

A photograph of a cityscape with various buildings, including a prominent brick building in the foreground and several taller apartment blocks in the background. A large antenna is visible on the right side of the image. The sky is overcast with soft light.

Business Plan 2021-2025

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Executive Summary

This Business Plan sets out the purpose and ambition for Capital Letters. The company has been 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, particularly in the light of the likely impact of the COVID-19 pandemic on the economy and the related impact on individuals. Capital Letters provides a co-ordinated effort to source an improved supply of suitable accommodation to meet demand. The establishment of Capital Letters has been supported by the Ministry for Housing, Communities & Local Government (MHCLG), using £38m of Flexible Homelessness Support Grant. The purpose of the investment is to alleviate the costs to boroughs of providing accommodation, to facilitate greater efficiency through collaboration and partnership, 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, a further objective of Capital Letters is to enable member boroughs to reduce the use of nightly let and paid temporary accommodation and enable more homeless households to be offered homes more locally than has been the case.

By removing unproductive competition and duplication of effort between boroughs, and by providing an organisation to represent all the London boroughs, Capital Letters offers 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.

Capital Letters is growing. At its launch in March 2019, 13 joined the company; a further 4 joined in 2020/21 bringing the total to 17 members with more to come. By 2022/23 it is expected that membership will grow to 25, thus the majority of London boroughs and the additional negotiating power this will bring.

Properties procured by Capital Letters are a mixture of Private Rented Sector (PRS) properties let by the property owner to households nominated by the boroughs, and private sector leased properties (PSL) leased from landlords or from managing agents for member boroughs.

The majority of accommodation procured by Capital Letters is settled accommodation to prevent homelessness or end a homelessness duty. The intention of Capital Letters is to assist members to achieve a reduction in the use of Temporary Accommodation. However, the possible impact of COVID-19 is not yet understood in terms of the possible increase in homelessness, although the expectations of all members is that there will be a significant number as a result of redundancies and the lifting of the eviction ban; this may therefore be a difficult objective to achieve in the short term.

Some boroughs may decide to transfer properties currently leased by them (as temporary accommodation) to Capital Letters to let as settled private rented sector accommodation; this is an area of activity that will be fully explored during this Business Plan period. However, we have not set any targets in relation to this activity, compared to the first Business Plan, as further work to understand whether there are financial benefits for both member boroughs and Capital Letters in undertaking such transfers.

Whilst the company was established in December 2018 and commenced operating during 2019/20, mobilisation was slower than anticipated due to a range of factors. As a result, not all the anticipated grant was expended during the first year – a business case has therefore been submitted to MHCLG suggesting that the original allocation of £38m be spread over an additional 2 years, resulting in an additional 6,000 properties being procured for member boroughs. This suggestion has been favourably received although no formal confirmation that it has been accepted has been received. This plan uses the assumptions submitted to MHCLG the requested grant profile is shown at Appendix A

The Board and the BRB approved a three-year Corporate Strategy in March 2020, which is the companion document to this Business Plan. Its purpose is to provide clarity of direction and outcomes for everything the company does over the next three years, maintaining the focus on doing the right things to achieve the company's objectives.

The Business Plan sets out the resources required over the Corporate Strategy period (and beyond) and the targets the company need to achieve to be successful. The company's work is determined by three Strategic Objectives:

- Driving a sustainable, growing and viable business built on innovation and creativity
- Best in class in everything we do, adding value and delivering great customer service
- People at our heart enabling empowered staff to achieve our vision together

The objectives from the Corporate Strategy are cascaded into annual Delivery Plans and personal objectives for the company's staff to provide the golden thread running through everything the company does, tying the organisation together as One Team.

Capital Letters provides members an opportunity to combine forces and maximise the opportunity to control the housing market, reduce incentive payments to landlords, provide a consistent and good quality service for landlords, and support tenants to be successful. In the long-term this will provide:

- Better value for money for government (local and central) investment and expenditure
- A cohesive approach across London which landlords will have to accept now membership is more than 50% of all boroughs
- Potential for members to reduce reliance on and the costs of nightly paid accommodation (COVID-19 notwithstanding)
- Control of rents at or below LHA levels and within IBAA rules
- Control over the quality of properties and rogue landlords
- Sustainability and longevity of tenancies to stop the revolving door of homelessness

- More properties procured than boroughs operating individually, having a greater impact on homelessness across London both in terms of numbers and costs

Capital Letters is one part of the solution to the issues, facing London, and not a panacea. However, the company's USP is that – for the first time – London Boroughs are collaborating and working together to find new ways of working to resolve the challenges they face. The company is focussed on providing a fast paying, efficient customer service for landlords in return for dampening their expectations of incentive payments.

Capital Letters intends to develop independent income streams over the life of this Business Plan so that it exists to provide its' services over the long-term and beyond the provision of MHCLG grant. All surpluses generated by the company will be reinvested in the core purpose of the company to cross-subsidise services for members, maintain procurement and tenancy sustainment services and to work in partnership to solve the homelessness crisis across the Capital.

1. The Housing Challenge in London



London continues to have above average housing pressures, where it can be very difficult for households on low incomes to afford a home. This situation has been accentuated over recent years as the London economy has performed well, and house prices have continued to climb. Since the welfare reforms of 2011, benefits have not kept pace with rising rent levels, exacerbated by the increase in LHAs in response to COVID-19 without commensurate increase in the Universal Credit benefit cap for those living in PRS properties. This has led to increasing difficulties for the London boroughs to deal with rising homelessness and pressures of people living in temporary accommodation. This has divided the PRS market into welfare supported and non-welfare supported sectors. The evidence and impact of this can be seen in a number of published statistics for England at the end of September 2019:

- The number of households in temporary accommodation in London at end of September 2019 was 58,230, (67% of the English total of 87,410) an increase of 3.6% from the previous September
- The use of Bed & Breakfast accommodation for homeless households remains at around 7,000 households across England in September 2019, having tripled between 2010 and 2017, and the use of expensive self-contained Nightly Paid accommodation has multiplied by more than five times over the same period

- 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’
- Prior to the pandemic, 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 calculating the possible impact of COVID-19.

An LSE report commissioned by London Councils evidenced that the Homelessness Reduction Act (HRA) has increased case load of London boroughs in 2018/19 by 25,000 cases¹

The LSE report also identified that London boroughs net general fund expenditure on homelessness in 2017/18 was £253m. MHCLG provided grant to meet additional cost over three years to help with the implementation of the HRA. This funding ended in 2019/20. The report estimates that the **additional** cost of homelessness under the HRA to add over the five years between 2018/19 to 2022/23 to be between £326m and 22.2m, with the central estimate of £70m.

Between September 2018 and September 2019 out of borough placements in London rose by 1% and were 309% higher than in 2010.² This is a London phenomenon with 36% being housed out of borough compared to 11% in the rest of England. It is probable that without Capital Letters, the use of out-of-borough and out-of-London placements will rise further.

The vastly increased use of nightly paid accommodation over recent years as homelessness pressures have mounted remains a 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.

Although there is some evidence of a short-term cooling in the London property market as a result of COVID-19, commentators believe this will only be temporary. The bigger concern is that as unemployment rises and the eviction ban is lifted, the number of homeless households will increase and put pressure on supply of housing for the homeless and increasing borough costs.

¹ The Cost of Homelessness in London and LSE project for London Councils

² House of Commons Briefing Paper – Households in temporary 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 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 children's schools, jobs and support networks. In many cases stays in Temporary Accommodation can last for many years.

Capital Letters' intent is to provide secure, affordable and sustainable homes where homeless households can put down roots and thrive. The company is therefore focussed on improving outcomes for households in this situation by:

- Increasing the supply of accommodation members can use to house them
- Enabling members to reduce 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 for homeless households
- Providing an integrated and professional tenancy sustainment service 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
- Providing a landlord liaison service to landlords if problems arise with tenancies, whilst supporting the tenants to keep their home
- 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 member boroughs in order that they can:

- Provide good quality settled accommodation for homeless households
- Provide good quality rented accommodation to prevent statutory homelessness
- Enable members 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 was established by 13 London boroughs initially, with the support of the MHCLG and London Councils. It now has 17 member and there are more boroughs interested in joining; it is possible by April 2021 there will be 20 members This will allow Capital Letters to become the main source of private sector accommodation to prevent and relieve homelessness across London.

The company enables the members to collaborate and work in partnership to procure accommodation to tackle homelessness, rather than competing with each other for a scarce resource across London. By pooling resources and sharing expertise, Capital Letters provides a better service to both private sector landlords and tenants. The company provides an efficient and coordinated one-stop service for landlords by making efficient use of resources and has become a more significant participant in the London housing market. The company achieves better value for money for the public purse in accommodating households who are homeless or at risk of becoming homeless. The company is already acting as a market disruptor; at scale it will represent a market intervention.

Through bespoke software properties are allocated locally using parameters agreed with members, reducing the number of households obliged to move a significant distance from their home area and support networks. Establishing a single organisation representing multiple boroughs also allows a more straightforward and efficient interface with established providers of leased and licenced accommodation for homeless households and encourages new suppliers to enter the market.

Capital Letters provides 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 helps 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 is 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. The company is in early stages of developing this service. Once established, it will significantly reduce the number of households accommodated in Temporary Accommodation in London and in England as whole, as 67% of Temporary Accommodation in England currently provided by the London boroughs.

Governance

Ownership

Capital Letters 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 becoming financially sustainable in the medium to long term. The initial £38 million financial contribution from the MHCLG has been critical in establishing the company and supporting it over the first few years. Any operating surpluses generated from providing services to both members, third parties and through managing homes will be re-applied in promoting the company's objects.

Governance and Management

The sovereign body for the Governance of Capital Letters is the Boroughs Representative Body (BRB). This body comprises nominated elected members from each member borough. 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 the BRB the Company has a Board of Directors made up a Chair and vice chair; five non-executive Directors (one from each housing sub-region) appointed from the member boroughs and three Independent Board members. All Directors are appointed in accordance with the Directors appointments policy by the BRB. MHCLG attend Board meetings as a non-voting observer.

Capital Letters is managed on a day-to-day basis by an experienced directly employee executive and staff team. The Executive team is responsible for delivering the objectives of the company and in accordance with the Business Plan, which is updated annually and agreed by the Board and BRB.

The Executive Team comprise the CEO, Director of Finance & Resources and Director of Operations.

BOROUGHS' REPRESENTATIVE BODY			
<p>The BRB has sovereign responsibility for the governance of the organisation. Principal role is to lead the organisation and approve the strategic business plan and key strategic policies; reserved matters set out the decisions only the BRB can make</p>			<p>The BRB comprises one elected representative from each member Borough. Each member has one vote for all resolutions.</p> <p>The Chair and Vice Chair are appointed by the BRB for a period of 4 years.</p> <p>The BRB has certain Reserved Matters that only that body is able to determine.</p> <p>A key BRB responsibility is to approve the Business Plan annually. The BRB receives recommendations from the Board regarding Reserved Matters at their meetings.</p>
 			
CAPITAL LETTERS BOARD			
<p>Oversight, scrutiny, direction and control of Capital Letters is delegated from the BRB to the Board of Non-Executive Directors (NEDs)</p>			<p>All Directors of the Company are appointed by the BRB in accordance with the Directors Appointment Policy for three-year terms.</p> <p>The Articles of Association allow for up to 12 NEDs. Currently there are 10 NEDs: Chair, Deputy Chair & 5 NEDs (all officers of member Boroughs); 3 independent NEDs appointed by open recruitment.</p>
 			
COMMITTEES OF THE BOARD			
<p>Delegated responsibility from the Board for detailed oversight of key business activities. Report back to the Board and make recommendations</p>			
Audit & Risk	Remuneration & Membership	New Business	<p>The Committee Chairs report back to each Board meeting and all minutes are made available to all NEDs</p>
 			
EXECUTIVE TEAM			
<p>Accountable to the Board and responsible for delivering approved business plan, activities and targets; accountable to MHCLG for delivery of grant-funded targets & outcomes</p>			
<p>Comprises: CEO, Director of Finance & Resources & Director of Operations</p>			

Implementation Plan

Capital Letters has been set up in phases. A small consultancy team was engaged initially to set the company up, including recruitment of key executive staff, facilitating the secondment of staff from boroughs, rent and equip an office, establish an IT system, and produce a detailed business plan.

The CEO and Director of Finance and Resources commenced in post in June 2019, at which point the recruitment and appointment of key operational staff commenced, the secondment arrangements were finalised, operational and HR policies and procedures developed, and working arrangements with members agreed so that the company could commence operations.

Mobilisation was more complicated than expected when the company was first set up, resulting in delays in the company becoming fully operational. 2019/20 is therefore regarded by MHCLG as “proof of concept”. This included the Board decision to commission a replacement bespoke IT system (CAPS) which went live in September 2020 as the original system failed to meet the business requirements. From April 2020, with strengthened management structures, the company has been going from strength to strength.

Key Objectives

2021/22 Objectives

- Increase membership to **21** members
- **40** staff members seconded or otherwise funded by boroughs.
- Employment of **87** staff members to run procurement business
- Expand the tenancy sustainment service to employ **31** staff and reach 3000 households a quarter
- Procure **6,000+** new properties
- Establish an efficient housing and property management service
- Directly manage circa **750** homes
- Support the achievement of at least **6,000** combined homelessness prevention, homelessness relief, and PRSO outcomes.

2022/23 Objectives

- Increase membership to **25**
- Staffing complement increases to **153**, both from boroughs and centrally located personnel for procurement function
- Procurement of at least **8,000+** new properties
- Examine the affordability of expanding the tenancy sustainment service to employ **35** staff and assist 4,000+ clients a quarter
- Manage a further circa **830 homes**
- Supporting the achievement of at least **8,000** combined homelessness prevention, homelessness relief and PRSO outcomes.

2023/24 Objectives

- Staffing increases to **153**, both from boroughs and centrally located personnel maximum for the procurement service.
- Procurement **8,500+** new properties
- Supporting the achievement of at least **8,500** combined homelessness prevention, homelessness relief and PRSO outcomes.
- Manage a circa an extra **900 homes**

Services

Beyond in 2024/25 the last year covered by this plan it is expected that a further 1,200 homes will be added to the management portfolio so by the end of the period covered by the plan it is expected there will be circa 3,680 homes in management and a further 1,000 in the pipeline for 2025/26.

Procurement and allocation of properties

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

Currently there is minimal demand from boroughs for PSL properties although it remains part of the principal activity.

As part of the establishment of Capital Letters, all members have agreed standard incentive payments for PRS properties and top up payments for PSL properties which are paid to landlords in exchange for offering their property to a member borough. This is very significant and has never been achieved before. This demonstrates the power of partnership and Capital Letters' ability to dampen market expectations and act as a market disruptor.

In addition to this principal activity Capital Letters offers boroughs a range of services as required to best meet the boroughs' strategic objectives; these are agreed individually and are subject to separate operating protocols. These include:

Tenant and Property Management

In addition to procuring properties, Capital Letters is able to undertake a range of tenant and property management services. These services need to be resourced and funded in addition to procurement. Some of these services may be performed internally by Capital Letters for a fee 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 provides a tenancy sustainment and a landlord support service across the range of the properties it has procured or manages. This service 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 coordinated between Capital Letters and member boroughs, to ensure that services complement those being provided by the host borough. There is no additional cost to member boroughs for this service.

Leasing and Licensing Properties

Capital Letters will take assignment of existing properties currently leased by boroughs or subject to a PLS agreements and let as temporary accommodation. This is a significant opportunity 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.

Where a borough nominates a tenant to a PRS tenancy procured by Capital Letters, Capital Letters pays the agreed standard incentive payment to the landlord on behalf of the borough and then invoices the borough for reimbursement, less any MHCLG grant available. The grant level in 2020/221 is £1,050 per property, reducing to £750 in 2021/22 and £500 for 2022/23 and 2024/25, subject to the MHCLG extending the period grant is available.

Where a borough nominates tenants to a PSL property procured by Capital Letters, the borough will pay the standard agreed weekly top up fee either to the landlord/managing agent or to Capital letters (where the company enters into a lease for PSL accommodation) for the duration of the lease agreement. This fee is a standard amount agreed with members and is a 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). The combination of the top up fee and LHA level rent may not exceed IBAA rates for the areas, however.

In this situation, there remains 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) enters into a lease with the owner/managing agent, manages the property and is responsible for rent collection.
- c) Either the borough which nominated the tenant (or another borough) manages the property and contract Capital Letters' rent collection service paying a weekly fee in respect of the services carried out under a Service Level Agreement or the borough collects the rent and contract just the management service from Capital Letters.

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 are procured by Capital Letters:

1. **Private Rented Sector (PRS)** 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. **Properties Directly Managed.** Capital letters will take out leases directly with developers and/or funders for 10 years or more and will manage the properties and become the landlord. This will be a major source of future income for Capital Letters. In this business plan's cash flows we have included an assumption of 4,500 homes coming into management by 31 March 2026 the period covered by the plan.
3. **Private Sector Leased accommodation direct with a landlord (PSL).** 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.

Whilst this type of accommodation is identified in the business plan currently there is little demand for us to provide it for our members.

4. **Private Sector Leased accommodation from a managing agent (PSL).** 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 as set out above, except that the managing agent may carry out some or all of the property management function, although not usually the rent collection; this would sit with Capital Letters or with the leasing borough.

This type of arrangement is common, and there are a number of important suppliers of such accommodation to boroughs. In the original business plan, it was the stated intention that member boroughs would transfer existing leases in whole or 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 have leases with.

Such transfers have yet to be agreed although a few members are discussing the transfer of PSL stock; the business plan forecasts do not include any assumed transfers.

It is still 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.

The added value Capital Letters provides for members consists mainly in the following factors:

- Reduced competition and co-ordination of procurement between member boroughs
- Fair distribution of properties for all members based on their “investment” in the company
- A significant number of additional procurement officers and thus more properties than can be procured individually
- Increased budgets for advertising
- Increased range of services for landlords, including an efficient, customer-focussed one-stop shop service
- Enhanced landlord liaison combined with a tenancy sustainment service
- Dampening down of incentive payments, reducing costs for members
- Opportunity of grant to top-slice incentive payments
- Accessing larger opportunities from developers and/or property owners as result of them being able to negotiate with one entity rather than a number of boroughs
- Reducing reliance on nightly paid accommodation
- Support to meet the challenges of increased homelessness in the wake of COVID-19

Capital Letters **does not** provide properties on a nightly paid basis, nor does it procure HMOs or outside of London.

In the original business plan, it was a minimum condition of being a member that at least 50% of the annual supply of new non-emergency accommodation for homeless households for that borough was provided by Capital Letters in the first year. Due to the slow start up of the business this did not materialise in the first year of operation. During the period of this plan Capital letters will continue to work collaboratively and in partnership with members to enhance and improve working arrangements and protocols to ensure

Capital Letters is the main provider of new non-emergency accommodation for all its members. This will minimise the risk of member boroughs competing with Capital Letters; it is recognised that this will, in some cases, require both cultural and operational changes in member boroughs

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 is set out in more detail in the Capital Letters Allocations policy. The main principles being:

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.

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 are 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 means 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 continue to apply

- Records are kept on the CAPS IT system (this is the new system that went live on 7th September 2020 that replace the original system developed in early 2019 which was not fit for purpose) 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
- An annual service plan detailing the property types and numbers required against the resource committed by each borough is agreed at the start of the year. This sets the boroughs targets for the year, which are monitored monthly and performance-adjusted to ensure fair distribution is achieved
- 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
- 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 received 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 second
- 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

Targets and Performance Indicators

The company's key performance indicators are being agreed with MHCLG as part of the grant funding agreement.

As an indicative figure, we expect to procure around 5000 properties in 2021/22. We have a target of 26 member boroughs by the end of 2022/23.

KPIs will be uploaded once finalised.

Human Resources

The philosophy

Capital Letters is a progressive modern employer embracing best HR practice and offers flexible family friendly working arrangements. This has been demonstrated in its response to the COVID-19 pandemic and the swift move to working from home. Moving forward it is intended to offer more flexibility in where people work from which will in the long term reduce the need for expensive office accommodation. The company has committed to support the London Living Wage. Capital Letters has developed its own culture which encompasses both secondees and direct employees as One Team. The way the company works is informed by a strong commercial performance culture, combined with the agility and creativity of a start-up business, empowering staff to deliver excellent customer service and stakeholder management and perform. Capital Letters offers its own defined contribution pension scheme through Aviva.

During our first year of operations, we have worked with our staff team to develop and agree our values and description of our culture which is defined as One Team and "Can Do".

Remuneration Policy

Salaries at all levels across the business will be regularly benchmarked to ensure remuneration is in line with the market; currently Capital Letters salary levels are very attractive. Normally Capital letters will seek to pay the median salary. Executive directors' remuneration will be subject to external independent review every two years. There are currently no plans for performance related pay, but this form of remuneration will be kept under review. Capital letters will commit to promote the London Living Wage both in its own employment and with suppliers and partners.

Table 2 summarises the proposed staffing and recruitment profile for over the period of the plan. Key assumptions include:

- Each member contributes an average of two procurement staff either by secondment or funding staff employed on behalf of boroughs who are unable to second. Capital Letters will complement those secondments with directly hired staff with up to 50 in post by 2022/23 to meet the procurement objectives for that term.
- Housing services (rent collection and management) staff are hired proportional to the number of properties managed, with an assumed 5% productivity improvement over the first three years of operations as processes and practice are bedded down.
- Capital Letters also is assumed to hire additional tenancy sustainment and landlord liaison officers in direct proportion to the number of PRS properties being procured.

Financial Summary

The financial forecasts in this plan look forward ten years to 2031/32.

In preparing the financial forecasts a number of assumptions have had to be made which can be divided into: economic principally inflation rates for rents; costs and salaries; procurement for boroughs; growth in grant funded and seconded staff plus negotiator performance and tenant sustainment staff; and the costs and numbers of properties that will be managed by Capital Letters to generate an income stream to be able to continue to deliver the procurement service once the MHCLG grant is finished.

It should be noted that this plan also assumes that the grant period will be extended to March 2024, and top slicing of the incentives paid by Boroughs will continue until then albeit at a reduced rate of £500 for the 2022/23 and 2023/24. This is in line with the submission made to the MHCLG in July 2020.

The business plan assumptions are detailed in **Table 2** below. The outputs from the plan along with the following scenarios are detailed below.

Main Business Plan Assumption

In preparing the cash flows that accompany this business plan, a number of operational and economic assumptions have been made, some of which have been detailed in the text above such as numbers of procured properties. **Table 2** below details the main assumptions about property management.

These assumptions are significantly different from the original business plan, which assumed by the end of the 2020/21 financial year, Capital Letters would have procured or taken transfer of nearly 11,000 properties and would be managing nearly 2,800 homes and collecting rent for another 4,500.

Actual performance is that we expect to have procured around 3,400 homes by the end of the 2020/21 financial year with no properties transferred or in management. Then over the next three years the business plan assumes a steady growth, based on staff resources coming online, of procured property numbers plateauing at over 8,000 per annum and over the next five years some 4,500 homes being directly managed by Capital Letters.

Table 2: Property management and mix

Property numbers added to management	Cumulative	
- 21/22: 749	749	Programme shows 3,495 in management by 31 March 2024 and 4,495 by 31 March 2025
- 22/23: 839	1,588	
- 23/24: 904	2,492	
- 24/25:1,003	3,495	
- 25/26:1,000	4,495	
Property mix:		
One Bed	15%	
Two Bed	40%	
Three Bed	30%	
Four Bed	15%	
Procurement areas: Inner London BMRA	35%	
Outer London BMRA	65%	

Outputs Summary

The next paragraphs set out the outputs from the business plan model showing a summary Income and Expenditure account and forecast cash balances. **Table 3** summarises the forecast Income and Expenditure accounts for the next seven years and the forecast cash balances at the end of each year.

Table 3: Summary Income & Expenditure Account

Year	21/2 2	22/2 3	23/2 4	24/25	25/26	26/27	27/28
	1	2	3	4	5	6	7
	£m	£m	£m	£m	£m	£m	£m
Revenue							
Grant	9.9	9.6	9.7	-	-	-	-
Incentives	1.6	1.7	1.9	2.1	2.2	0.3	0.3
Borough incentive reimbursement	22.4	29.9	31.3	36.4	37.0	37.8	38.5
Salaries reimbursed	0.6	0.6	0.6	0.6	0.7	0.7	0.7
New scheme rents	6.8	23.2	39.7	59.8	80.8	91.9	94.0
Membership fees	0	2.0	2.0	2.0	2.1	2.1	2.2
Total Revenue	41.3	67.0	85.2	100.9	122.8	132.8	135.7
Costs							
Incentive payments to landlords*	(27.7)	(34.1)	(35.6)	(36.3)	(37.0)	(37.8)	(38.5)
Property management costs	(6.3)	(22.0)	(38.1)	(57.1)	(77.2)	(87.6)	(89.4)
Current Staff costs	(4.8)	(5.6)	(5.7)	(5.9)	(6.0)	(6.1)	(6.2)
Current central costs	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.0)
Total Costs	(39.7)	(62.6)	(80.3)	(100.3)	(121.2)	(132.5)	(135.1)
Surplus/(Deficit)	1.6	4.4	4.9	0.6	1.6	0.3	0.6
Corporation tax	(0.3)	(0.9)	(1.0)	(0.1)	(0.3)	(0.1)	(0.1)
Surplus/(Deficit) after tax	1.3	3.5	3.9	0.5	1.3	0.2	0.5
Cash Flows							
Net inflow/(outflow)	4.7	5.4	5.5	1.1	3.1	0.2	0.7
Cumulative inflow	4.7	10.1	15.6	16,8	19.9	20.0	20.7

Note:

1. Beyond 2027/28 the I & E account is forecast to be in surplus.
2. Incentive payments to landlords are made on behalf of member boroughs and the amount recouped less the grant payable when properties are let.

As can be seen in 2024/25, as grant ceases and the number of homes in management is still increasing, the business makes trading losses for four years but maintains a reasonably healthy cash balance during that period. It should also be noted that over the ten years the business is paying £1.1m in Corporation Tax.

Homes in Management

For Capital Letters to become financially viable and independent of grant, there is requirement to find other sources of income to replace the support received from the MHCLG in its early years of operation. An already discussed the original plan assumptions have not proven to be realistic especially around the transfer of PSL portfolios from boroughs.

This business plan, therefore, does not include borough portfolios but it does make the assumption that by March 2026 the business will have approximately 4,500 homes in management. The indicative programme put together in conjunction with developers with whom we are currently negotiating lease agreements with is shown below in Table 4.

Table 4: Indicative Acquisition Programme

	Total Inner London BMRA	Total Outer London BMRA	Total All London
2021/22			
One bed	39	73	112
Two bed	105	195	300
Three bed	79	146	225
Four bed	39	73	112
Total	262	487	749
2022/23			
One bed	44	82	126
Two bed	117	218	336
Three bed	88	164	252
Four bed	44	82	126
Total	294	545	839
2023/24			
One bed	47	88	136
Two bed	127	235	362
Three bed	95	176	271
Four bed	47	88	136
Total	316	588	904
2024/25	-	-	-
One bed	53	98	150
Two bed	140	261	401
Three bed	105	196	301
Four bed	53	98	150
Total	351	652	1,003
2025/26			
One bed	53	98	150
Two bed	140	260	400
Three bed	105	195	300
Four bed	53	98	150
Total	350	650	1,000
Total over 5 Years	1,573	2,922	4,495

The mix between inner and outer London is very important: inner London schemes show a healthy surplus using the mix between LHAs, market and sub-market rents by 2025/26 generating a cumulative surplus of £10.3m by 2030/31. However, the outer borough schemes generate a cumulative loss of £5.3m in same period. This will require careful management going forward and target procurement possible subject to demand from boroughs focusing on the Broad Market Rent Areas (BMRA) that offer rents that generate a surplus and larger properties which also generate surpluses.

In preparation for entering into lease arrangements, the New Business Committee is considering the financial parameters that will be applied to each scheme purchase whether one off street properties or blocks of flats. Before an agreement to take a property/block strict financial and quality standard will have to meet and any works identified as being required before assigning the lease have been completed and signed off. These processes are currently being discussed with the developers.

To complete the lease negotiations with the developers who are in the main being backed by institutional investors, some form of guarantee will be required from member boroughs that they will stand behind Capital Letters in the event of the company have difficulty in servicing the lease payments.

Risks

These forecasts come with a number of associated risks which will need careful monitoring and mitigation plans to minimise their impact if they crystallise. The principal risks identified are:

1. **Lease Guarantees:** The business will be unable to take homes into management due to the inability to take on leases. The developers are indicating that before leases can be signed, Capital Letters will require some form of 'guarantee' from member boroughs. If this cannot be negotiated with members, the programme of acquisitions will not be achievable, and the business will not become financially sustainable.
2. **Capital cost of properties:** There is a risk that the investors will not be able to source sufficient properties at the right price. Current assumptions are that the average cost of a property will be £348,000 giving a lease premium of £13,220. An increase of this average price of £20,000 will add £760 to the initial lease cost and cost in the first year circa £3.4 million. It will therefore be vital that in conjunction with investors, procurement is targeted at those area where homes are most affordable, and work is currently being undertaken to identify the most affordable areas across London.

3. **Affordability:** There is evidence mounting that rents at LHA in some parts of London are unaffordable in part due to the lack of any link between the UC benefit cap & LHA rates. The 2020/21 increase in LHAs to 30th percentile has not been accompanied by any increase in the benefit cap resulting in affordability issues particularly in inner London. It will be necessary for Capital Letters to develop a rent strategy and property acquisition strategy that can adapt to localised affordability problems both in terms of our usual procurement activity and properties we manage.
4. **LHA not linked to CPI:** Following the Government announcement that LHAs will be frozen for 2021/22 the assumptions in relation to LHAs assume no increase until 2024/25. Thereafter they increase in line with CPI. This is a core assumption in the plan as some lease payments will be linked to CPI where funds are being provided by pension funds. Whilst matching rents to cost of funds is a natural hedge, recent history has shown that LHA increases have become a political football used as part of fiscal policy to manage borrowing by dampening down benefits costs. A long-term mismatch of LHA rates and inflation will put financial viability in doubt.
5. **Market Rents:** The plan assumes 30% of homes in management will be let at market rents with a further 20% at sub-market for 'key workers'. Initial market and intermediate rents are assumed at 15% and 10% above LHAs respectively. Market rent increases are then assumed to increase by 1% in 2021/22 and 2% until 2024/25 when the long-term rental growth is assumed at 2.5% which is a 0.5% increase in real terms. The plan is very sensitive to changes in rent increases; it will be vital that the business has a clear strategy both in terms of location and management of market and sub-market rental properties to maximise its income levels.
6. **Management Costs:** The business is still developing its housing management model and financial assumptions for management costs are based on a combination of the housing association global accounts and cost used in the original business plan prepared as part of the set-up of Capital Letters. In the absence of knowing our costs at this stage, this information is being used as a proxy for our financial plan. The risk is that we cannot develop a cost-effective service.

3. Business Plan Revision Process

Capital Letters Executive Team is responsible for developing an Annual Business Plan setting out the implementation of the strategic objectives of the company, to include budgets, expenses and projected financial results for the year, as well as sources of funding. It is a requirement of the Members Agreement that the company updates the business plan at least annually.

The Board is responsible for the operation of the company in accordance with the Business Plan. The Business Plan will be prepared at least 60 days prior to the beginning of the financial year and will be required to be approved by a majority of BRB members. In the event that a new business plan cannot be agreed, then the last approved version of the Annual Business Plan will remain in force until agreement is reached. Full details of the requirements of the Annual Business Plan and approval process are outlined in the Members Agreement.



Capital Letters was set up to respond to London's housing crisis. By working in partnership with private landlords and local councils, we help families find a secure and settled home.

We offer a free letting service to landlords and support families to make sure the tenancy is successful. We only procure good quality, affordable properties so families can move from temporary accommodation or avoid becoming homeless.

Hundreds of landlords and agents across London find tenants through Capital Letters. We also partner with buy-to-rent investors to increase the supply of affordable housing. We will be launching our own property and tenancy management service.

Capital Letters is a non-profit company with a clear social purpose. We are owned by London councils and backed by the Government.

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