London Borough of Enfield

Report Title	LBE Companies Period 6 Performance Monitoring Report 2024/25
Report to	Cabinet
Date of Meeting	8th January 2025
Cabinet Member	Cllr Tim Leaver
Executive Director / Director	Jo Moore – Executive Director of Resources Olga Bennet - Director of Finance Capital and Commercial
Report Authors	Ravi Lakhani
Ward(s) affected	All
Key Decision Number	N/A
Classification	Part 1 Public and part 2 -Private & Confidential
Reason for exemption	By virtue of paragraph(s) marked below with * of Part 1 of Schedule 12A of the Local Government Act 1972: 3 Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Purpose of Report

1. To update Cabinet on the performance of Enfield Council Companies as at Quarter 2 (half year) of 2024/25 and provide an estimated outturn position for 2024/25, based on company loan drawdowns, which are treated as Capital expenditure and form part of the Council's capital programme. Performance relates to financial (capital and revenue) and non-financial aspects of each company.

2. The report reviews the financial position of each company from the Shareholder point of view (i.e. Council capital investment).

3. The report also provides an update on ongoing work between the Council and the Companies, to respond to changing market conditions, and looks forward at forthcoming decisions.

4. The report covers Lee Valley Heat Network Operating Company Limited (t/a Energetik, hereinafter ‘Energetik’) and Housing Gateway Limited(HGL)

Recommendations

It is recommended that

I. Cabinet notes

a. The 2024/25 forecast loan drawdown for each company;

b. The 204/25 performance of each company at Quarter 2;

c. The current financial position of each company;

d. HGL has implemented market rent levels on its owned portfolio and has taken transfer of a number of TA units, both as agreed as part of the agreed Business Strategy for the company. Solutions to address the changing nature of the cash flow position are being explored.

Background and Options

5. Reporting on the Council’s capital investment in its companies has previously, formed part of the quarterly capital monitoring report. In future the financial monitoring of the companies will be reported separately in this report. The report will also provide an overview of their individual performance in the context of their financial accounts and in year financial performance against budget.

6. The background to each company and main considerations are set out below.

Executive Summary

Energetik

7. The company has drawn down £64.1m of the £93m funding available. Access to further funding (MEEF £15m and Council PWLB funding of £9.4m is contingent upon a refreshed business plan being presented to cabinet.

8. Energetik – There is a working capital facility in place for £3.5m. At the half year point, £3.2m of this was utilised. The facility is in place to aid cash flow while connections are being built out through developments

9. The financial performance for the half year and full year forecast are presented in the appendix.

Housing Gateway limited (HGL)

10. HGL is 100% owned by Enfield Council and the Council has funded the investment via PWLB borrowing which it has then on leant to HGL. The outstanding loan balance as at 31 October 2024 was £142.3m against assets of £161m.

11. HGL achieved a profit £1.25m for the first 6 months of the year. The forecast position for 2024/25 is £2.34m

12. The current bad debt provision is £1.5m (increase of £0.7m from 2023/24). This is due to the increase in rent to market levels and the transfer of Temporary Accommodation from the Council to HGL which requires an adjustment to the income collection strategy The strategies to address this is discussed within the main body of the report.

Energetik

Background

13. Energetik is a limited liability company which has been set up by Enfield Council to develop, own and operate a series of community energy networks throughout the borough. Since its inception in 2015 Energetik has created 4 satellite heat networks through the use of repayable loan financing from the Council. The Council has secured the low interest rate Tranche 1 loans and has onward lent to Energetik.

14. The company was established by the Council to provide better value energy that is reliable and environmentally friendly. Enfield Council owns 100% of the company shares. A shareholder agreement sets out the remit of the company and the extent of its delegated powers and those matters that the Council reserves for its own decision making.

15. Total funding of £93m has been secured for the project. The Council has secured a total of £67m in loan funding and £17m grant funding from external organisations. A further £9.4m loan is yet to be secured from the Public Works Loan Board (PWLB) to finance a proportion of the Council's match funding. The loan and grant funding are split into different 'tranches' (the batch of funding secured). Table 1 below provides further information.

16. The satellite networks are operational (Tranche 1). Loans of £15m were secured by the Council of which Energetik has drawn the whole £15m.

17. Energetik has constructed an energy centre near the Meridian Water development. This was Tranche 2. The Council has secured funding for Tranche 2 via Government loans and grants. The energy centre is being financed from £29m of low interest rate loans and grants. Energetik has drawn £24.0m of the loans via an on-lending agreement, and £5.0m grant was passed to the Company in the form of an equity investment in return for shares.

18. In March 2021, Energetik and the Council was successful in securing a Tranche 3 HNIP loan (£11.9m) and HNIP grant (£12m) for the expansion of the heat network from the Meridian Water Energy Centre to west of the Borough. Council approved the works in June 2021. Since then, rising inflation has meant the cost of raw materials and labour is now more expensive than first anticipated, and there has been a slow down in external development schemes.

19. To date £12m of Tranche 3 financing has been passed to Energetik by the Council in the form of an equity investment in return for company shares (The Council funded this via the aforementioned HNIP grant). A £15m loan was secured from the Mayor of London's Office in April 2023 to fund part of the match funding (the remainder to be funded from the Public Works Loan Board). In June 2023 contractors started capital works to connect the Meridian Water energy centre to the Ponders End heat network. The works have been part funded from the grant and there is a need for loan financing to fund the remainder of works. The loan funding has been made available through a loan agreement between the Council and Energetik funded from the HNIP loan. Further contractual works are on hold subject to a business plan review. The Council continues to hold all undrawn loan balances.

20. Work is ongoing with the company to refresh its business plan in light of delays and rephasing of the developments in the borough and the changes in the wider economic climate, i.e. rising interest rates and inflation, particularly construction inflation.

21. Energetik are not entering any new contractual commitments until the business plan review is completed. The Council and Energetik are also reviewing the opportunities for external partnerships to facilitate the long-term growth of the network.

22. Energetik is able to generate cashflows from the customer connections that it has secured. As a result, Energetik has been able to service its debt to the Council in a timely manner. However, due to a delay in large Council developments and the impact on future connection fees, Energetik does require a working capital facility from the Council to fund operational costs until such time as income from developments is realised. The Executive Member for Finance has approved a working capital facility of £3.5m. The legal agreement for this has been signed. The facility was part of the HNIP grant conditions.

Funding

23. The total funding to be provided by the Council is £93.0m. The Council will in turn fund this as follows:

- £56.6m in the form of low-cost loans from organisations backed by the Government including the Mayor of London's office.
- £10.0m from the European Investment Bank
- £17m in Government grants
- £9.4m borrowed by the Council from the Public Works Loans Board (PWLB).

24. The funding has been divided into three tranches as summarised in table 1:

Table 1: Energetik Funding

Funding Source	Tranche 1	Tranche 2	Tranche 3 (External)	Total Loan Approvals
	£m	£m	£m	£m
EIB Loan	10.0			10.0
LEEF Loan	5.0			5.0
MEEF Loan		15.0		15.0
HNIP Loan		9.8		9.8
HNIP Grant		5.0		5.0
HNIP 2 Loan			11.9	11.9
HNIP 2 Grant			12.0	12.0
MEEF 2			15.0	15.0
PWLB			9.4	9.4
	15.0	29.8	48.3	93.0
Amount drawn (Loans & Grant)	15.0	29.1	20.0	64.1
Loans remaining from 2021 approval	0.0	0.7	28.3	29.0

25. Table 1 details the funding the Council has put in place to support the development of the heat network. The Council has approved three tranches of investment, funded by low-cost government funded loans and grants. (KD4642) in 2019 approved an investment of £30m (£25m on-lending and £5m grant invested as equity). This was to fund the construction of the main heat network at Meridian Water, as well as other satellite schemes. The financial aspects of Energetik's business case are mainly predicated on the delivery of connections at the Meridian Water and Joyce & Snells schemes. which generate connection fees for the company and on which the business plan is underpinned. Around 17,000 customer connection numbers are required to be achieved for revenues to cover operational costs (excluding connection fees). In the early years connection fees are critical to pay operational costs.

26. KD5304 in 2021 approved a further £49m (£37m on-lending made up of £12m HNIP2, £25m PWLB) and £12m HNIP grant invested as equity to fund pipework extensions north from Meridian Water to reach Southbury road and then Enfield Town and west to connect and decarbonise the satellite schemes. The key anchor developments, detailed in the report, were Edmonton Green shopping centre, Colosseum Retail Park, and Palace Gardens, the Civic Centre, North Middlesex University Hospital and GLA home sat NMUH.

27. The business plan was approved in June 2021 (KD5277) as part of the approval process for the Tranche 3 expansion of the heat network.

Loan Balances

28. As at 30 September, Energetik had a debt balance of £47.4m owed to the Council.

Working Capital Facility

29. The current value of the working capital facility is £3.5m with £3.2m of this utilised as at 30 September 2024. Up to the maximum of £3.5m facility is expected to be utilised in 2024/25 with the entire amount being paid back in the 2026/27 financial year (subject to connection fee income being received). The working capital facility agreement has scope to be extended to £6m once a refreshed business plan has been approved by Cabinet.

30. There is a risk that connection fee income due in 2024/25 is not received due to a delay in connections and therefore will require close monitoring.

Overview of Council Investment

Capital Programme

31. Table 2 details the 2024/25 approved capital budgets that fund Energetik's loan drawdowns and drawdowns at year end. The budget was approved by Council in February 2024 as part of the Council's ten-year capital programme.

32. Energetik's capital spend is funded by Council repayable loans and GLA/Government grants that have been invested in Energetik, as equity (shares).

Table 2: Energetik's capital programme and financing 2024/25

	Loan drawdown 2024/25
	£m
Energetik Tranche 1&2 (Phase 1)	2.6
Energetik Tranche 3 (Phase 2)	9.1
Total Capital Expenditure	**11.7**
Financed by	
Tranche 1 loans	0
Tranche 2 loans	2.6
Tranche 3 loans (HNIP2)	9.1
Tranche 3 loans (MEEF/PWLB)	0.0
Total Financing	**11.7**

33. As of Q2 £1.6m has been drawn down from the above loans for T1/T2 works.

34. As of Q2 £3.3m has been drawn against Tranche 3 loans.

35. To date capital works have been centred around the development of the Meridian Water Energy Centre, which has now been completed and is capable of serving 60,000+ homes. Capital Spend is now focused on spending HNIP Tranche 3 monies on the expansion of the network.

36. Energetik review the affordability and viability of each line prior to entering into contract. The Shareholder (Council) has asked Energetik not to enter into any new major contracts until the refreshed business plan is brought to Cabinet.

37. Spend against the HNIP grant of £11.9m for the A1.A2 contract for Tranche 3 works is currently forecast to overspend by £1.7m due to inflationary pressures as a result of the main contactor becoming insolvent. Energetik are looking at options to ensure that the scope of work is amended so that the works are completed within the available budget envelope.

Overview of Company Performance

Business Plan Update

38. Cabinet last reviewed Energetik's financial business model in June 2021 when it approved the Tranche 3 funding to extend the heat network along the "green" and "yellow" lines. Since then, there has been significant global challenges which has resulted in a combination of increases to energy prices, construction costs & interest rates. In addition, there have been changes and delays to the phasing of housing developments. Cumulatively, all of these factors have had a significant impact on the company's financial business model. The business plan is currently being updated and will be reported to members later in the financial year.

Financial Performance

Financial Accounts 2024/25 half year update

39. Refer to Part 2 of the report. – Appendix A

Risks and opportunities

40. Listed below are key risks identified by Council and Energetik and are under review.

41. **Funding conditions:** The grant and loan offered by HNIP for Tranche 3 was on the basis of the scope assessed at the time. The Council will need HNIP agreement to vary the scope and maintain the cost at the original level. **Mitigation:** Alongside Energetik, engage HNIP's advisors about grant reprofiling.

42. **Development fluidity**: Both private projects and projects led by the Council are fluctuating in delivery commitments and/or timescales, continually

impacting the company's projected cash flow and therefore the Council's risk exposure.

43. Delaying capital spend increases grant funder risk as we go beyond backstop dates, and also increases inflation on core build costs, reducing what can be delivered with grant funding.
    Mitigation: continue to monitor through the Interdependency Board and encourage Energetik to secure major connections to existing institutions and/or other heat networks. It should be noted however that for Energetik to secure such major connections to existing buildings/heat networks, that additional funding would be required to extend its network and connect.

44. **Future growth:** Energetik cannot expand without further investment but making full use of the waste heat from the incinerator requires Energetik to grow. Expansion requires additional up front capital investment.
45. **Mitigation:** Explore further central Government funding opportunities to enable Energetik to continue to grow

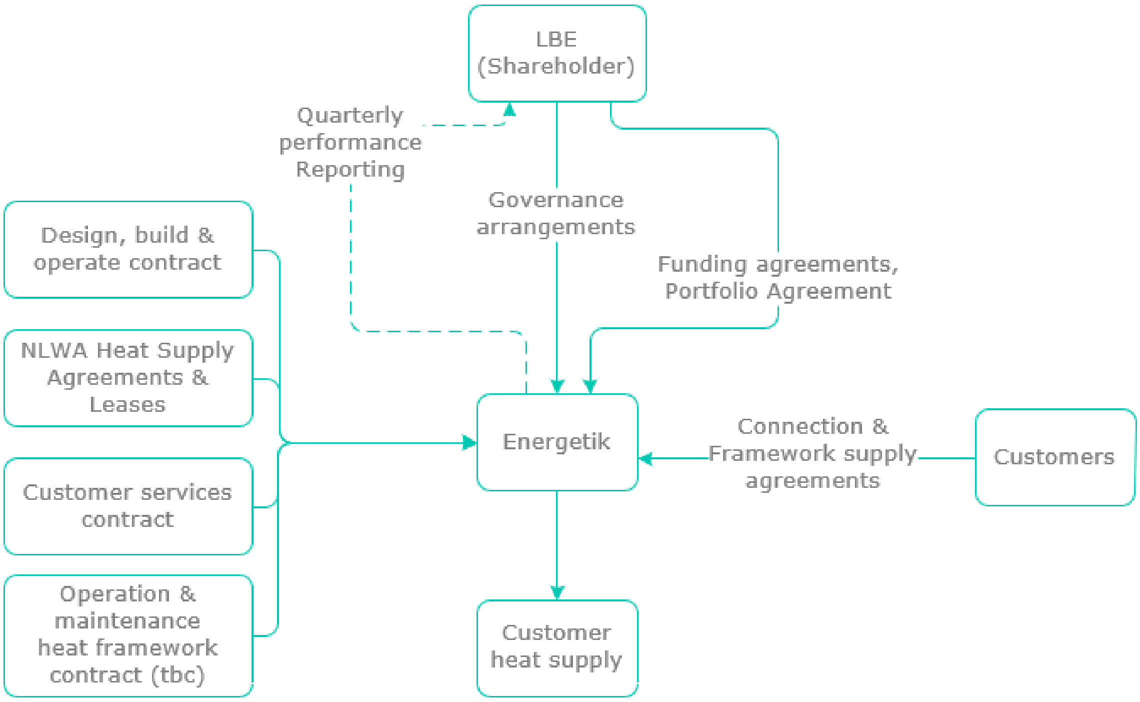
46. **Regulation**: Government is bringing in industry regulation for heat networks in late 2023/early 2024, with secondary legislation being introduced over the next two years. Part of the regulation will be to develop heat network zones, obliging heat networks to be built out within zones and mandating certain buildings to connect (new development, large heat consumers in existing buildings etc). This will create an obligation for many buildings to connect to Energetik's heat network over time.
    Mitigation: Enfield, via Energetik, is currently participating in a regulatory Heat Network Zoning pilot project, and will have a significant head start when regulation comes into force, building on the work currently being undertaken.

47. **Construction cost:** aggravated by construction being deliberately slowed to match the delayed delivery of developments.
48. **Mitigation:** enter into contracts sooner where permissible to lock into prices.

Governance

49. Energetik reports to the Council via various formal channels:
    - Quarterly performance reporting
    - 'Client' meetings with Council directors
    - Interdependency board meetings

50. The diagram below outlines the corporate structure of Energetik and identifies the high-level governance and commercial arrangements that have been in place. Energetik is set up as the delivery vehicle. The current arrangement is based on Council led governance reviews to determine the most appropriate structure:



51. **Management structure:** The Board of Directors currently comprises five Directors made up of one Councillor Director, two Non-Executive Directors (NED) from the district heating industry and two executive directors. The Managing Director and the Technical Director (executive) are experienced directors in the delivery and operation of complex heat networks and infrastructure projects of this nature.

52. The day to day business is run by a small but highly experienced in-house management team, which has more than 100 years combined operational, financial and technical expertise in the district and community heating industry, in both the UK and Europe.

Housing Gateway Limited (HGL)

Executive Summary - HGL

53. In February 2014 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 homelessness duties. This was in response to the £3.3m budget pressure facing temporary accommodation in 2014/15, which was predicted to rise to up to £7.8 million if no action was taken.

54. The local authority company – Housing Gateway Limited (HGL) was established in March 2014 and is responsible for the identification of properties; property acquisition; undertaking any necessary renovation to bring the properties up to the required lettings standard and ongoing property management. This was to provide a private rented solution to enable the Council to prevent or discharge its homelessness duties.

55. HGL's owned portfolio has delivered savings of £14.3m against the Councils' temporary accommodation budget

56. HGL's property acquisitions are financed through loans raised via Enfield Council, as well as grants secured from the Government and the GLA. HGL services the loans annually. HGL had an opening debt balance of £133m on 1st April 2024 and following a further drawdown on 25th October currently has a balance of £142m. The underlying book value of the fixed assets totalled £161m at the end of 2023/24.

57. HGL's loan portfolio will be reviewed, with the aim to refinancing loan terms to suit both party's needs. This includes reviewing HGL's internally borrowed position and the impact on a potential dividend to the Council.

58. HGL has historically let all properties at rents no greater than Local Housing Allowance(LHA). HGL will continue to assist residents who cannot readily access private rented (PRS) accommodation by not requiring credit checks, deposit or rent in advance. However, in order to provide a PRS offer in line with the private rented market as a whole, creating fairness and responding to the current changes in the market, HGL's rents were increased to market rent from April 2024.

59. It should be noted that if LHA rates had risen in line with the rents in the private sector, tenants in receipt of benefits would be entitled to benefits equal to the full market rent. HGL's product remains sub-market for purposes of subsidy control as there is not a requirement for a credit check, rent in advance, or a deposit.

60. The October budget announced uplifts to Stamp Duty Land Tax applicable to HGL which affects the cost of property purchases. Options will be reviewed including the leasing of this stock by the Council.

Background

61. HGL's strategic objectives are as follows:

    1. Maximise the financial return (including minimising the nominations fee for TA and Enfield Let) to the Shareholder, contributing to the alleviation of the Council's financial pressures arising from the shortfall in the provision of temporary accommodation, whilst balancing the needs of our residents and condition of housing stock.

    2. Develop Enfield Let, an innovative ethical lettings agency, collaborating with the Council to complete a stock transfer of Temporary Accommodation.

    3. Deliver demonstrably, good quality housing for residents ensuring the portfolio meets decency standards and aligns with the Council's decarbonisation strategy whilst maximising operating surplus.

    4. Review HGL's operating model to ensure that residents in the most need are prioritised and the number of residents who benefit from HGL's stable, affordable accommodation, are maximised.

    5. Ensure effective governance through a board that adopts best practice in governance arrangements and ensuring the retention and renewal of Board members as required

    6. Support the Council's need for specialist accommodation by developing innovative housing solutions.

HGL is an agile business pivoting to alternative activities as appropriate. HGL will be undertaking a strategic review in collaboration with the Council's Housing Advisory Service to ensure resources are well placed to continue driving returns for the Shareholder.

Overview of Council Investment

Capital Programme

62. HGL's capital budget was approved by Council, subject to business case review, on 22nd February 2024, as part of the Council's capital programme (KD5502). The 2024/25 business plan was subsequently approved by Cabinet on 12th June 2024 (KD5725).

63. Actual capital spend is undertaken by HGL and is funded by the Council via repayable loans or GLA/Government grants that are passported on, via the Council. HGLs capital expenditure to date is summarised in the financial performance section below. The table below summarises HGLs total loan balance and loans drawn during 2024/25.

Table 5: HGL's Borrowing position as at 31 Oct 2024

Loan	Start Date	End Date	Interest Rate	Amount Outstanding
PWLB (Refinanced) 2020	01/04/2020	01/04/2095	2.50%	£115,594,767
Long-term Loan 2020.21	31/03/2021	31/03/2071	2.08%	£4,534,068
Short-term Loan 2021.22	01/04/2023	31/03/2024	6.00%	£6,000,000
Short-term Loan 2023-24 (1)	08/02/2024	31/03/2024	6.00%	£5,000,000
Short-term Loan 2023-24 (2)	01/03/2024	31/03/2024	6.00%	£1,500,000
Opening balance 01 Apr 2024				**£132,628,835**
2024-25 activity:				
Drawdown 1 2024-25 (1)	05/07/2024	19/06/2031	4.94%	£4,000,000
Drawdown 1 2024-25 (2)	05/07/2024	19/06/2037	4.94%	£1,000,000
Drawdown 2 2024-25 (1)	25/10/2024	18/09/2034	4.76%	£4,000,000
Drawdown 2 2024-25 (2)	25/10/2024	18/09/2034	4.53%	£1,000,000
Capital Repayments 2024-25				-£323,491
Total 2024-25				**£9,676,509**
Loan balance 31 October 2024				**£142,305,344**

Overview of Company Performance

64. **Business Plan Update:** HGL's 2024/25 business plan was reviewed and approved by Cabinet on 12th June 2024 (KD5725). The business plan covers the 2024/25 period and outlined the strategic objectives for the year and how these will be achieved. An update on the performance against the business plan was taken to the Housing and Regeneration Scrutiny Panel on 21st October 2024.

Financial Performance:

65. Table 1 below provides current year performance of HGL and projected profit and loss for the full year.

Table 1: HGL Core profit and loss projections

	Projected Profit and Loss			
	Budget Period 6 £m	Actual Period 6 £m	Variance Period 6 £m	Year-End Projection £m
Total Net Income	5.86	5.17	(0.70)	10.88
Total Expenditure	(2.51)	(1.81)	0.70	(4.32)
Profit before Interest and Tax	3.36	3.36	-	6.56
Profit after Tax	1.27	1.25	(0.02)	2.34

66. Total income net of bad debt is £0.70m below budget so far this year; this is due to the bad debt provision being £0.58m higher than budget due a larger portion of tenants being unable to pay the market rent top up applicable since

April 2024. . Further to this, fewer properties have been purchased in year, than originally forecast when the budget was created - due to a change in purchasing strategy. The current bad debt provision is £1.5m (increase of £0.7m from 2023/24) and this will be kept under review as we see the pattern of collection during Q3.

67. Bad debts are provided as follows: 100% of former arrears and 50% of current arrears. The strategy to support the company cash flow is currently under review to ensure sufficient liquidity whilst focusing on income collection and where necessary passing cases to the Council where an end of homelessness duty is necessary due to non payment.

68. The underspend on “Total Expenditure” is driven by reduced consultancy and survey costs due to not as many properties being purchased as envisaged. This is as a result of HGL focusing on purchasing properties on behalf of the Housing Revenue Account (HRA) and therefore only purchasing properties via the company if the HRA has declined the properties. The Council made the decision to utilise the competencies and local market expertise built up in HGL to assist the HRA purchase new properties. The HRA benefits from lower borrowing costs and potentially has access to grants to support purchases. Properties are provided to the HRA for first refusal, if they do not fit into the HRA business model then they are accessed by HGL for affordability.

69. There have also not yet been any costs incurred against the incentive to move scheme, where HGL have set aside £0.20m for the year, to assist eligible tenants in moving to private accommodation.

70. HGL has purchased 10 properties with a total value of £2.5m in the first half of the financial year. There are 19 properties in the pipeline, with an anticipated total cash requirement of £5.5m. HGL will continue to add properties to the pipeline as they are appraised as viable.

71. HGL has made a profit of £1.25m in the first half of the year, which is in line with the budget; HGL is forecasting a profit of £2.34m for the year. Where this is supported by cash and is meeting agreed hurdle rates, the company has the potential to provide the council with a dividend at year end.

Enfield Let and Temporary Accommodation

Financial Performance

Table 2 below provides current year performance of Enfield Let and projected profit and loss for the full year.

Table 2: Enfield Let profit and loss projections

72. The Enfield Let (EL) operating arm of HGL, which includes the temporary accommodation stock transfer, is forecasting to break-even by means of the nominations fee. The nominations fee continues to be driven predominantly by the bad debt provision and lease premium payable to landlords. Therefore, any

improvement in the income collection will reduce the level of nominations fee required.

73. The Quarter 2 Temporary Accommodation forecast assumes £7m of nominations payments. There has already been nominations payments of £4.1m for the first six months of this year; if extrapolated this would result in there being £8.2m of nominations payments for this year which would further increase the budget pressure for Temporary Accommodation. However, it is anticipated that that bad debt arrears should reduce due to steps being taken by the income collection team to ensure that all of the tenants are receiving the correct amount of universal credit and other benefits. The nominations forecast will continue to be reviewed on a monthly basis

74. There are a total of 1,626 properties being rented out through Enfield Let; 264 properties through Enfield Let Managed and 1,362 properties through Enfield Let Accredited Agent scheme which represents the Temporary Accommodation stock transfer from the Council to HGL. The Board has agreed that it will take a case by case review of properties under Enfield Let Managed coming to the end of their agreed lease term when landlords are expected to seek an increase in payment. Where this increase results in a deficit the property will be discontinued for use and the Council will have the potential to offer a 10 year lease managed as part of the Council retained TA stock.

75. Total income is £0.040m below budget due to a pause in the temporary accommodation transfer scheme since late June.

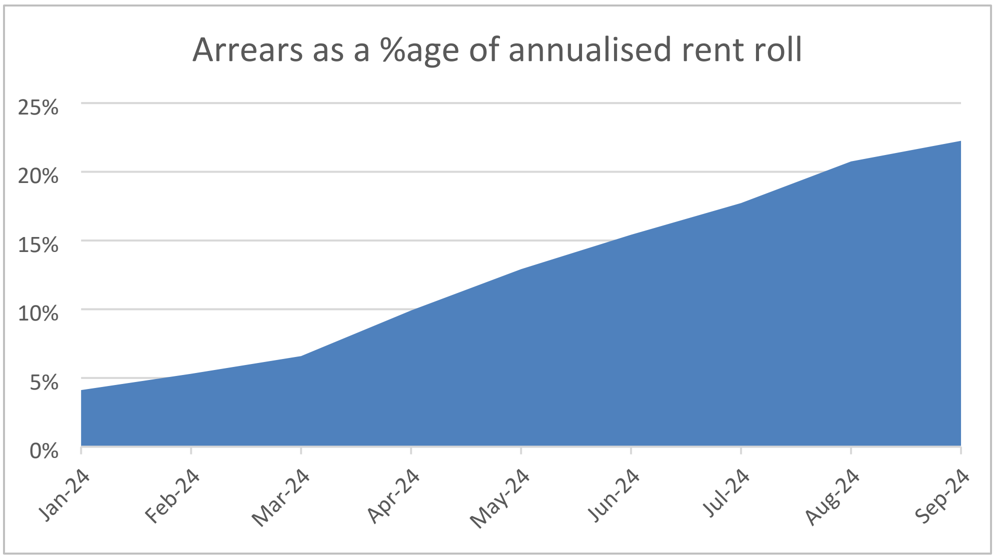
Projected Profit and Loss

	Budget Period 6 £m	Actual Period 6 £m	Variance Period 6 £m	Year-End Projection £m
Total Net Income	14.68	14.28	(0.40)	28.96
Total Expenditure	(14.34)	(14.28)	0.06	(28.96)
Profit before Interest and Tax	0.34	-	(0.34)	-
Profit after Tax	0.25	-	(0.25)	-

Cash and arrears

76. Over the lifespan of the company, HGL has accumulated arrears of £8.8m (HGL £2.4m; EL £6.4m). The move to market rent in April 2024 is estimated to have contributed £2.2m (25%) of this. Total arrears related to TA represent £5.3m (60%) of the total and have accumulated since the scheme's inception in August 2023. Due to the high level of arrears, at the end of September HGL is carrying a total bad debt provision of £5.0m (HGL £1.5m; EL £3.5m). Of this total provision £3.5m (HGL £0.7m; EL £2.8m) has accumulated during 2024/25.

77.



78. HGL has been focussing on rent collection levels and processes, as this is a key driver of business efficiency. Historically HGL has always had excellent collection rates with arrears at around 5% of annual rent roll. However, since the introduction of market rents and the transfer of temporary accommodation stock, which has meant tenants have moved from Housing Benefit to Universal Credit with a different payment approach and cycle, income collection has been more challenging. Total arrears for current and former tenants as at September 2024 are now at 18% - 26% of the anticipated annualised rent roll for 2024/25, based on the current portfolio, depending on the housing product. The implementation of Civica has also had an impact on accurate management information and this is being reviewed at present.

79. These arrears have a direct impact on HGL's cashflow which is being closely monitored. The cash balance as at the end of September 2024 is £3.04m. Cash flow management is being prioritised as it is a key risk to financial health. This is monitored on a weekly basis with operational meetings taking place with key stakeholders from both HGL and LBE. In addition, the bad debt and impact on cash flow is reported to the HGL Finance Committee on a monthly basis. The finance team are regularly monitoring the cashflow position. It has been agreed that the nomination fee will be paid 3 months in advance going forward to reflect the changing nature of the cash flow.

80. In addition HGL will proactively seek to access the working capital facility which the Council has set up for HGL to be able to utilise in case of cash flows

not coming through in the expected timescales. Cabinet has delegated approval to access this cash flow facility to the Executive Director of Resources.

81. The Council's Income Collection Team, who deliver this service to HGL, have created a recovery plan, and are focussed on improving collection rates. Risk to this recovery plan is capacity within the Income Collection Team and effective join up with the Housing Advisory Service It is important that there is join up on income collection, tenancy management and homelessness rules to ensure the right strategy is taken with each tenant and that operational resources are deployed to best effect.

Capital expenditure.

82. HGL has a capital programme agreed by the Shareholder as detailed below.

	2024/25	**2025/26**	**2026/27**	**Total**	**Funded by Borrowing**
	£m	**£m**	**£m**	**£m**	**£m**
Capital Budget	29.4	35.9	17.0	82.3	82.3
Actuals at Sep 24	4.3	0.0	0.0	0.0	4.3

83. The Council continues to keep the purchasing programmes under review and every property in the pipeline will be subject to a review as to whether it is most efficient to finance it via HRA (for temporary accommodation) or HGL (for Private Rental Sector properties and/or TA). For this reason the actual capital expenditure for HGL differs from the plans projected in the Business Plan although it is expected that there will be more capital acquisitions by HGL in the second half of this year. HGL has drawn down £5m from the 2024/25 capital loan facility on 25th October 2024, this will finance ongoing and historic capital expenditure and includes a pipeline of 19 properties which are expected to be purchased in the next 3 months.

Dividends

84. HGL's projected profits in 2024/25 could be used to pay a dividend to its shareholders, if the HGL board decides that it is in the best interest of the company and its stakeholders.

85. In considering an approach to making dividend payments the HGL Board has developed a financial framework to ensure a sustainable financial position.

86. This framework includes:

(i) Holding a desirable (usable) reserve level, based on total risk factors of £1.3m and
(ii) Maintaining a minimum cash balance, at the same level, £1.3m for 2024/25

87. There are several factors which will impact the company's ability to pay a dividend including the arrears position and nominations fee. HGL and the Council will work collaboratively to minimise the impact of these factors.

Key risks identified

88. If the income collection rate and recovery of arrears do not improve as expected, following the income collection recovery plan, then HGL's cash position will become increasingly distressed. This will severely impact the company's ability to service its debt.

89. Further to this any further crystallisation of bad debt will impact on the profit projections outlined in this report. This would cause an increase in the nomination fees payable by the Council.

90. If property values substantially reduced, the company's asset base and balance sheet would reduce, and HGL may not be able to raise sufficient cash to repay its Council debt should the Council seek to dispose of its HGL Loan portfolio.

91. Rising interest rates will make new debt (to fund acquisitions) more expensive and reduce future profits and dividend opportunities. Current debt remains fixed at relative low interest rates.

Governance

92. HGL has a board of Directors who report to the sole shareholder, Enfield Council. The Chair of the HGL board is a Council appointed Councillor, from November 2024 this is Cllr Josh Abbey.

93. In addition, HGL has two committees; Finance and Investment, which govern the company's financial and investment decisions. The operational activities of the business are reported on to the board of Directors via regular board meetings and to the Shareholder via a quarterly report.

Preferred Option and Reasons For Preferred Option

94. This report is reporting on performance to date in the current financial year,

Relevance to Council Plans and Strategies

95. Energetik: in line with Enfield Council's Vision to make Enfield a better place to live and work, delivering fairness to all, growth, sustainability, and strong communities, Energetik provides the Council with the opportunity to reduce carbon emissions as properties and businesses connect over time.

96. Energetik shares the Council's values and principles and is working to improve Enfield for the long term. The company's activities play a key role in creating good homes in well-connected neighbourhoods and supports the borough's ambitious regeneration and housebuilding programme through its provision of an environmentally friendly heat source.

97. HGL (including Enfield Let): More and better homes in Well Connected Neighbourhoods. An opportunity for us to develop homes and neighbourhoods for people on different incomes, which help people of all ages live healthier and more environmentally sustainable lives.

Financial Implications

98. Financial implications are citied throughout the report. In general, loans advanced to Enfield Companies are accounted for in two ways. Firstly, interest and capital repaid to the Council's Lender(s). Interest is then charged to the Corporate Debt Management Budget. Capital repayments reduce the Councils debt liability on its balance sheet and reduces cash balances. And secondly, interest collected from Companies is recorded as interest income, which is used to offset the Council's debt costs. All interest is recognised in the Comprehensive Income & Expenditure Statement and in the respective accounting period. Company loans are recorded as long-term debtors on the Council's balance sheet and capital repayments received from Companies are used to reduce the long-term debtor.

99. Loan capital payments received from Companies are regarded as equivalent to the Minimum Revenue Provision (MRP) charge, in accordance with current capital finance regulations. Current MRP Regulations allow for loan repayments received from Council companies to be treated as the equivalent MRP charge for the respective year. Therefore, the Council is not required to set aside any MRP to cover the loan.

100. In the event of an Enfield Council Company being unable to make a scheduled loan repayment in the relevant financial year, the impact would firstly be a higher Council overall debt interest charge, resulting in an overspend against budget, creating a revenue pressure. Secondly a cashflow risk resulting in the Council's Treasury Management Team having to cover the incoming payment by borrowing from the capital markets, a cost that is not reflected in the loan rate. And thirdly the Council would be required to make an MRP charge to cover the loan repayment, creating an additional revenue pressure.

101. Energetik- The Council will be funding the working capital facility of £3.5m from General Fund Balances, as the facility is required to support operational costs and cannot be financed from debt. There will be an accounting charge of up to £0.5m to comply with the IFRS 9 and determine an accounting adjustment 'expected credit loss' for 2024/25. The charge will impact the General Fund balances in 2024/25. For clarity, the Council's central estimate is that all loans will be repaid in full.

102. HGL- The Council makes MRP payment on the HGL equity as this was financed by Council borrowing. No MRP is paid on the Energetik equity investment as the investment was financed by a Central Government grant.

Legal Implications

103. The Council has the power 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. Further statutory powers exist for the Council to establish and invest in its companies, and Section 1 of the Local Government Act 2003 permits the Council to borrow and lend (subject to complying with the Prudential Code for Finance in Local Authorities). When taking decisions to invest in the companies, the Council must have proper regard to its fiduciary duty to act prudently with public monies.

104. In its dealings with the companies, the Council must be mindful of its different roles – for example, shareholder, lender, commissioner - and understand the parameters and responsibilities of each. When taking actions as shareholder, it must comply with the relevant provisions of the Companies Act 2006.

105. When supporting the companies, the Council must also ensure compliance with the Subsidy Control Act 2022 and should seek legal and financial advice on a regular basis.

Equalities Implications

106. There are no direct equalities implications as the report is primarily about reporting on performance of each Council company and Council, as the Shareholder. Direct equalities implications as relevant are detailed in respective individual Company reports .

Environmental and Climate Change Implications

107. There are no direct environment and climate change implications as the matter is primarily about reporting on performance of each council Company and Council, as Shareholder, exposure. Direct environment and climate change implications are detailed in respective Council reports.

Property Implications

108. There are no direct property implications as the matter is primarily about reporting on performance of each council Company and Council, as Shareholder, exposure. Property implications are detailed in respective Council reports.

Report Author: Ravi Lakhani
Head of Pension Investments

Appendix A- **Part 2 Private & Confidential** – Energetik Half year financial performance