

<b>TITLE OF REPORT - CAPITAL LETTERS</b> <b>Key Decision No – FCR Q.63</b>	
<b>CABINET MEETING DATE (2019/20)</b> 16 March 2020	<b>CLASSIFICATION:</b> Open <b>If exempt, the reason will be listed in the main body of this report.</b>
<b>WARD(S) AFFECTED</b> all wards	
<b>CABINET MEMBER</b> Cllr Rebecca Rennison Deputy Mayor and Cabinet Member for Finance, Housing Needs, and Supply	
<b>KEY DECISION</b> Yes <b>REASON</b> Spending/or saving	
<b>GROUP DIRECTOR</b> <b>Ian Williams, Finance and Corporate Resources</b>	

## **1. CABINET MEMBER'S INTRODUCTION**

- 1.1. The housing crisis means that in Hackney we now have over 3,000 homeless households living in temporary accommodation, all of whom are looking for a settled home.
- 1.2. Traditionally this need has been met via the provision of social housing. However with 13,000 people on the Housing Register and only 660 social lets taking place in 2018/2019 this is an option for fewer and fewer of our homeless residents.
- 1.3. The alternative solution is to support residents into private rented sector accommodation. However, we need to ensure any accommodation we find is affordable to residents and this is increasingly challenging due to property and rental prices in Hackney and across London.
- 1.4. Capital Letters is a pan-London initiative supported by Ministry of Housing, Communities and Local Government (MHCLG) funding, designed to collaboratively procure new properties on behalf of London boroughs.
- 1.5. The company utilises MHCLG funding and the collective procurement power of its member boroughs to alleviate competition and dampen the costs associated with procurement. This in turn will result in more properties being secured for homeless Hackney families at a reduced cost.
- 1.6. This report asks the Cabinet to approve the decision to allow the borough to become a member of Capital Letters (London) Ltd. Capital Letters (London) Ltd. is a not-for-profit Company Limited by Guarantee. Boroughs will become members of the company in order to participate in and benefit from its activities and access the MHCLG funding.

## **2. GROUP DIRECTOR'S INTRODUCTION**

- 2.1. Capital Letters is a joint endeavour between boroughs to reduce costs on temporary accommodation and create improved outcomes for families. This is done via jointly procured supply of accommodation, and outsourcing management.
- 2.2. The housing pressures on low income households in London have perhaps never been higher, and a more coordinated effort is required from Councils across London to source an improved supply of suitable accommodation to meet demand. During 2018, London Housing Directors and London Councils worked on a model which would enable better outcomes for homeless / at risk households and for councils. The result of which was the establishment of Capital Letters, which this report outlines, making a recommendation that Hackney should join.
- 2.3. The establishment of Capital Letters is being supported by MHCLG using top sliced Flexible Homelessness Support Grant, to alleviate the costs to boroughs of providing accommodation and to encourage greater efficiency, and provide extra staffing, IT and other resources to increase supply and improve the service offered to both tenants and landlords.

- 2.4. By removing unhelpful competition and duplication of effort, and by providing an organisation to represent all the London boroughs, it is intended to offer a simpler and more straightforward interface for landlords, managing agents and developers anywhere in London who are able to provide properties for those families and other households most in need of accommodation.
- 2.5. Capital Letters collaboratively procures new properties on behalf of London boroughs supported by the MHCLG top-sliced grant contribution to incentive payments and on a pan-London basis. In addition to the top-slice the pan-London procurement will have a deflationary effect on procurement and allow a more rational allocation of supply across London, allowing households to be moved for shorter distances.
- 2.6. Member boroughs will also be able to transfer existing properties into Capital Letters, which as a private landlord will be eligible for 100% Local Housing Allowance (LHA) from the Department of Work and Pensions, which on average across London is £35p.w. higher than the current rate for borough let TA, which is currently 90% of 2011 LHA levels. Boroughs will also be able to convert often expensive nightly paid accommodation where appropriate.
- 2.7. Capital Letters will grow in phases, with the initial 13 boroughs joining in 2019, followed by phase two one year later, and eventually including, if not all, then the clear majority of London boroughs. As the number of members increases Capital Letters' ability to control the market and dampen costs associated with homeless accommodation will increase exponentially.
- 2.8. Properties procured by Capital Letters are a mixture of Private Rented Sector properties let by the property owner to households nominated by the boroughs, and properties leased directly from landlords or from managing agents.
- 2.9. The majority of accommodation will be settled accommodation to prevent homelessness or end a homelessness duty, and the intention is to achieve a significant reduction in the use of Temporary Accommodation by the London Boroughs, who may also transfer properties currently leased as temporary accommodation to Capital Letters to let as settled private rented sector accommodation.
- 2.10. Capital Letters was established as a Company Limited by Guarantee, wholly owned by the member boroughs in December 2018. The CEO and Director of Finance & Resources commenced in post in June 2019, with the Director of Operations completing the Executive Team at the beginning of December. Since August 2019, current member Boroughs have been seconding their procurement staff to Capital Letters on a phased basis. At the same time, Capital Letters has been actively recruiting its directly employed team, which includes Housing Negotiators, "head office" support staff, tenancy sustainment team and a PR & Communications Manager (starting in post in December).
- 2.11. The Borough Representative Body (BRB) approved the appointment of Directors to the Board in March and May 2019, and approved Directors Appointment Policy. Capital Letters' Articles of Association has provision for up to 12 Directors. Currently, the BRB has set the number of Non-Executive Directors at 10, with provision to review this as more boroughs join the company. The Board membership currently comprises 7 Non-Executive

Directors who are officers of member boroughs and three independent Non-Executive Directors.

- 2.12. It was planned that the company would be operational from July 2019. Delays with the appointment of the Executive Team, secondment of staff and recruitment of directly employed staff resulted in agreement with MHCLG to amend the first year targets; this does not affect the year three targets which remain the same. The company is now fully operational.
- 2.13. By the end of the third year of operation it is envisaged that Capital Letters will have a staff complement of around 240 officers and an annual income of £120m. By this stage it will have secured some 20,000 additional properties to help prevent and tackle homelessness, and will have an estimated 11,000 properties either fully or partially under its management.
- 2.14. This report asks the Cabinet to approve the decision to allow the borough to become a **member** of Capital Letters (London) Ltd. Capital Letters (London) Ltd. is a not-for-profit Company Limited by Guarantee. Boroughs will become members of the company in order to participate in and benefit from its activities and access the MHCLG funding.

### **3. RECOMMENDATION(S)**

- 3.1. Note the £38 million over three years committed by MHCLG specifically for pan-London collaboration on the procurement of accommodation for homeless households
- 3.2. Approve the decision to join Capital Letters (London) Ltd, a Company Limited by Guarantee established by the London boroughs, as a **member**. This will procure or lease accommodation for the benefit of those London boroughs that become members of the company
- 3.3. Note Capital Letters' governance structures including the Borough Representative Body on which all boroughs are represented and the Board of Directors whose appointment is made in accordance with the Directors Appointment Policy.

### **4. REASONS FOR DECISION**

- 4.1. The decisions recommended are required to join the company and participate in the collaborative procurement approach and to access the MHCLG funding.
- 4.2. The estimated aggregate financial benefit of the proposals to London Boroughs are significant plus potential savings on changing how placements are made and reduced repeat homelessness through tenancy sustainment. It will also build on the effective work through the Inter Borough Accommodation Agreement (IBAA) which has led to reduced spending through rate sharing and the application of a cap on rates paid for certain accommodation. Capital Letters is required to work within this system, and provides further opportunities to rationalise and secure efficiencies in the procurement of accommodation for homeless households.
- 4.3. Benefits to Hackney of joining Capital Letters now that it is operational:

- 4.3.1. Capital Letters has been set up in a number of phases, meaning that not all boroughs were required to join first. There are a number of reasons why it would be advantageous for Hackney to be part of the second wave of boroughs which are anticipated to start operations in April 2020 or shortly thereafter.
  - 4.3.2. Capital Letters is no longer a leap of faith but a proof of concept. The first phase boroughs have worked closely with the Capital Letters team to obtain agreement on key documents such as the Secondment Agreement, Service Level Agreement and incentive packages, and to develop working processes and procedures. As a result, Capital Letters is fully operational, with all processes and procedures in place and a functioning IT system which means the second phase boroughs will benefit from the opportunity immediately on joining.
  - 4.3.3. Although the grant for incentive payments reduces in year two, because the operational arrangements are all in place, the second wave boroughs are likely to achieve similar levels of grant to top slice these payments due to the higher numbers of properties that will be procured during the year.
  - 4.3.4. Boroughs who do not join Capital Letters will still have properties procured by Capital Letters in their area. Although Capital Letters will abide by the agreed IBAA rates, there is nevertheless a significant risk that landlords and agents will prefer to work with Capital Letters than within individual boroughs because of the profile it is developing, and because of the more streamlined ability to let properties across London with one organisation than with a number of different boroughs, all with slightly different terms and conditions and different personnel.
- 4.4. The creation of Capital Letters means Hackney will be able to secure more PRS and leased properties in London within or close to Hackney thus reducing the need to place families in B&B and hotel annexes, in distant areas of London or outside London altogether. It would be better to secure these benefits sooner rather than later.

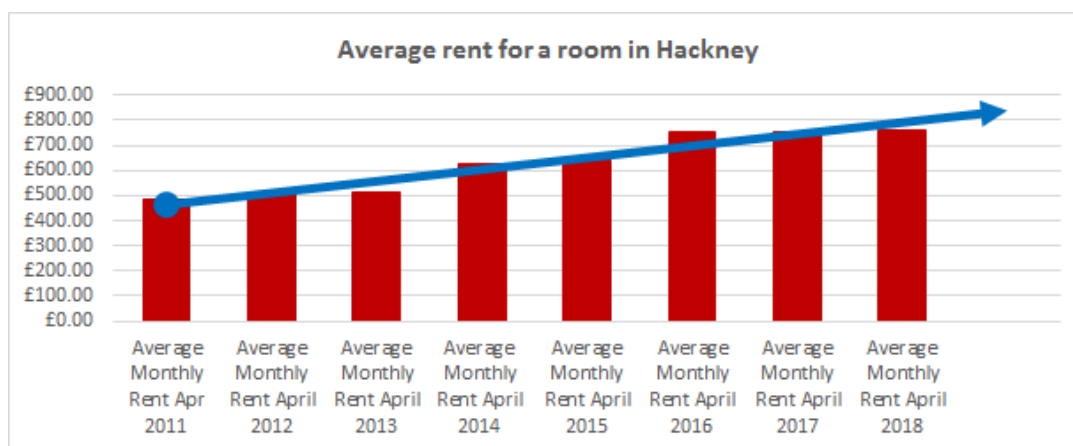
## **5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 5.1. There is the option not to join the company in the second phase. This would result in a lost opportunity to access MHCLG grant funding, alleviate the costs to boroughs of providing accommodation, to increase the procurement of leased temporary accommodation and move away from expensive nightly paid temporary accommodation and to enable the placement of households closer to home.
- 5.2. Membership of Capital Letters would mean that at least 50% of the Council's procurement activity for accommodation for homeless households would have to be undertaken by Capital Letters (excluding nightly paid and out of London properties). Members will also receive MHCLG subsidy for newly procured

properties. Membership would give the Council influence over the strategic direction of the company.

## 6. BACKGROUND

- 6.1. Over the past 20 years Hackney has witnessed the largest increase in property values anywhere in the UK, driven by significant local regeneration and a thriving local economy. Property prices in the borough have risen by 753% (compared to a 402% increase in property prices across London, and 236% nationally).



- 6.2. This is being similarly reflected within the Hackney rental market; new households attracted to the area have led to an increase in demand. Consequently this has driven up rents in the locality by an average of 47% since 2011, with landlords increasing rental charges to take advantage of the new level demand or cashing in on their portfolio by selling to property developers, who are in turn breaking larger units into smaller dwellings.
- 6.3. With the private sector becoming increasingly unaffordable and the social sector unable to cope with demand, homelessness in Hackney is increasing rapidly. The number of households in temporary accommodation (TA) in Hackney has more than doubled in 6 years with over 3,000 households living in TA provided by Hackney.
- 6.4. The loss of private accommodation is now one of the biggest drivers for homelessness applications – rent inflation driven by the improved local economy means that welfare support/housing benefit is no longer bridging the gap between what can be afforded and what can be achieved in the open market. Benefit households are being replaced by more affluent households taking shorter tenancies and able to pay the higher rent.
- 6.5. It continues to be a struggle to find affordable accommodation to house these households. In December 2018, 115 families placed by Hackney had been living in bed & breakfast accommodation for more than 6 weeks, in breach of

the statutory requirements; while another 925 have been placed outside the borough. There were over 12,300 households on the waiting list and just over 1,000 social housing properties were let.

- 6.6. Net expenditure by the Council on the provision of TA exceeded £7 million in 2017/18; 7 times more than was spent 5 years ago.
- 6.7. The Council's Housing Supply Team are responsible for procuring private rented properties for TA households or to discharge households into the private sector, and they have been finding it increasingly difficult to secure properties. The table below shows performance over the last two years.

<b>Year</b>	<b>PRS</b>	<b>Leases (new &amp; renewal)</b>
2017/2018	38	68
2018/2019	88	20
2019/2020 (up to end of Jan)	108	27

- 6.8. Capital Letters (CL) is a new Pan London initiative supported by London Councils and London Housing Directors, which will seek to help increase the supply of affordable privately rented properties in Hackney, by working collaboratively and avoiding competition between London Councils for the same privately owned properties.
- 6.9. The immediate background to this work is the increasing burden of homelessness and the resulting provision of TA and prevention placements. In March 2019, there were 84,740 households in TA nationally across England, an increase of 76% since March 2011. 66% of these households are placed by London boroughs.
- 6.10. The cost of providing TA in 2017/18 (£997 million) accounted for almost three quarters of the total cost of providing homelessness services nationally (£1.39 billion). London boroughs spent £757 million providing TA in 2017/18, more than three quarters of the national spend on TA. (£915 million spent on homelessness by London boroughs).
- 6.11. In recognition of this MHCLG has allocated £38 million over three years, top sliced from the Flexible Homeless Support Grant (FHSG). As a minimum they have agreed to fund the first phase of the project. It is hoped that they will also fund the second phase, but bidding for this will take place in the next spending review and therefore they are unable to provide a definitive position on the funding.
- 6.12. MHCLG funding is being used in the following three ways:
  - 6.12.1. Contribution to Private Sector Leases (PSL).
  - 6.12.2. PRS placement incentive.

- 6.12.3. Central cost contribution, e.g. for additional procurement staff, tenancy sustainment staff, IT and premises.
- 6.13. Capital Letters have put in place a business plan up to 2022 to ensure the company is sustainable if no further funding is obtained from MHCLG after the initial 3 years.
- 6.14. Participating boroughs who become members of Capital Letters will initially second staff from their procurement teams performing this function or provide funding to Capital Letters<sup>1</sup>. This will allow the existing skills, expertise, local knowledge and client relationships held by those officers to be absorbed into Capital Letters.
- 6.15. The activity of seconded staff continuing with the procurement activities they were previously undertaking for their borough, will be supplemented by approximately 50 additional staff employed directly by Capital Letters by year 3. It is anticipated that this will lead to 4,300 additional properties within Greater London being procured in the first three years.
- 6.16. Boroughs will be allocated at least as many properties over the first year as were procured by the staff it seconds in the previous year. Any additional properties would be allocated to the participant boroughs in proportion to the staff resources they have contributed through secondment or funding of staff recruited directly by Capital Letters. Subject to meeting borough minimum allocations, and fair distribution of additional properties, all properties should be allocated as close to host boroughs as possible, also taking into account the provisions of the homelessness suitability order as they apply to individual households. This should mean that a much smaller number of households have to move a long distance from their home borough than is currently the case.
- 6.17. The company is funded by a combination of MHCLG grant, rents from tenants and top up payments from member local authorities. These are the payments that are already made by local authorities, for example through Discretionary Housing Payments (DHP) or other existing budgets when Local Housing Allowance (LHA) rates do not cover full rent. They will be made lower for local authorities as a result of the MHCLG subsidy thus reducing costs for the boroughs.
- 6.18. The company has been established as a private company limited by guarantee, owned and managed by the boroughs who constitute limited liability members of the company. The liability is limited to £1. It will also be Teckal compliant.
- 6.19. The activity of the company is being supported by a digital Property Listing Platform (PLP). A specification for this IT system was tendered in 2018 and a company appointed to develop the system. LB of Ealing led on the procurement of this PLP on behalf of the company. The system is now

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<sup>1</sup> Boroughs do not have to second staff and some of the current 13 members have not done so. The alternative arrangement is for the borough to provide an annual budget to cover salary & on-costs so that Capital Letters can recruit and directly employ staff on their behalf.



operational and allocating properties to existing member boroughs.

- 6.20. The timescale for programme delivery assumed the new company was established in April 2019, with a first wave of boroughs joining then and a second wave of boroughs joining in April 2020. Operational service delivery commenced in September 2019 once the secondment agreement was signed off by current member boroughs, and in agreement with MHCLG.
- 6.21. The Capital Letters' governance process requires the second wave of boroughs to secure internal approval to join the company by mid-March 2020 so the Borough Representative Body can confirm their membership at their meeting on 23 March 2020. However, the actual date of implementation will be designed to suit Hackney's internal timescales and operational arrangements.
- 6.22. Therefore, the Cabinet is asked to approve that Hackney joins the company with effect from 1 April 2020 (or shortly thereafter).
- 6.23. A minimum condition of being a member of Capital Letters is that at least 50% of the annual supply of new non-emergency accommodation for homeless households for that borough is provided by Capital Letters in the first year. This is a minimum requirement; many boroughs will put through a higher percentage of their supply.

## **7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES**

- 7.1 This report seeks approval to join Capital Letters as a member from April 2020. Capital Letters was established in December 2018 as a Company Limited by Guarantee, wholly owned by the member boroughs. The purpose of Capital Letters is to reduce costs on temporary accommodation by implementing a more coordinated and collaborative approach from London Boroughs to the procurement of accommodation, thereby being able to exert more influence on the market and reduce price inflation caused by boroughs competing with each other.
- 7.2 Capital Letters is supported by a grant from MHCLG, allocated from the Flexible Homelessness Support grant, with £37.8m of funding allocated between 2018/19 up to 2021/22. This funding enables the setting up and operation of the company, and its primary purpose - incentives to private sector landlords for the accessing of either Private Rented Sector (PRS) or Private Sector Leased (PSL) units (see below for further detail) for residents that would otherwise remain in temporary accommodation.
- 7.3 The Capital Letters business plan requires the secondment of housing procurement staff from boroughs, or alternatively member boroughs provide funding for procurement staff at a cost of £50k per post to cover costs of basic salary, NI, Pension. Initially Hackney plans to second or fund 1 post. Based on past performance, it is anticipated that this officer would be able to procure a higher number of properties as part of Capital Letters than the current numbers

procured by Hackney Procurement team. There are vacancies that could be used to fund the post within Capital Letters.

- 7.4 One of the most significant cost drivers in securing private rented sector (PRS) properties is the payment of incentives to landlords which can be several thousands of pounds per property. It is anticipated that by joining with other boroughs to jointly procure properties there will be an opportunity to reduce these costs which have been rising as boroughs compete to secure tenancies and reduce the costs of temporary accommodation. Joining at this stage will also enable us to access the MHCLG funding to reduce incentive payments further.
- 7.5 It is difficult to quantify potential cost savings as this is dependent on the number of PRS properties procured and the level of incentive payments set. It is estimated that if procurement targets are achieved a reduction in costs of £100k pa could be made on incentive payments initially. Longer term, it is hoped that some of the PRS properties will become sustained tenancies enabling more settled accommodation and providing better outcomes for residents as well as reducing costs to the council of temporary accommodation.
- 7.6 Any member may cease to be a member of the company upon giving 6 months notice in writing as prescribed in the members agreement.
- 7.7 Capital Letters is a private company, and limited by guarantee. Hackney's financial liability is therefore limited to £1 with no tax implications for member Boroughs. Capital Letters has to pay Corporation Tax, although it will be seeking charitable status in due course which will mitigate this.

## **8. COMMENTS OF THE DIRECTOR, LEGAL & GOVERNANCE**

- 8.1. This report is before Cabinet as the use of Trading Powers under the Localism Act 2011 and setting up of Companies in any service area for the first time is a decision reserved for the Mayor and Cabinet to make under the Mayor's Scheme of Delegation dated January 2017.
- 8.2. The "general power of competence" under Section 1 of the Localism Act 2011 gives the Council the power "...to do anything that individuals generally may do" which includes the creation and operation of companies such as Capital Letters (London) Ltd. The power is not limited either by the need to evidence a benefit accruing to the local authority's area, or in geographical scope. The benefits of joining this Company are well rehearsed in this report and Members will note that the Council's financial liability is limited to £1.
- 8.3. The Members' Agreement, as attached at Appendix 2, regulates the relationship between the different local authority Members and the Company. This Company is a *Teckal* company fulfilling the conditions set out in Regulation 12(4) of the Public Contracts Regulations 2015 and, as such, it is a body governed by public law as defined in the Public Contracts Regulations 2015.

- 8.4. Should Members approve the recommendations made within this report then officers should instruct Legal Services to conclude the necessary legal documentation.

## APPENDICES

**Appendix 1 – Capital Letters’ Articles of Association**

**Appendix 2 – Members Agreement**

**Appendix 3 - Operational Establishment**

**Appendix 4 - Summary Business Plan**

**Appendix 5 - Key Milestones**

**Appendix 6 - Allocations**

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