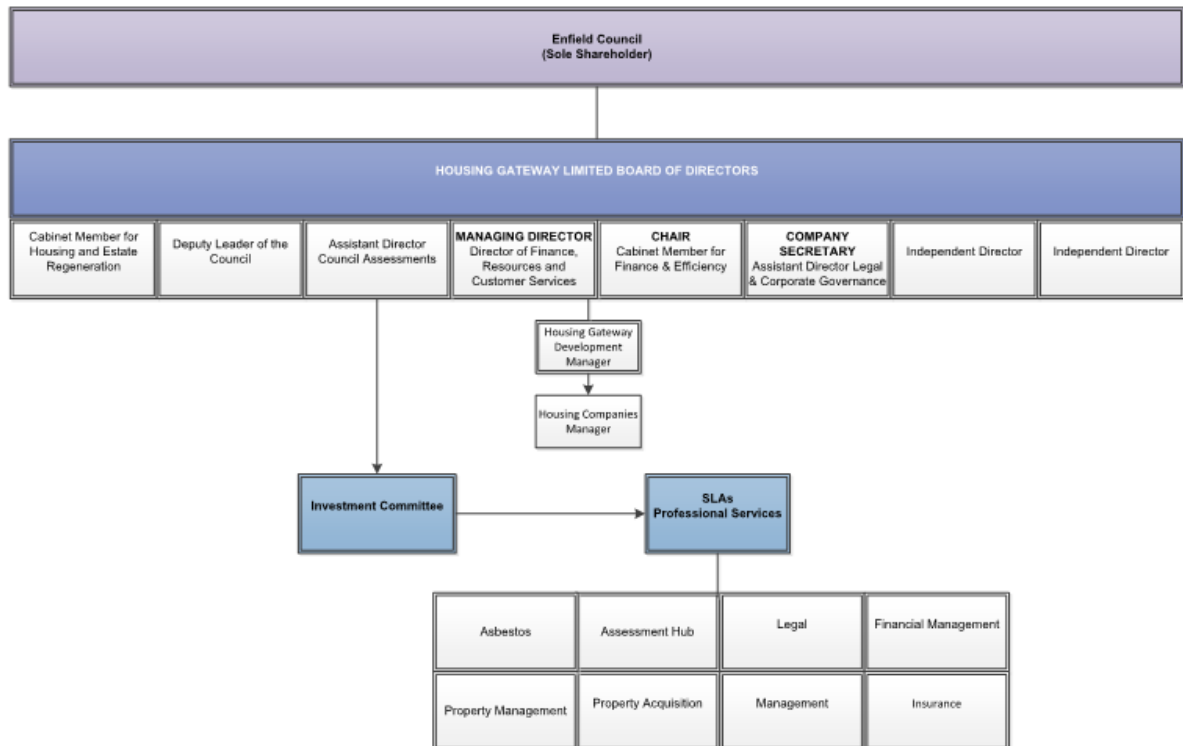
## **5. YEAR 3 – COMPANY PROGRESS.**

- 5.1 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 commercial sector and independent challenge to the company's operation, giving scrutiny to the performance statistics.
- 5.2 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.

5.3 HGL has two dedicated members of staff overseeing all the company's operations. The officers carrying out HGL's day to day business on the ground are Enfield Council employees, sourced by HGL through a series of Service Level Agreements. These include: Property acquisition, financial management, allocations, rent collection, property management, legal, asbestos surveys, company management and insurance.

5.4 Structure chart 2016/17



5.5 At March 2017 the key statistics are as follows:

Measure	2014/15	2015/16	2016/17	Total
Number of properties viewed and considered by the Investment Committee	323	313	321	962
Number of properties approved by the Investment Committee	238	246	262	746
Number of offers made	238	206	263	707
Number of offers accepted	152	151	219	522
Number of contracts exchanged	84	93	242	419
Number of completions	72	102	240	414
Number of properties tenanted	34	109	253	399

*\*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.*

5.6 The 414 properties purchased significantly exceeded the indicative target of 300 purchases by the end of year 3. In fact, it has meant that Housing Gateway has achieved its four-year target one year early. By March 2017 £2.5m had been saved by moving families out of expensive nightly paid accommodation into HGL properties.

## 6. YEAR 3 – BUSINESS CASE.

6.1 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 3244 households on 31st March 2017. This reflects an increase of 1056 households and over 48%. Enfield Council is currently ranked 2nd highest nationally for the number of households in temporary accommodation.

6.2 In addition, the number of households in expensive nightly paid accommodation has tripled to 1846 (compared to 480 in February 2015) with a further 49 in B & B accommodation at 31<sup>st</sup> March 2017.

- 6.3 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.
- 6.4 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.
- 6.5 The company is now fully established and aims to continue the acquisition of properties during its fourth 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.
- 6.6 Year 2016 / 17 accounts received a clean audit report, and the company made a surplus. Financial management was found to be in good order, with a positive cash flow achieved all year.

## **7. YEAR 3 – STRATEGIC PROGRESS.**

- 7.1 During the third year of operation Housing Gateway Limited has faced several challenges brought about by external factors. House prices have continued to rise. 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.
- 7.2 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 5.7% from March 2016 to March 2017 and the average price of a property in Enfield in March 2017 was £393,414. In comparison, the average property in London in March 2017 was £471,742. 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.
- 7.3 In 2016/17 Housing Gateway Limited examined wider market options including the acquisition of permitted development sites. Housing Gateway successfully purchased a block of 124 flats in Southbury

Road, Enfield. The purchase of this block allowed LBE to make significant savings and drive down the price of temporary accommodation within the Borough. This will continue to be an area for development in 2017/18.

- 7.4 In year 3 of its operation, Housing Gateway Limited has continued to identify innovative projects which it can apply to its overall business model. As part of a major estate regeneration programme, the Council is decanting tenants from properties prior to their demolition. Seven vacated properties have been brought back into use by HGL on a short-term basis, providing additional rental income to the Council whilst being financially viable for HGL. Further properties will be included in the initiative over the next year.
- 7.5 Housing Gateway has also begun to source suitable accommodation for residents with disabilities that the private sector market could not provide because of their complex needs. HGL has been able to purchase properties that can be tailored to meet individual requirements, providing the Council with a creative solution to a challenging issue. The result has been that service users and their family have suitable accommodation, in the right area. This improves their wellbeing and reduces the pressure on Council budgets.

## **8. YEAR 3 – OPERATIONAL PROGRESS.**

- 8.1 During the third year of operation, Housing Gateway Limited has purchased a block of 124 flats in the Borough. The block had been newly refurbished to a high standard and is been leased to the Council for use as temporary accommodation. The block purchase was a significant boost to HGL's business model and demonstrated HGL's ability to be versatile, reacting to market conditions, whilst still providing cost avoidance to the Council.
- 8.2 The management of the block is a change to HGL's standard business model and has required adaptations to HGL's operational processes. The block was fully let within two months of purchase and proves to be a success for both HGL and the Council.
- 8.3 In order to rationalise Housing Gateway Limited's portfolio two properties were disposed of at auction. These properties had previously been identified for development, however a commercial decision was taken to sell the sites once planning permission had been obtained.
- 8.4 Housing Gateway Limited continues to develop one site. This involves 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.

- 8.5 Data is presented at monthly Board meetings to analyse the property portfolio and business activity. The Board of Directors provide scrutiny ensuring an appropriate balance of stock is maintained within the portfolio.
- 8.6 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 introduction of a Finance Committee. The Board of Directors has agreed broad principles of borrowing for HGL and delegated the detailed decision-making process to a Finance Committee. The Finance Committee meets on a monthly basis and has been established to govern decisions on the interest rate and loan length for individual loans taken by HGL. The Finance Committee will also manage the financial interests of Housing Gateway Limited, scrutinising the company's management accounts, financial model, budget and audit process. Updates will be provided to the Housing Gateway Board of Directors, at the monthly Board meetings.

## **9. YEAR 3 - RECOGNITION**

- 9.1 Housing Gateway Limited was featured in a practical guide for local authorities setting up housing companies. The publication, called "How to set up a Local Housing Company" offers case studies and templates for Councils looking to develop housing in this way. Housing Gateway Limited was featured as one of the five case studies included in the publication.
- 9.2 The guide was launched at a central London event featuring a panel of experts, one of which was the Council's Head of Housing Companies. The publication and launch have generated additional interest in Housing Gateway Limited with other local authorities looking at Housing Gateway Limited as an example of best practice. The publication can be found here:  
<http://housinginnovations.org/news/post/local-housing-company-set-up-guide-launched>

## **10. ALTERNATIVE OPTIONS CONSIDERED**

- 10.1 Alternative options are not available. Housing Gateway Ltd is required to report to the sole shareholder via an Annual Report.

## **11. REASONS FOR RECOMMENDATIONS**

- 11.1 The Council is the sole shareholder of Housing Gateway Limited and it was agreed 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.

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

### **12.1 Financial Implications**

12.1.1 Housing Gateway is required to produce an Annual Report to inform the sole shareholder of its activity.

12.1.2 Properties have been purchased and are owned by Housing Gateway Limited, a separate local authority company, in accordance with the initial Cabinet decision. The Council is providing a loan to cover the capital investment of properties and the renovation and there is a facility for the company to take out an additional working capital loan, should it be required.

12.1.3 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.

12.1.4 Monthly Profit and Loss, Balance Sheet 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.

12.1.5 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.

### **12.2 Legal Implications**

12.2.1 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). Full legal implications covering statutory powers and other legal matters in connection with the establishment of Housing Gateway and its activities were reported to Cabinet in February 2014 (KD3782).

12.2.2 This Annual Report is provided in order to inform the Council as sole shareholder of Housing Gateway Limited's activity.

### **12.3 Property Implications**

12.3.1 Housing Gateway is provided to produce an Annual Report to inform the sole shareholder of its activity.

12.3.2 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.

12.3.2 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

12.3.3 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.

## **13. KEY RISKS**

13.1 None - the Annual Report is produced to report back to the sole shareholder.

## **14. IMPACT ON COUNCIL PRIORITIES**

### **14.1 Fairness for All**

None - the Annual Report is produced to report back to the sole shareholder.

### **14.2 Growth and Sustainability**

None - the Annual Report is produced to report back to the sole shareholder.

### **14.3 Strong Communities**

None - the Annual Report is produced to report back to the sole shareholder.

**15. EQUALITIES IMPACT IMPLICATIONS**

15.1 None - the Annual Report is produced to report back to the sole shareholder.

**16. PERFORMANCE MANAGEMENT IMPLICATIONS**

16.1 None - the Annual Report is produced to report back to the sole shareholder.

**17. HEALTH AND SAFETY IMPLICATIONS**

17.1 None - the Annual Report is produced to report back to the sole shareholder.

**18. HR IMPLICATIONS**

18.1 None - the Annual Report is produced to report back to the sole shareholder.

**19. PUBLIC HEALTH IMPLICATIONS**

19.1 None - the Annual Report is produced to report back to the sole shareholder.

**Background Papers**

None.