MUNICIPAL YEAR 2019/2020 REPORT NO. 258

MEETING TITLE AND DATE:
Cabinet – 10 June 2020

REPORT OF:
Director of Law and Governance

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Agenda – Part: 1	**Item: 5**
Subject: Trading Company business plans 2020-23 **Wards:** All **KD No:** 5099	
Cabinet Member consulted: Cllr Mary Maguire	

1. EXECUTIVE SUMMARY

1.1 The Council's trading companies operate according to forward business plans, which were fully refreshed for the 2019-20 financial year and are now due for one-year rolling update.

1.2 Housing Gateway ltd (HGL) works to a three-year business plan. This has been updated to reflect the period 2020-23. This includes an update to include provision of a letting agency service.

1.3 The HGL business plan requires approval from Cabinet, representing the Council as sole shareholder of the company. This enables the Council to gain assurance that the strategic aims, targets and direction of the company remain complementary to the Council's vision for the borough.

1.4 Energetik operates a two-tiered planning structure. The company works towards its 40-year business plan, the most recent update to which was approved by Cabinet in September 2019. This is supported by a rolling three-year Operating Plan, which sets out the key deliverables required over the next three years to achieve the overarching business plan.

1.5 Energetik's Operating Plan does not require the Council's approval as shareholder, however it is reported to Cabinet in the interests of transparency and good relationships between the shareholder and the company, and in order to enable Cabinet to effectively conduct its role of overseeing the forward strategic direction of the company.

2. RECOMMENDATIONS

Recommended that:

2.1 Cabinet approves the business plan of HGL for the period 2020-23, including the development and implementation of an Ethical Letting Agency alongside the company's core private rented business.

2.2 Cabinet notes and supports the Operating Plan of Energetik for the period 2020-23.

3. BACKGROUND

3.1 In early 2019, the Council's trading companies refreshed their business plans. The companies produced plans covering the period 2019-22. The exception to this was Energetik, which operates a two-tier planning system, with an overarching 40-year business plan supported by a three-year operating plan. Energetik refreshed its business plan for the Tranche 2 funding decision in September 2019 and updates its operating plan to a three-year forward view each year.

3.2 The companies have now been requested to provide a rolling update on an annual basis. This will consist of updated financial projections and strategic action plans, updates if relevant to performance measures and other related analysis (e.g. market and customer analysis for HGL).

3.3 A full refresh would normally be conducted for approval at the end of the original period of the business plan, i.e. March 2022. However, dependent on developments during the year and the expected outcome, the current schedule for the end of the Brexit transition period on 31st December 2020 may warrant an earlier review of business plans should the form of post-transition arrangement entail substantial effects on the companies' markets.

3.4 It should be noted that EIL produced a one-year business plan in 2019, with the intention of reviewing the future of the company. The SHS1 project will shortly come to an end, and potential uses for and/or rebranding of the company will be considered over the next year. As such there is no business plan to produce. Should a way forward be developed, a business plan will be brought to Cabinet.

Housing Gateway

Strategic Objectives

3.5 HGL's proposed strategic objectives are stated as follows:

a. Deliver demonstrably, good quality housing for residents through a variety of products suitable for residents on low to median income levels. Deliver increased housing supply to the Council with at least an additional 250 units by 2023.

b. Deliver savings to the Council of £1m pa, contributing to the Council's financial pressures arising from the shortfall in the provision of temporary accommodation. Ensure a suitable financing structure for the company.

c. Deliver an innovative ethical estate agency, providing an excellent service for tenants and landlords alike. In doing so providing significant cost savings to the Council and reduction in the use of temporary accommodation. Establishing a portfolio of 560 units by year 3.

3.6 These are assessed to be effectively aligned to the Council's corporate plan objectives and will provide a good contribution towards and help to improve the overall housing offer for residents.

Ethical Letting Agency

3.7 The most significant item in Housing Gateway's business plan is the inclusion of an ethical letting agency. The financial assessment specifically of the letting agency focus of the business is included within the business plan as appendix 1.

3.8 Housing Gateway's focus prior to 2020-21 has been the provision of housing at Local Housing Allowance (LHA) rate. This assists Enfield residents by providing a further avenue to obtaining suitable housing and helps to reduce the time that service users may spend in temporary accommodation.

3.9 The core HGL business will continue to provide this type of accommodation through acquisition of properties within the Enfield borough and rent through LHA rate.

3.10 The letting agency will supplement this by providing an avenue to intervene within the private rental sector, in a manner consistent with the Council's general housing strategy. It will complement the work of HGL's core business by extending the reach of the company within the market, and through expanding the variety of the company's housing offer to meet a wider extent of needs and circumstances.

3.11 In addition, the agency will offer longer term tenancies of up to five years that are not generally found in the private rented sector. The National Audit Office identified in 2017 that the leading cause of homelessness had become the ending of shorter-term private sector tenancies; by addressing this existing gap in the private market via the letting agency, HGL hopes to contribute to the prevention of homelessness from occurring.

3.12 For the Council, the extended offer will provide a further avenue to avoid costs of homelessness, both through prevention – the letting agency will offer longer term tenancies providing families with greater security and less likelihood of homelessness than they may face in the wider private market – and through potential provision of tenancies to suitable families on the housing register and in temporary accommodation.

Core portfolio expansion

3.13 HGL's key strategic target for the core portfolio is to expand by 250 properties by March 2023. This is subsequent to a previous target to achieve 250 properties by March 2022.

3.14 The original March 2022 target has been affected by a number of issues restricting the number of viable properties for HGL to purchase. Some of these issues have been addressed (e.g. through a refinancing package agreed with the Council which will take effect from 1st April 2020) and some of which are inherent to the company's business model – charging LHA rental rates for example will mean there are always restrictive viability limits on HGL's purchasing ability (page 8 of the business plan identifies the maximum HGL can pay for one, two and three bed properties).

3.15 These developments have been supplemented by a proposal for a £5m equity provision to HGL from the Council. This will provide £5m of capital spend to the company without the need to make regular interest repayments, thus increasing the number of properties which would be viable to purchase with the funds and enabling the company to expand its portfolio. This will be considered by Cabinet as a constituent part within the Capital Programme.

3.16 However, some risks to expansion are inherent to the company's business model – charging lower rental rates on some properties for example will mean there are always some viability limits on HGL's purchasing ability (page 8 of the business plan identifies the maximum HGL can pay for one, two and three bed properties). In this respect, the target put forward by HGL may be optimistic even with mitigating strategies. The company has confirmed that it believes the target to be achievable and will report performance against it through regular quarterly monitoring.

Finances & equity investment

3.17 Revised projections have been produced for the forward plan based on progress within 2019-20, using year-end 2019-20 projections as at the end of January 2019.

3.18 These figures do not include Enfield Lets. The business plan presents the business case for Enfield Lets as an appendix, and through this the effect on the core business can be seen.

3.19 The figures indicate higher projected profits both in 2019-20 and future years than were previously expected in the original business plan. It should be noted that profit is not necessarily cash and as such there may not necessarily be a prudent option for profits to be re-invested or for the Council to leverage dividends.

3.20 For further detailed discussion of financial data, please refer to the part 2 report.

3.21 Cabinet considered and approved the envelope for an investment of equity funding in HGL as part of the Capital Programme in March 2020. This is detailed further within the Part 2 report.

Energetik

Meridian Water Energy Centre

3.22 The construction of the Meridian Water energy centre, which will serve phase one of the Meridian Water development, is scheduled to begin in October 2020, funded with the borrowing agreed in the Tranche 2 decision taken by Cabinet in September 2019.

Heat network expansion

3.23 The operating plan projects the expansion of the three satellite networks in Ladderswood, New Avenue and Alma Road/Electric Quarter to final completion at December 2020, at which time 677 properties will be connected across the three sites (including existing connected properties).

3.24 Attached to this is the completion of permanent energy centres for the Alma and New Avenue developments, both to be complete by 31 May 2020, and the subsequent pipeline connection of Electric Quarter to the Alma energy centre, due for completion by December 2020.

Finances

3.25 Projected finances are detailed within the Part 2 report.

Variations to the details of the business plans

3.26 During the course of business, the companies' situations may be influenced by external factors or opportunities may arise which cause the company to wish to change the proposals of the business plan, either engaging in activities which were not proposed within the business plan or altering the balance of activities which were proposed. This creates a risk that should plans change significantly, the plans may no longer reflect the desired strategic direction of the Council as shareholder.

3.27 To mitigate this risk, the Council has implemented Reserved Matters with the companies, that is a schedule of business decisions which the company may not take without the approval of the Council as shareholder. Within this schedule are identified financial limits on changes which may be made to the business plan. These limits apply both to budgeted increases in expenditure and virements of expenditure.

3.28 Any arising matters necessitating further Cabinet approval will be brought forward during the year as required.

Performance Monitoring of Business Plans

3.29 The Council's companies report on a quarterly basis, via an agreed template. The template measures financial performance, service performance and key actions against the targets, projections and action plans stated within the approved business plans.

3.30 HGL's business plan identifies the targets to be considered. Energetik proposes to continue with the suite of KPIs which are currently monitored, covering both customer service and financial performance, as well as monitoring the key actions, milestones and financial projections listed in the operating plan.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 For HGL, the first alternative is to do nothing and allow the companies to continue with their existing business plans covering the period 2019-22. This would create a risk that the business plan would not take into account in-year developments (most notably the proposal of a letting agency function) which have a significant impact on the business plan. Continuing to measure the company's performance based on the content of the existing business plan would not provide accurate or useful interpretation of the company's success or otherwise in meeting the objectives set for them by the shareholder, and therefore the shareholder would not be able to make effective strategic decisions on the company, of effectively challenge the company if required. For these reasons this option is not recommended.

4.2 Another alternative would be a complete refresh of the entire business plan. Such an exercise was carried out in early 2019, and there is no reason to consider that a further exercise would reveal any significant change in any of the background analyses that were conducted by the company to inform the previous business plan, and this is not therefore recommended as it is not assessed to be an effective use of resources. Generally, a full refresh would be undertaken every three to five years, although dependent on developments over the remainder of 2020 the imminent implications of Brexit may warrant a full refresh in early 2021, earlier than would normally be expected.

4.3 A final alternative for HGL would be for Cabinet to reject the business plan and request a revision. This would be an appropriate option if the business plan did not reflect the Council's objectives for HGL, or if the Council wished on reflection to change its objectives for HGL.

4.4 In regard to Energetik, the shareholder does not approve the Operating Plan being presented, therefore formally there is no alternative. However, it is essential for the success of the company that a collaborative relationship is maintained between the company and the shareholder. As such, should Cabinet have concerns on the content of the Operating Plan, officers would work with the company to address those concerns and provide further assurances to Cabinet that the Council's priorities were reflected in the company operating plan.

5. REASONS FOR RECOMMENDATIONS

The HGL business plan and Energetik operating plan presented will assist in achieving the Council's corporate plan objectives, will assist residents by providing a genuine, affordable alternative to the general private market, and will help the Council financially through the recovery of interest premiums and contributions to cost avoidance in areas such as homelessness.

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

6.1.1 The establishment of the Ethical Letting Agency forms part of the agreed new service model that supports the Homelessness Strategy and as such is important to the delivery of the services business plan which includes Medium Term Financial Plan saving expectations between 2020/21 and 2022/23.

6.1.2 Please refer also to Part 2 report.

6.2 Legal Implications

6.2.1. The Council has various legal and fiduciary duties in relation to the budget. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the setting of the overall budget. The Local Government Act 2003 entitles local authorities to borrow and invest as long as their capital spending plans are affordable, prudent and sustainable.

6.2.2 The 2003 Act requires the Chief Finance Officer to report to Council as part of the budget process on the robustness of the estimates of borrowing, investment and spending and the adequacy of the proposed financial reserves taking into account the affordability, prudency, sustainability, value for money, stewardship of assets, service objectives and practicality requirements as provided by the CIPFA's Prudential Code of Capital Finance in Local Authorities concerning borrowing and investment.

6.2.3 The Financial Procedure Rules require a release of capital report to be submitted to Cabinet before any expenditure is committed or incurred.

6.2.4. Members are obliged to take into account all relevant considerations and disregard all irrelevant considerations in seeking to ensure that the Council acts lawfully in adopting a budget. The Council must set and maintain a balanced budget and must take steps to deal with any projected overspends and identify savings or other measures to bring budget pressures under control. Members should note that where a service is provided pursuant to a statutory duty, the Council cannot fail to discharge its duty properly.

6.2.5 Members have a fiduciary duty to the Council Taxpayer for whom they effectively act as trustee of the Council's resources and to ensure proper custodianship of the Council's resources.

6.2.6 When approving the budget, regards should be given to 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.

6.3 Property Implications

None

7. KEY RISKS

7.1 An overriding general risk for all companies is that financial and performance targets may not be met, or key actions to deliver strategic objectives may not be delivered. This is managed through regular Shareholder reporting, which covers four elements of financial performance, return on investment, service performance and key actions for the year. These will be reported quarterly by all companies to the Council's Commercial Board for challenge and agreement of any remedial actions required.

7.2 There is a general risk that the form of arrangements following the transition period arising from the UK's exit from the EU, currently scheduled to end on 31 December 2020, could impact significantly on the markets the companies operate in, affecting the achievability of the strategic and performance targets set within the business plan and the realism of strategic objectives. Should this situation arise the companies will be asked to provide a full refresh of their business plans including market analyses, to be presented to Cabinet in March/April 2021.

7.3 There is a risk that in-year developments render HGL's business plan unviable or cause it to require revision. Under agreed reserved matters, the company has clear delegated authority and can make changes up to agreed financial levels or on agreed types of tasks. Any changes outside these limits would be brought back to Cabinet to ensure they remain in line with the Council's strategic objectives for the company.

7.4 HGL could find portfolio expansion difficult due to market conditions and the viability limits on potential purchases. This has been addressed in part with a £5m equity input into the company by the Council, which will increase the number of viable properties as repayment will not need to be taken into account.

7.5 Delays or revisions to Meridian Water could affect the progress of Energetik. The company is due to commence building its Energy Centre in the coming year, which will serve Phase 1 of the project. Delays to the continuation of Meridian Water could affect connections and therefore profit over the next few years for Energetik. This risk is considered by a regular client group meeting between the Place department, shareholder function and Energetik, and the company is investigating potential expansion opportunities elsewhere, as referred to on pages 3, 13 and 14 of Energetik's operating plan, and the key activities action plan for 2020-21 includes action entries to monitor the development of those opportunities.

7.6 The companies and Council have liaised and undertaken exercises to identify potential effects of the coronavirus pandemic; for HGL the main potential negative risks are to rental income and portfolio value, though there is also a potential opportunity for HGL as a purchaser of properties. For Energetik, potential delays to construction projects or new property handovers could reduce projected income, though there are some contractual protections the company has in regards to this which will assist.

7.7 Rental income may fall due to households receiving less income as a result of furlough or redundancy, or debts may rise due to inability to pay or delays in payment of Universal Credit applications by tenants. The company has monitored its income and bed debt closely over the period of pandemic, and to date there has been no significant decrease in income or increase in debt; however, the economic effects of the pandemic will likely continue for some time and therefore monitoring will continue be key to managing the key. Finances and debt level targets are reported to LBE by the Company through quarterly performance reports.

7.8 It is likely that property prices will drop as a result of the pandemic and government restrictions slowing down the housing market; a report in May from the Royal Institute of Chartered Surveyors suggested that the property market may not recover to pre-pandemic prices for 11 months. This is negative for HGL's own portfolio, though there is little immediate practical effect as the company is not seeking to sell any properties. There could be a risk in the event of substantial price falls that the company's portfolio would not equal the value of its loans, placing the company in negative equity.

7.9 From the perspective of a company looking to expand property portfolios, the property market situation does also present a potential opportunity, as falling prices may mean more viable properties on the market, and greater value for investment in the company. This is subject to purchases being able to complete, which depends on social distancing restrictions; many surveyors have suspended operations over the recent period of restrictions for example, pausing purchase processes. The £5m equity funding proposed in this report will provide a cash injection allowing the company to be agile in its response to the property market, and the company has retained communications with estate agents over the period of social distancing to ensure it is aware of any available properties which it may be able to offer against once possible.

7.10 The Coronavirus pandemic may impact on the delivery of some aspects of the operating plan. For example, while work on connecting developments has not stopped, the need for social distancing and the suspension of services by other workers (e.g. surveyors) has led to delays in handover or lost potential income – for example, the Premier Inn hotel at the Ladderswood site is connected but cannot operate due to coronavirus restrictions, and therefore is not utilising heat.

7.11 This also may apply to the development of the Company's own energy centres. Requirements to social distancing may limit tasks that can be undertaken, thereby delaying progress. The Council will look to capture any such delays through regular quarterly performance and work with the company to ensure any implications are promptly addressed.

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

8.1 Good homes in well-connected neighbourhoods

Housing Gateway seeks to provide low cost rental properties and temporary accommodation at a higher standard than is otherwise available for tenants, assisting them to remain connected to their communities.

8.2 **Sustain strong and healthy communities**
Housing Gateway seeks to provide affordable rental properties and temporary accommodation of a better quality than is otherwise available for tenants, helping to improve their health, reduce stress and enable them to remain connected and contribute to their local communities.

8.3 **Build our local economy to create a thriving place**
HGL helps to reduce the amount that customers need to spend on necessities such as housing and energy, thus increasing their disposable income which they can spend within the local economy, and their ability to socialise and contribute within their local communities.

9. EQUALITIES IMPACT IMPLICATIONS

There are no implications to this report.

10. PERFORMANCE AND DATA IMPLICATIONS

There are no implications to this report.

11. PUBLIC HEALTH IMPLICATIONS

There are no implications to this report.

Background Papers

None