

# CAPITAL LETTERS

**Business Plan**  
2019-2022



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## Executive Summary

This Business Plan sets out the purpose and ambition for the new Capital Letters company. The company is being established to pool the procurement activity of member London Boroughs to access an improved supply of good quality accommodation, to prevent and relieve homelessness, and where necessary, to source temporary accommodation.

The housing pressures on low income households in London have never been greater, and a more co-ordinated effort is embodied in this proposal to source an improved supply of suitable accommodation to meet demand. The establishment of Capital Letters is being supported by Ministry for Housing, Communities & Local Government, using £38m of Flexible Homelessness Support Grant. The purpose of the investment is 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.

The primary objective is to increase supply from the Private Rented Sector (PRS). Additionally, further objective of Capital Letters is to reduce the use of nightly let and paid temporary accommodation, and also to ensure that properties are allocated more locally than is currently the case.

By removing unproductive competition and duplication of effort between London Councils, and by providing an organisation to represent all the London boroughs, it is intended to offer a simpler and more straightforward interface for London's landlords, managing agents and developers able to provide properties for those families and other households most in need of accommodation.

It is intended that Capital Letters will grow in phases. For its launch in March 2019, 13 Councils have committed to the company. It is anticipated that this will grow to include if not all, then the majority of London boroughs.

Properties procure by Capital Letters are expected to be a mixture of Private Rented Sector properties let by the property owner to households nominated by the boroughs, and properties leased directly by Capital Letters from landlords or from managing agents.

The majority of accommodation will be settled accommodation to prevent homelessness or end a homelessness duty. The intention is to achieve a significant reduction in the use of Temporary Accommodation by the London Boroughs.

Additionally, the boroughs may also transfer properties currently leased by councils (as temporary accommodation) to Capital Letters to let as settled private rented sector accommodation.

By the end of the third year of operation it is envisaged that Capital Letters will have a staff complement of around 265 officers and an annual income of £147m. By this stage it will have secured almost 21,000 additional properties to help prevent and tackle homelessness and will have an estimated 2500 properties either fully or partially under its management.

## 1. The Housing Challenge in London



London has for many years been an area of above average housing pressures, where it can be very difficult for households on low incomes to afford a home. This situation has accentuated over recent years as the London economy has performed well, and house prices have continued to climb. Since the welfare reforms of 2011 Housing Benefit support has not kept pace with rising rent levels and this has led to increasing difficulties for the London boroughs to deal with rising homelessness pressures. This has divided the PRS market into welfare supported and non-welfare supported sectors. Costs in the welfare supported sector have been capped with Local Housing Allowances. This can be seen in a number of published statistics.

- The number of homeless households whom London boroughs have accepted a duty to assist rose by 95% between 2010 and 2016 before falling in 2017. This could possibly reflect real, underlying change – e.g. resulting from the mass displacement of lower income tenants from parts of London that welfare reform measures have made unaffordable for benefit recipients.
- The use of Bed & Breakfast accommodation for homeless households has almost tripled between 2010 and 2017, and the use of expensive self-contained Nightly Paid accommodation (aka Annexes) has multiplied by more than five times over the same period.
- The total use of Temporary Accommodation by London boroughs has risen from a low of 35,620 households in 2011 to 54,370 households containing over 87,000 children at the end of 2017.
- Around 360,000 children under 16 in London, or 22% of the total, live in households that are considered overcrowded according to the bedroom standard, compared to around 1.1 million (11% of the total number of children) in England as a whole.
- A fifth of households in London are either sharing their accommodation with another household or include a ‘concealed family’



- 7,484 people were seen sleeping rough in London in 2017/18

The Greater London Authority's (GLA's) estimate, based on a continuation of recent trends in the number of households both accommodated in and leaving Temporary Accommodation and the withdrawal of some existing providers from the market, suggests that boroughs may need in the region of 50,000 tenancies for homeless households over the next four years.

This is without taking into account the additional requirement for boroughs to support a wider range of households as a result of the Homelessness Reduction Act.

Although there is some evidence of a short term cooling in the London property market compared to the trend of the last several years, this is unlikely to be more than temporary. This level of supply is likely to come at increasing cost to boroughs. A London Councils commissioned study found that London Boroughs covered a quarter of the total cost of TA to in 2014/15 (£170 million of £663 million) from their General Funds. The net cost of temporary accommodation to local authorities across England is estimated to have tripled between 2009/10 and 2015/16<sup>1</sup>.

It is also probable that without Capital Letters, the use of out-of-borough and out-of-London placements will rise further.

According to the Care Place data collected from London boroughs, 56% of recorded placements of homeless households by London boroughs into self-contained 1-bed or larger accommodation in 2016/17 were already out of borough. This includes 11% outside London, so 45% of such placements by London boroughs in 2016/17 were in other London Boroughs.

The vastly increased use of nightly paid accommodation over recent years as homelessness pressures have mounted is a particular concern. Whilst some flexible use of short term accommodation may have a place, for example to accommodate a household whilst an assessment of their circumstances take place, much of the nightly paid accommodation used by the London boroughs is in practice let on a long term basis at a premium price level which would only be appropriate for a short term let. In addition, the accommodation is sometimes (though by no means always) of lower quality than would be required for leased accommodation or settled PRS accommodation.

### Benefits to Households in Need

It is widely understood that the shortage of affordable accommodation in London has the sharpest impact on households on low incomes. Such families and single people are often either unable to secure accommodation when they are forced to leave accommodation by friends or family, or to secure rented accommodation with the aid of Housing Benefit but are vulnerable to eviction and homelessness if their landlord decides to end their tenancy.



It is the job of Councils to assist such households by seeking to prevent or relieve homelessness and if necessary, to provide accommodation themselves. However, the same

<sup>1</sup>

[ur Homeless Households - LGA July 2017](#)

housing pressures have made it increasingly difficult for councils to provide the support they would wish to, and too many households facing a homelessness crisis have to spend too much time in emergency accommodation or face moves away from their schools, jobs and support networks.

In many cases stays in Temporary Accommodation can last for many years.  
Capital Letters will improve outcomes for households in this situation by:

- Increasing the supply of accommodation councils can use to house them
- Reducing the use of emergency nightly paid accommodation, including the use of B&B and hotel annex accommodation
- Allocating properties as locally as possible and minimising the disruption to education, employment and support which goes with out of area moves
- Providing an integrated and professional tenancy sustainment function across London to ensure that moves into private rented accommodation are made successfully and that there is help available for tenants who encounter future difficulties
- Increasing the amount of accommodation used for homelessness prevention and reducing the number of households who have to go into temporary accommodation

## 2. The Company

### Purpose

The primary purpose of the company is to make a provide substantial additional supply of accommodation to participating London Boroughs in order that the boroughs can:

- Provide good quality settled accommodation for homeless households
- To provide good quality rented accommodation to prevent statutory homelessness
- To enable London Boroughs to reduce reliance on temporary accommodation and where that temporary accommodation is required to ensure that it is provided in a cost-effective manner i.e. a significant reduction in nightly let accommodation.

Capital Letters is being established by 13 London boroughs initially, with the support of the MHCLG and London Councils. It is intended that more London boroughs will become members of the company in future phases, so that Capital Letters will become the main source of private sector accommodation to prevent and relieve homelessness in London.

The company enables the London boroughs genuinely to act together in procuring accommodation to tackle homelessness, rather than competing with each other for accommodation across London. By pooling resources and sharing expertise, Capital Letters will provide a better service to both Private Sector Landlords and Tenants. It will make more efficient use of resources and become a more significant participant in the London Housing market. The company will achieve better value for money for the public purse in accommodating households who are homeless or at risk of becoming homeless. At scale it will represent a market intervention.

It will allocate properties as locally as possible, so that less households are obliged to move a significant distance from their home area. Establishing a single organisation representing multiple boroughs will also allow a more straightforward and efficient interface with established providers of leased and licenced accommodation for homeless households and encourage new suppliers to enter the market.

It is intended that Capital Letters will provide stable and suitable accommodation, whether that accommodation ends a duty under the Homelessness Reduction Act or provides temporary accommodation until a homelessness duty can be met. This will help to shift provision in London away from short term, expensive, and often unsuitable Nightly Paid accommodation including B&B and Hotel Annexes.

A key and material unique selling point for Capital Letters will be its ability to act as a non-local authority landlord, able to provide settled private rented accommodation in a way that the London boroughs cannot do. This will very significantly reduce the number of households accommodated in Temporary Accommodation in London and in England as whole, as 69% of Temporary Accommodation nationally is currently provided by the London boroughs.

## Governance

### Ownership

Capital Letters is being established as a private company limited by guarantee, owned and managed by the boroughs who constitute limited liability members of the company.

Capital Letters has been formed with the intention of operating in a financially sustainable manner in the medium to long term. The financial contribution from the MHCLG is critical in establishing the company and supporting it over the first few years. Any operating surpluses generated from providing services to both Members and any third parties will be re-applied in promoting the Company's objects.

### Governance and Management

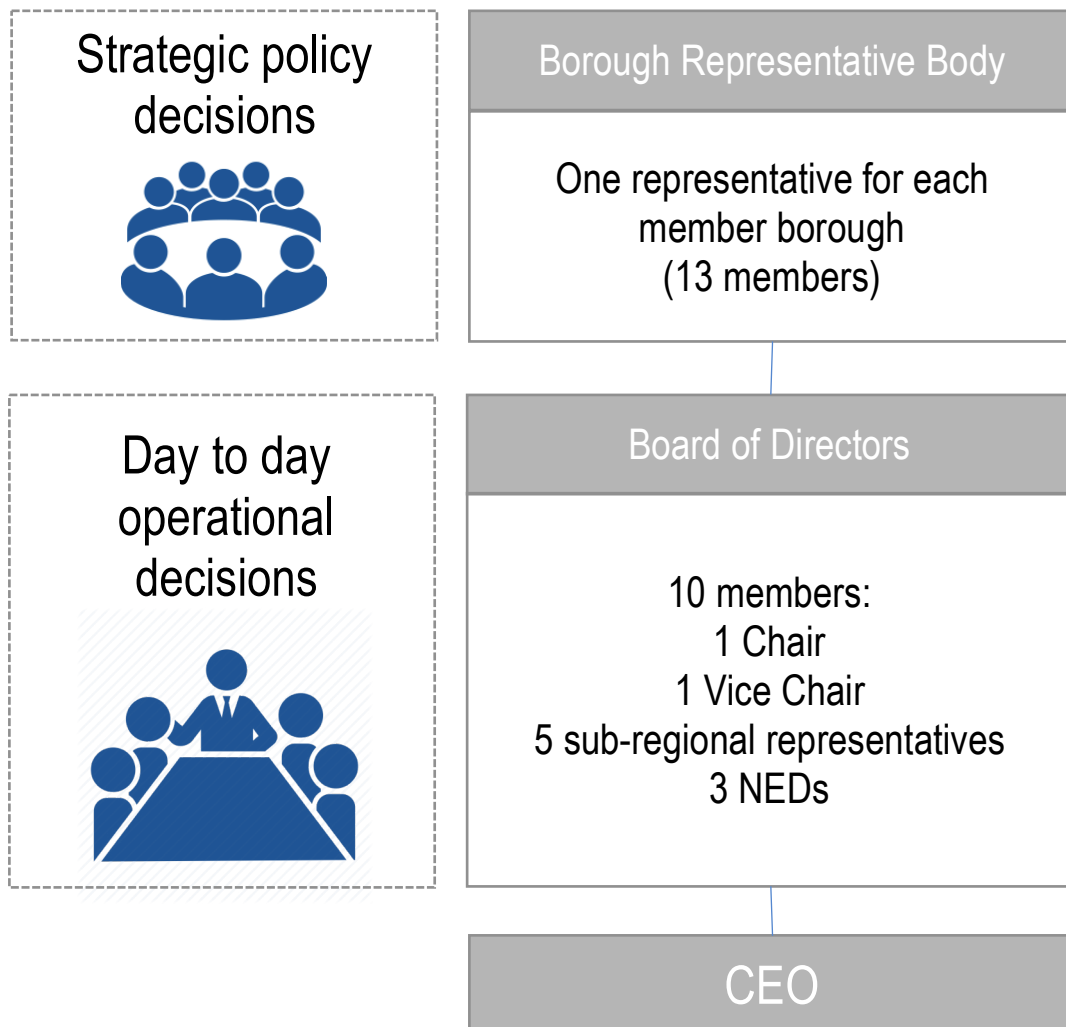
The sovereign body for the Governance of Capital Letters will be the "Boroughs Representative Body". This body will be comprised of nominated elected members from each of the participating boroughs. There are a number of reserved matters for this body:

- Approval of the Business Plan
- Appointment of Company Directors
- Approval of key policies

In addition to this the Company will have a Board of Directors made up a Chair and vice chair appointed by the Borough Representative Body; 5 non-executive Directors (1 from each housing sub-region) appointed from the participating Boroughs and 3 Independent Board members. All Directors will be appointed in line with the Directors appointments policy. MHCLG will have a non-voting observer member of the Board of Directors.

Capital Letters is to be managed on a day to day basis by an experienced directly employee executive and staff team, to be appointed during the initial implementation phase. The management team will look to deliver on the objectives of the company and in accordance with the Business Plan, which will be updated annually and agreed by the Board and Representative Body.





## Implementation Plan

Capital Letters will be set up in phases. In the **first, short term, phase**, a small consultancy team will be engaged to establish the company's set up, including recruitment of key executive staff and operational staff facilitating the secondment of staff from boroughs, rent and equip an office, establish an IT system, develop necessary organisational policies and procedures, and produce a detailed business plan.

Recruitment activity will also be focused on, procurement and tenancy sustainment staff will be recruited and seconded from participant boroughs, internal teams will be established, and operational activity will begin. Commencement of trading is targeted for June 2019.

The early key operational activities will be:

- The procurement and allocation of new PRS and PSL properties.
- The assignment of a proportion of existing leased temporary accommodation from the boroughs to Capital Letters, who will lease or licence the properties from the borough making the transfer, from the landlord, or from the managing agent. This will depend on the existing arrangements and the preferences of the parties to the existing arrangements. In many cases, transfer of properties to Capital Letters will allow a homelessness duty to be ended through a PRSO or otherwise.
- The transfer or renegotiation of contracts between participant boroughs and TA suppliers to Capital Letters.
- The marketing of Capital Letters to landlords and property developers as a new potential client and partner.
- Hiring staff and implementing secondment arrangements with participating boroughs

Key objectives for the business over the first three years are displayed overleaf.

## Key Objectives

### Year 1 Objectives

- Establishment of an operational base – office, IT system, staffing
- Procurement and implementation of an IT platform
- Establishing an agreed operating protocol with each participating borough, with local targets
- **13** boroughs become members
- **26** staff members seconded or otherwise funded by boroughs.
- Procurement **1,300** new properties
- Establishment of an efficient housing and property management function

### Year 2 Objectives

- An additional **six** boroughs become members of the organisation, for a total of **19** boroughs
- Procurement of at least **6,425** new properties

### Year 3 Objectives

- An additional **six** boroughs become members of the organisation, for a total of **25** boroughs
- Procurement of at least **12,000** new properties
- Providing **20,877** properties procured over the three-year initial delivery stage.

## Services

Capital Letters will undertake a number of functions. The particular functions pertaining to each participating borough will be agreed in an operating protocol between the individual boroughs and Capital Letters.

### Procurement and allocation of properties

**The principal activity Capital Letters and common to all Member Boroughs, will be procurement and allocation of additional PRS and leased properties for the prevention and relief of homelessness and to end a main homelessness duty or to be used as temporary accommodation.**

In addition to this principal activity Capital Letters will offer boroughs a range of services as required to best meet the boroughs' strategic objectives. These are:

- **Tenant and Property Management**

In addition to procuring property Capital Letters will undertake a range of tenant and property management functions, which will need to be resourced and funded in addition to procurement.

Some of these functions may be performed internally by Capital Letters for a fee (at cost) or they may be performed externally either by Boroughs who are members of Capital Letters, or third parties as agreed.

- **Tenant and Landlord Support**

Capital Letters will provide a tenancy sustainment function and a landlord support function across the range of the properties it has procured or manages. This function is aimed at preventing the recycling of households who have been allocated settled accommodation from re-entering the homelessness/Temporary accommodation system. These services will be carefully co-ordinated between Capital Letters and the participating boroughs, to ensure that services complement those being provided by the host borough. There will be no additional cost to participating boroughs for this service.

- **Leasing and Licensing Properties**

Capital Letters will also offer to take assignment of existing properties currently leased by boroughs or subject to a PLA agreement and let as Temporary Accommodation. This represents a significant opportunity for the venture as Capital Letters is neither a local authority nor a Registered Provider. Given its status Capital Letters, can issue assured shorthold tenancies as a private landlord, it will often be possible to end a homelessness duty in such properties once Capital Letters has become the tenant's landlord. The treatment of Capital Letters ASTs in this scenario may attract a higher level of HB subsidy, which will have a beneficial effect on Council General fund budgets.

If a borough nominates a tenant to a Capital Letters procured PRS tenancy, subject to a landlord incentive, then that borough will pay a one-off fee to Capital Letters towards the cost of the landlord incentive.

If a borough nominates tenants to a leased property from Capital Letters, then the borough



will pay a weekly top up fee to Capital letters for the duration of the lease agreement. This fee is a previously agreed contribution to the difference between the total costs of the property (including payments to the owner or agent from whom the property is leased and the management costs of that property), and the rent charged to the tenant (which will normally be set at the relevant Local Housing Allowance level for the area where the property is situated).

In this situation, there are three likely scenarios:

- a) Capital Letters manages the property and is responsible for rent collection.
- b) The borough which has nominated the tenant (or another borough) manages the property on Capital Letters behalf and is responsible for rent collection under a Service Level Agreement. In this case Capital Letters will pay a fee to the borough in respect of the functions carried out under the Service Level Agreement.
- c) Either the borough which nominated the tenant (or another borough) manages the property on Capital Letters behalf and contract Capital Letters rent collection service paying a weekly fee in respect of the functions carried out under the Service Level Agreement or the borough collects the rent and contract just the management service from CL.

## Procurement Strategy

The core business of Capital Letters is to access good quality accommodation to prevent or relieve homelessness in London on behalf of the member boroughs.

There are three main types of accommodation which will be sought:

1. **Private Rented Sector** accommodation where a tenancy is established between a local authority nominated tenant and the owner of the property (or estate agent acting on their behalf). This accommodation can be used to end a homelessness prevention duty, a homelessness relief duty, or a main homelessness duty through a PRSO or Qualifying Offer.
2. **Private Sector Leased accommodation direct with a landlord.** In this case the owner will directly lease the property to Capital Letters or to a borough for an agreed period e.g. 3 years, with the possibility of extension, subject to mutual agreement.

If this accommodation is leased by Capital Letters, then, like PRS accommodation let by a landlord, it can be used for homelessness prevention, homelessness relief, or to end a main duty in the PRS. It can also be let as Temporary Accommodation. If the property is leased by a borough, then in most circumstances, it could only be let as Temporary Accommodation.

3. **Private Sector Leased accommodation from a managing agent.** In this case the property will be leased to Capital Letters or to a borough from a managing agent. This is similar to leasing direct from a landlord, except that the managing agent will carry out some or all of the property management function, usually not including the rent collection function however, which would still sit with Capital Letters or where applicable with the leasing borough.

This type of arrangement is common, and there are a number of important suppliers of such accommodation to boroughs. The intention is that participating boroughs would transfer these arrangements in whole or in part to Capital Letters, so that such suppliers would have one client for properties across London, rather than several; and have a single set of arrangements to work to, rather than a number of variant ones, depending on the borough they are dealing with.

The added value Capital Letters will bring to the procurement function consists mainly in the following factors:

- Co-ordination of procurement between participating boroughs.
- A significant number of additional procurement officers
- Increased budgets for advertising
- Increased range of services to landlords
- Enhanced landlord liaison combined with a tenancy sustainment service
- Accessing larger opportunities from developers and/or property owners.

It is intended that Capital Letters member boroughs will over time transfer the arrangements they have with such suppliers to Capital Letters – either through novation of existing contracts or by the renegotiation of new contracts between suppliers and Capital Letters.

Capital Letters **will not** be taking in properties on a nightly paid basis, and it will be important for Member boroughs to work with Capital Letters by encouraging their suppliers to switch from nightly paid to leasing arrangements where properties are suitable for leasing.

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 very much the minimum requirement, as it would defeat the purpose of Capital Letters for member boroughs to retain a directly competing procurement function.

Properties will be procured across London according to need, availability, quality and cost, and will not be limited to areas within member boroughs. Capital Letters will however abide by the IBAA agreement, wherever properties are procured.

### Allocations

The method by means of which properties procured by Capital Letters will be allocated to individual boroughs are set out in more detail in the Capital Letters Allocations policy. The main principles are:

#### **Principle 1.**

The number of properties (excluding HMOs and studios) procured for each borough over the previous year using the resources and contracts transferred into Capital Letters would set a minimum limit for allocation of properties to that borough. This should guarantee that (unless market conditions have markedly worsened) each borough will get at least as many properties over the first year as were procured by the staff it seconds in the previous year. Studios and HMOs will not be counted in these minimum allocations, but will be allocated separately according to location and borough need.

#### **Principle 2.**

It is expected that significantly more properties than this will be procured in practice, due to staff working collaboratively and because of the additional procurement resources available to Capital Letters. Properties procured above those numbers would go to the participant boroughs according in proportion to the staff resources they have contributed through secondment or funding of staff recruited directly by Capital Letters.

#### **Principle 3.**

Boroughs will be able to specify the proportion of each type (PRS, PSL etc.) and size of property that they want, as well as making requests to meet urgent needs for specific property types as they arise. These expressed preferences will guide the Capital Letters procurement strategy, and as much as possible they will be met, bearing in mind that some sizes and types of property are harder to obtain than others.

#### **Principle 4.**

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 in to 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.

#### **Principle 5.**

Any additional properties procured beyond the needs of the participating boroughs may be offered to non-participant boroughs.

## Operational Practicalities

The following operational practice will apply

- Records will be kept on the IT system in real time of both the number of properties allocated to each borough in the year to date, and the numbers procured by their seconded staff.
- A “wish list” of property types and sizes is kept up to date by each borough including a small number of “urgent needs”
- Procurement effort is partially targeted according to which borough has the greatest shortfall on its target for that point in the year, e.g. leading to a short term concentrated effort in the area within and close to that borough.
- Where possible any new property is offered to the closest borough, if it is a property size and type they require.
- However, if a borough is more than 10% behind on its target compared to other boroughs, then this priority is overridden, and the borough which is behind has first option to accept the new property.
- Normal allocation priorities may be overridden at the discretion of Capital Letters managers if a borough has an urgent need for property with unusual features e.g. size, disability adaptation etc. which is procured in another area.
- Every effort is made to ensure that by the end of the year, each borough has got its targeted share of properties, but if this is not the case for any reason then the target for the following years is adjusted accordingly.
- If boroughs have rising or falling demand, they may increase or decrease the number of staff they fund.
- Capital Letters will not let properties more than one bed overcrowded according to the Bedroom Standard, other than in very exceptional circumstances.
- Capital Letters will not use overcrowding to support overpayment of landlords for example by allowing a household to pay a two bed LHA rate for a one bed property.