

MUNICIPAL YEAR 2019/2020 REPORT NO.

MEETING TITLE AND DATE:

REPORT OF:

Director of Finance

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Agenda – Part:1	Item:
Subject: Investment in Private Rented Sector – Additional Loan Instalment	
Wards: All Key Decision No:4444	

Cabinet Member consulted:	Cllr Mary Maguire & Cllr Gina Needs
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1. EXECUTIVE SUMMARY

- 1.1 In February 2014 Cabinet agreed to establish a wholly owned local authority company, Housing Gateway Ltd, 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.
- 1.3 The overall budget envelope was approved as part of the Council's Capital Program 2019-20. This report seeks approval for the next instalment of the loan to Housing Gateway Ltd in line with the delegated authority granted in KD3782 and in accordance with the terms of the Facility Letter referred to below.
- 1.4 The company has been in operation since March 2014 and good progress has been made. It has an approved business plan in place to continue to expand the portfolio and now requires the next instalment of the loan to continue the acquisition of properties in line with the business plan.
- 1.5 The detailed financial assumptions to support additional loan instalment are provided in the Part 2 report.

2. RECOMMENDATIONS

- 2.1 Note that in 2014 Cabinet delegated authority to the Director of Finance; Director of Housing; Cabinet Member for Finance & Procurement; and Cabinet Member for Social Housing, 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). It should be noted that since the delegation was agreed in 2014, the Council's processes have changed and it has been agreed that the report is now a decision of the Cabinet Member for Finance and Procurement, in consultation with the Cabinet Member for Social Housing, Acting Executive Director Resources and Executive Director Place.
- 2.2 Note that a further decision was taken by Council in February 2019 (KD4828), to approve the Council's Capital Strategy, including additional lending to Housing Gateway for 2019-21.
- 2.3 Note that a pro forma Facility Letter to govern loan arrangements between Housing Gateway and the Council was agreed in September 2014.
- 2.4 Agree to access the next instalment of the loan and on-lend this to Housing Gateway Limited under the terms of the pro forma Facility Letter.
- 2.5 Note that the treasury management decisions regarding the Council's borrowing to enable the on-lending to Housing Gateway will be subject to the Council's existing arrangements for governance.
- 2.6 To note and agree recommendations set out in Part 2 of the report.

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. It should be noted that since the delegation was agreed in 2014, the Council's processes have changed and it has been agreed that the report is now a decision of the Cabinet Member for Finance and Procurement, in consultation with the Cabinet Member for Social Housing, Acting Executive Director Resources and Executive Director Place.

- 3.3 The overall budget envelope available to Housing Gateway has been agreed by Cabinet in February 2019 (KD4828) as part of the Council's Capital Strategy. The company is now requesting part of the agreed budget to be released to facilitate ongoing expansion of the property portfolio.
- 3.4 Housing Gateway has an established acquisition process in place and has built a portfolio of 536 acquisitions properties. The company's Business Plan 2019-22 clearly sets out its goal to acquire a further 250 properties in the next three years, with an anticipated 50 units being acquired by March 2020. In June 2019, the Council's Shareholder Board recommended to Cabinet to approve the activities detailed in the HGL Business Plan for 2019-22, subject to presentation of a further report for approval of the forward financial structure based on a full options appraisal, and the submission of clear annual expansion targets. In order to fulfil the aims of the business plan, the company requires the next instalment of the loan to be made available.
- 3.4 A pro forma facility letter was drafted by external lawyers Trowers & Hamlins LLP, and agreed in September 2014.
- 3.5 The pro forma facility letter sets out the terms to govern loan arrangements between the Council and Housing Gateway. This stipulates that the loan can only be used by Housing Gateway to support the activities agreed by the Council. In line with the Cabinet decision, the remit of Housing Gateway 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 Council agrees to additional activities at a later date.
- 3.6 The facility letter enables the loan to be given to Housing Gateway 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, so a further instalment 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 delivery of Housing Gateway's business plan relies on refinancing the company to ensure appropriate cash flows are generated to support the ongoing growth and development of the portfolio. Housing

Gateway is undertaking a thorough review of refinancing options including external financiers and funding through the Council.

- 3.8 Whilst the review of refinancing is undertaken, it is important that Housing Gateway can access short term funding from the Council to facilitate further expansion of the company's portfolio. The further instalment of the loan as proposed in this report 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 pro forma 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

- 5.1 Cabinet approved the business case, financial model and overall financial envelope in February 2014 as per KD 3782.
- 5.2 Housing Gateway Limited was founded in March 2014 (assuming the name HGL in April 2014) and the company is now well established. The next phase of the loan is required to enable the company to continue acquiring properties and providing further cost avoidance to the Council.
- 5.3 A pro forma 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.
- 5.4 The facility letter enables Housing Gateway Limited to access 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 FROM OTHER DEPARTMENTS

6.1 Financial Implications

- 6.1.1 The total loan amount available for drawdown as approved in the Council's approved Capital programme.

6.1.2 Separate to the Council's approved capital programme there is an additional sum in the Council's 'Projects in the pipeline'. This represents an estimate of future requirements. This is **not** part of the approved capital programme. If this funding is required it will be subject to the relevant Cabinet /Council approval, following which, it will be added to the Council's approved capital programme

6.1.3 Further details are provided in part 2.

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.

6.2.2 The Council has the power to borrow in connection with its functions or for the prudent management of its finances under section 1 of the Local Government Act 2003. The Council has a duty under section 3 of the Local Government Act 2003 to determine and keep under review how much it can afford to borrow. The Council is also required to have regard to the Prudential Code for Capital Finance in Local Authorities when carrying out its duties under Part I of the Local Government Act 2003.

6.2.3 Section 12 of the Local Government Act 2003 (2003 Act) permits the Council to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs.

6.2.4 The Council must be mindful of EU state aid rules (Articles 107 to 109 of the Treaty on the Functioning of the European Union (TFEU)) which prohibit the Council from using its resources to provide selective financial support to a third party operating in the market. There are ways in which financial support can be provided in compliance with state rules, for example if the support is provided on market terms or a relevant exemption applies, such as an exemption for what are known as services of general economic interest ('SGEI'). One such SGEI is the provision of social housing to those unable to obtain housing under normal market conditions, and this is the exemption the Council is seeking to rely on when making loans to HGL. The state aid position will be kept under review to ensure that support from the Council is provided throughout the loan term in a way which is compatible with the state aid regime, and specialise legal and financial advice will be sought as part of the refinancing review referred to at 3.7. above.

- 6.2.5 The facility letter for this loan, which will be based on the pro forma Facility Letter referred to at 3.4 above, must be in a form approved by the Director of Law and Governance.

6.3 Property Implications

None.

7. KEY RISKS

- 7.1 **The Company cannot refinance its portfolio as anticipated.** It is essential to the company's future that a more favourable financing structure can be found to support future growth. This has been addressed by investigating financing options by both the council and a wide range of private financiers. Housing Gateway is continuing to collaborate with the Council to find the most suitable proposal to meet the needs of the both the company and the shareholder.
- 7.2 **Property market fluctuations.** Housing Gateway's portfolio is valued annually in line with audit expectations and, as such, any depreciation in local property prices may have an impact on the value of Housing Gateway's asset base. However, Housing Gateway has reached a point of significant gearing where expected minor market fluctuations will not impact the overall model. In the long term, the market is expected to increase over 50 years and Housing Gateway's asset base will appreciate accordingly.
- 7.3 **Housing needs change and Housing Gateway is no longer required to manage a property portfolio for use by the Council.** Whilst highly unlikely as the Council has a growing requirement for alternatives to temporary accommodation, this has been mitigated by providing the flexibility for early repayment of the loan, for example if Housing Gateway needed to sale a property to release capital.
- 7.4 **Rental income.** Housing Gateway's initial business model aligned rents to Local Housing Allowance (LHA) rates, which were predicted to increase at a rate of 2% per annum. As the expected increase in rates were frozen by Central Government, Housing Gateway's income has not increased as predicted. LHA rates were increased marginally in 2019, but not to the levels initially modelled. Housing Gateway is analysing alternative rent models.

8. IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

8.1 Good homes in well-connected neighbourhoods

- 8.1.1 The growth of Housing Gateway Limited enables the Council 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) and is aligned to the Council's proposed Good Growth strategy. 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.

8.2 Sustain strong and healthy communities

- 8.2.1 Access to good quality, stable housing is a key aspect of a person's health and wellbeing. Housing Gateway provide a stable private rented sector offer to families who would otherwise be placed in uncertain and expensive temporary accommodation. Furthermore, by ensuring properties are maintained to a good standard, the company is able to set exemplary landlord standards as an example to other private sector landlords in the Borough.

8.3 Build our local economy to create a thriving place

- 8.3.1 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

- 9.1 Local authorities have a responsibility to meet the Public Sector Duty of the Equality Act 2010. The Act gives people the right not to be treated less favourably because of any of the protected characteristics. It is important to consider the needs of the diverse groups with protected characteristics when designing and delivering services or budgets so people can get fairer opportunities and equal access to services.
- 9.2 The Council aims to serve the whole borough fairly, tackle inequality and protect vulnerable people. The Council will promote equality of access and opportunity for those in our communities from the protected characteristic groups or those disadvantaged through socio-economic conditions.
- 9.3 Predictive EQIA has been undertaken and has highlighted no negative impact on residents from the protected characteristic groups.

10. PERFORMANCE AND DATA IMPLICATIONS

- 10.1 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. HEALTH AND SAFETY IMPLICATIONS

None.

12. HR IMPLICATIONS

None.

13. PUBLIC HEALTH IMPLICATIONS

13.1 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

None.