London Borough of Enfield

Cabinet

January 2022

Subject: Trading Company Annual Accounts & Performance
Cabinet Member: Cllr Mary Maguire
Executive Director: Jeremy Chambers – Director of Law & Governance

Key Decision: N/A

Purpose of Report and Proposals

1. The purpose of the report is to identify and communicate the results achieved by the Council's wholly owned trading companies and provide assurance that they continue to contribute effectively to the achievement of the Council's corporate objectives

Proposal(s)

2. Recommended that Cabinet note the results presented and the progress achieved by the companies.

Reason for Proposal(s)

3. The company accounts are approved by the Company Boards and are presented to Cabinet for transparency and to ensure companies' performance remains in accordance with the Council's strategic priorities.

Background

4. During the financial year ending March 2021, four companies wholly owned by the Council operated to deliver services to residents. These were:
    1. Housing Gateway ltd (HGL)
    2. Lee Valley Heat Network Operating Co ltd (trading as Energetik)

5. The Council also continued the 50% owned Limited Liability Partnership Montagu 406 Regeneration LLP, set up to regenerate the Montagu industrial estate. Montagu LLP has not yet filed its accounts for the previous year (the company is required to do so by 31st March 2022). However, from a financial perspective the company was dormant for much of the previous financial year; while undertaking work and making progress towards commencement of the project, it did not process any significant number of financial transactions.

6. The companies operated for the year on the basis of business plans given final approval by Cabinet in June 2020, which included financial projections and KPI targets for companies to be measured against. These projections and targets form the basis for quarterly performance reports provided to the operational shareholder function. The final year-end results are presented in this report.

Main Considerations for the Council

Housing Gateway

7. Housing Gateway recorded a net profit of £1,381,410 against a business plan projection £430,015; thus, outperforming its projections by approximately £950,000. This is also a significant improvement on the previous year, in which the effects of Covid-19 resulted in a substantial loss.

8. The operations of Housing Gateway have further delivered an estimated £2m of cost avoidance to the Council through avoidance of expenditure on temporary accommodation. This brings the total savings achieved across the life of the company to £9.4m.

9. The company's balance sheet has recovered to a net asset position of £7.6m, up from the previous year's Covid-19 affected result of £1.25m, indicating improved financial resilience of the company.

10. In particular, the net fixed asset position is £4.4m, indicating the company's portfolio of properties was worth approximately £4.4m more than its liabilities, including Council loans, as at 31st March 2021. This is an improved position from 2019-20, in which Covid-19 devaluations decreased the net fixed asset cushion to £1.2m; however, it has still not recovered to the pre-Covid-19 level of £10m. At the time of reporting, in-year monitoring indicates that the fixed asset position has improved to approximately £6.8m, indicating that risks relating to the security of the Council's loans have continued to decrease.

11. The company has achieved its key performance indicators, with the exception of resident satisfaction, which was below target pending the completion of a new satisfaction survey, and rent arrears, which were 0.1% above target. The key issue for satisfaction was timeliness of repairs; the company utilises the Council's responsive repair service. This has been reflected in the new survey, which returned a 59% satisfaction rating, with the key issue again being repairs. Rent arrears remain at 4.6% as at 30 September 2021; this appears to be a longer-term impact from Covid-19. However, it is only marginally above target, and is not impairing the performance of the company at this stage, as is evidenced by the overall positive results.

Energetik

12. Energetik has recorded a positive result, outperforming its business plan projection for the year by £310,000. It is the third successive year that the

company has substantially outperformed its business plan, and it is now in a strong overall net position against its business plan since its inception.

13. Building on a first gross profit recorded in 2019-20, the company has also delivered a first operating profit, indicating that its connections have covered the costs of running the business, before interest payments. The gross profit has also tripled from the previous year. This is promising progress, indicating that the company's core business model is sound and fundamentally profitable even at a low level of properties.

14. However, the final net profit result takes into account repayment of the company's loans and interest to the Council, which leaves a final overall loss of (£371,851); as highlighted above, this is a substantial improvement on the projected business plan position. The emphasis now is to continue building out the network and increasing connections over the coming years, such that the scale of connection income expands to cover loans and interest payments and delivers net profit, projected by the business plan in 2026-27.

15. The company has a net asset position of £2.3m, up from (£2.2m) in the previous year. However, while a beneficial development in securing the company's future and resilience, this should be approached with caution. Fixed assets remain at (£700,000), indicating the company's fixed assets are worth less than its loans. Further, the audited fixed asset valuation includes intangible fixed assets of £6.8m. While intangible assets have value, they are practically difficult to sell without sufficient accompanying revenue-generating fixed assets.

16. A key risk for Energetik is the connection of properties on the schedule projected in the business plan. At 31st March 2021, Energetik had projected 343 handed over properties. It achieved 643 handed over properties, with 542 occupied, substantially outperforming its target; in fact, the company has already achieved the 607 handed over properties required by 31st March 2022.

17. While this is excellent progress to date, it should be noted that a large proportion of the connection burden as per the business plan schedule falls in the coming years, 2022-23, and 2023-24. These years require a high number of properties and the delivery of these from Meridian Water in particular will be a significant risk factor for the company. The progress in building Energetik's network and energy centre to deliver Meridian Water connections is progressing well, with a projected completion date of February 2023.

18. Energetik has completed the key actions required by its operational plan for the year and has performed well on KPI targets. Where targets have been missed this has in part been due to the company's service contractor; Energetik's contract with its service contractor includes a penalty system for underperforming KPIs, and these have been enacted to recover contract fee for Energetik wherever applicable under the contract terms.

19. The completion of key actions enables the company to move forward with the build out of its network to receive planned connections, as well as exploring potential opportunities for expansion.

Safeguarding Implications

20. There are no safeguarding implications to this report.

Public Health Implications

21. The specific proposal does not have any implications for public health. However, Energetik and HGL do contribute to public health through the low-cost heating and housing they respectively supply, and therefore it is important to monitor their performance to ensure such benefits continue.

Equalities Impact of the Proposal

22. The proposal is to note progress. As there is no decision required, an Equalities Impact Assessment is not applicable.

Environmental and Climate Change Considerations

23. The proposal does not have any direct climate change or environmental impacts, although Energetik's business plan works towards significant carbon reduction in energy provision. Impacts of particular company proposals or business plans will be considered in the relevant reports.

Risks that may arise if the proposed decision and related work is not taken

24. If companies' performance is not monitored and reported, then the companies may fail to deliver against objectives, and may not contribute towards the Council's Corporate Plan, or provide a return on the Council's investment. Cabinet may be unable to fulfil its role as shareholder guardian in ensuring that companies continue to align strategically with the Council's objectives. Further, the companies may

25. The key factors to monitor for HGL over the coming months will be arrears levels, and the progress of Enfield Lets; at the time of the accounts, Enfield Lets had only been in operation for six months and was in its infancy in terms of properties managed. Therefore, it's whole year effect cannot be gauged. Specific monitoring is being undertaken on Enfield Lets to measure its progress against its individual business case. It will also be important to monitor the portfolio value and by extension the net balance sheet position to ensure continuing recovery of the fixed asset position following the short-term effect of Covid-19.

26. For Energetik, the key factors to monitor will be connections, to ensure that the project remains on schedule as per the business plan, and the progress in building the heat network at Meridian Water.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

27. The proposal is to note progress, to provide assurance on company performance, and to provide an opportunity for oversight and challenge. There are therefore no specific risks arising from the proposal relating to the companies considered.

Financial Implications

28. HGL had £121,417,564 in long-term loans from the Council outstanding at 31st March 2021 (note 15 of the accounts), against a portfolio value of £130m (note 11). This indicates that the value of the portfolio provides effective security over the Council's loans, with a buffer of around £9m in total excess value. Therefore, the Council would be able to recoup its loans to the company in the event of failure.

29. HGL has also contributed £2m in the year 2020-21 to revenue cost avoidance through provision of temporary accommodation and the execution of housing duties through the Council's nominations agreement.

30. Energetik had outstanding long-term loan amounts of £12,605,450, against a fixed asset value of £5.2m. This indicates that the Council's loans remain at high risk until further saleable assets are developed.

Legal Implications

31. The Council has a general power of competence under Section 1(1) of the Localism Act 2011 to do anything which individuals generally may do provided it is not prohibited by legislation and subject to public law principles. In addition, in accordance with such Act, the Council can set up a company under the Companies Act 2006 to do, for a commercial purpose, that which it is empowered to do under the general power of competence.

32. When supporting the companies, particularly in its role as lender/funder, the Council must be continually mindful of the rules with regard to state aid. 'Aid' in this context means any benefit conferred, not just monetary payments. This could include any services/resources provided by the Council to the company at less than market value.

33. When taking any actions in its role as shareholder, the Council must also be continually mindful of the requirements of the Companies Act 2006, and the requirements contained in the Articles of Association of each company.

Workforce Implications

34. There are no workforce implications to this report.

Property Implications

35. There are no property implications.

Other Implications

36. There are no other implications to this report.

Options Considered

37. The only alternative option is not to report or monitor progress, which as identified in paragraph 25 may result in a lack of cohesion between the Council's objectives and its use of companies and place the Council's investments in its companies at greater risk.

Conclusions

38. The progress of the companies should be noted, and monitoring continue throughout the current financial year.

Report Author: Will Wraxall
Shareholder & Commercial Partnerships Manager
will.wraxall@enfield.gov.uk
0208 379 1265

1 December 2021

Appendices

Appendix 1a & b: Housing Gateway accounts and annual performance
Appendix 2a - c: Energetik Managing Director letter, annual accounts and annual performance