



Report for:
ACTION

Item Number:
9

Contains Confidential or Exempt Information	No
Title	Participation in Pan-London Accommodation Procurement and Lettings Schemes
Responsible Officer(s)	Executive Director, Regeneration and Housing, Tony Clements
Author(s)	Lynne Duval
Portfolio(s)	Cllr Mason, Portfolio Holder for Housing, Planning and Transformation
For Consideration By	Cabinet
Date to be Considered	16 th October 2018
Implementation Date if Not Called In	29 th October 2018
Affected Wards	All
Keywords/Index	Pan London, accommodation, homelessness

Purpose of Report:

This report outlines the business case for participating in two separate pan-London schemes, intended to assist Ealing in fulfilling its statutory duties to homeless households in the most cost-effective way possible.

1. Recommendations

Cabinet is asked to:

- 1.1 Note the two pan-London schemes led by London Councils that have the potential to deliver cost effective temporary accommodation.
- 1.2 Note the types of Company membership that are available to boroughs participating in the schemes outlined at 2.1.1 and 2.1.2.
- 1.3 Delegate authority to the Executive Director Housing and Regeneration, following consultation with the Portfolio Holder for Housing, Planning and Transformation, the Director of Legal Services, and the Executive Director of Corporate Resources, to participate in either or both schemes and become a member of either or both companies, subject to financial and legal due diligence.

- 1.4 Note that the Executive Director of Housing and Regeneration will recommend to Full Council a representative to the board of either organisation if and when required.
- 1.5 Note that these proposals form part of a wider Temporary Accommodation strategy, called *Increasing the Supply of PRS tenancies – Scoping the options* presented to Cabinet in October 2018.

2. Reason for Decision and Options Considered

Both pan-London initiatives are consistent with manifest commitments. In the case of Capital Letters to “work with the Mayor of London to establish a publicly owned lettings agency, ensuring that residents get good quality homes and managing agents they can trust”. In addition, both schemes meet the administration commitment to “increase the supply of council owned temporary accommodation, to ensure that we reduce the number of families needing to spend time in bed and breakfast, whilst ensuring these measures remain temporary as a way of families getting into permanent homes”.

The cost of providing temporary accommodation is estimated to be over £1 billion nationwide, with London boroughs responsible for the vast majority of expenditure. The GLA, London Councils and London Directors Group have therefore been developing proposals to address this issue on a Pan-London basis. Two distinct schemes have emerged from this exercise, which have the potential to reduce the cost of temporary accommodation and provide better outcomes for residents. “Capital Letters”, the outcome of a feasibility study, co-funded by the Mayor of London, to establish a publicly owned letting agency to assist boroughs in the procurement of accommodation for homeless households, and “Place Ltd”, a collaborative route to delivering high quality modular housing on meanwhile sites across London. The PLACE programme is supported by £11m of grant funding from the Greater London Authority Innovation Fund and seed funded from Capital Ambitions through the London Ventures programme. Ealing’s own Chief Executive, Paul Najsarek is advisor to Capital Ambitions. In addition London Ventures have developed the specification for an IT system which will provide a digital Property Listing Platform in consultation with the Capital Letters working group. Both initiatives require Ealing to become a member of a Company Limited by Guarantee.

These proposals have been considered in detail as part of a separate options appraisal undertaken by Ealing, as part of the Homelessness Outcomes review to see how temporary accommodation costs might be reduced. This is presented to Cabinet, by way of a confidential appendix A, to the Cabinet Report *Increasing the supply of PRS Tenancies – Scoping the Options*. The preferred way forward recommends that Ealing takes forward a range of proposals to increase the supply of low cost accommodation.

2.1 Background

2.1.1 Capital Letters

It has long been recognised that competition between Boroughs for the procurement of temporary accommodation is unhelpful and has acted to inflate TA costs. Ealing has been at the forefront of efforts to reduce these inflationary pressures, most notably through the development of the Inter-Borough Accommodation Agreement (IBAA), which restricts procurement in any particular Borough to agreed rates.

Capital Letters looks to build on the successes of the IBAA and further integrate procurement functions across London through the creation of a single procurement vehicle. By lessening the duplication of functions across local authorities and, reducing inter-Borough competition, it is anticipated that the initiative will see Boroughs' TA costs fall. In addition, MHCLG have made up to £39.000m available over three years to support the proposal, from top-sliced Flexible Homelessness Support Grant (FHSG). This funding will help cover overheads and setup costs, and subsidise the placements of participating Councils. Boroughs will also benefit from higher LHA rates, as accommodation made available through the scheme will be outside of the TA subsidy system, where rates have been frozen since 2011.

The scheme has the potential to offer other significant benefits. First, accommodation can be allocated on a more rational basis, offered wherever possible to the Borough in which the placement is made. This will make the phenomenon of West London Boroughs procuring in East London and vice versa less likely and achieve better outcomes for homeless households, who can be accommodated nearer to their job, children's schools and/or support networks. Secondly, by providing a single organisation to represent all London Boroughs, it will be possible to provide a simpler more straightforward interface for landlords, managing agents and developers wishing to provide homes for homeless families. Ealing has taken the lead on procuring the digital Property Listing Platform (PLP) on behalf of Capital Letters to help deliver this. Note that this exercise does not have any financial implications as the contract will be between the provider of the PLP and Capital Letters, with all procurement costs met by Capital Letters.

Capital Letters can also contribute towards Ealing's wider strategic aims in relation to the Private Rented Sector (PRS). Ealing has adopted a pro-active approach to driving up standards across the Borough through the introduction of additional and selective licensing. However, temporary accommodation typically falls outside the scope of these schemes. As Capital Letters takes more properties under management, it should help to drive up standards in this sub-market. Tenants will benefit from lower rents than they would be charged in temporary accommodation, reducing the effects of any 'benefit trap', and, wherever possible, they will be offered a two-year Assured Shorthold Tenancy (AST), giving them greater certainty about their accommodation.

Capital Letters offers several different opportunities. These include:

- a) **Transferring leased accommodation to Capital Letters:** This option would enable the Council to sub-lease its existing portfolio of accommodation leased from the private sector to Capital Letters, so that Capital Letters would become the landlord. Households would be offered an AST, enabling the Council to discharge a homelessness duty, and would no longer claim housing benefit through the TA subsidy system.
- b) **Capital Letters procuring leased accommodation on behalf of the Council:** Capital Letters would negotiate with landlords and agents to acquire leased accommodation and the Council would receive nomination rights commensurate with the amount of funding or seconded staff made available to Capital Letters. In this scenario, Capital Letters would be the landlord, bringing the advantages set out in option (a) (above). In addition, the cost of each leased unit would be subsidized through MHCLG funding, for at least the first three years.
- c) **Capital Letters arranging PRS tenancies ('Direct Lets') on behalf of the Council:** This option would operate in a similar fashion to the Council's Direct Let Scheme. Capital Letters would encourage landlords and agents to let their properties to homeless households through the payment of a cash incentive. Nomination rights would operate in the same way as option (b) (above). Part of the incentive payment would be met through MHCLG funding, reducing the cost to the authority.

Initially it appears that option c) is preferable as it offers the clearest financial benefit. Nevertheless, options a) and b) should not be discounted. Option a) has the potential to become more attractive in future years if mainstream LHA rates continue to rise as expected. Likewise option b) could offer a financial benefit to the Council as part of a wider procurement strategy.

Option a): Transferring leased accommodation to Capital Letters¹

Net Expenditure	Year 1	Year 2	Year 3
Do nothing	£5.142m	£5.142m	£5.142m
Capital Letters Managed	£6.345m	£5.800m	£5.241m

Local authorities are only able to offer secure or non-secure tenancies. As a company, Capital Letters would be able to offer ASTs, enabling the Council to discharge a homelessness duty. These tenancies would be treated as private rented tenancies for housing benefit purposes, meaning that claims would cease to operate through the TA subsidy system – i.e. they would no longer generate subsidy loss. However, because of the difference in subsidy rules, rents would need to be set at the relevant LHA rate to be affordable to the tenant, and this would reduce rental income. The exemption from Universal Credit, applicable to

¹ On average LHA rates across the portfolio increased by 2.3% between April 2017 and April 2018. This rate has been applied to income figures for years 1-3. It is assumed that Capital Letters would carry out rent collection, charging £30 pppw (inclusive of bad debt).

TA tenants, would also no longer apply, meaning that bad debt would likely increase. Once all factors are taken into consideration, it can be seen that this approach would likely increase the net cost to the Council. Nevertheless, if LHA rates continue to rise, as expected, then this option may become more attractive in future years. Alternatively, Ealing could seek to identify particular tenancies where the net cost to the Council could be reduced through the scheme, transferring leases on a piecemeal basis.

Option b): Capital Letters procuring leased accommodation on behalf of the Council²

Net Expenditure	Year 1	Year 2	Year 3
LBE PSL Scheme Unit Cost (p.a.) (Average)	£1,500	£1,500	£1,500
LBE PSL Scheme Unit Cost (p.a.) (Low Contribution)	£3,736	£3,736	£3,736
LBE PSL Scheme Unit Cost (p.a.) (High Contribution)	£876	£876	£876
Capital Letters Leased	£3,120	£3,120	£3,120

Similar considerations apply to new accommodation leased by Capital Letters as above. There are also some outstanding issues that require further clarification, such as whether the Council would see any benefit from constraining the IBAA rate, through a reduced top-up payment for example. That withstanding, there is a potential for Ealing to benefit from participating in option b), providing that it nominates households who are not making a significant contribution towards their rent – i.e. they are either on full HB or are subject to the household benefit cap. Under the TA subsidy system, the amount a household is required to contribute (after means-testing) has a large influence on the net cost to the Council. This would not be the case under Capital Letters. We would therefore expect to see an increased cost for higher contribution households and a reduced cost for lower contribution households, as set out above. Ealing would be able to determine who it nominates to Capital Letters.

Option c): Capital Letters arranging PRS tenancies ('Direct Lets') on behalf of the Council

Net Expenditure	Year 1	Year 2	Year 3
LBE Direct Let Scheme Unit Cost	£3,500	£3,500	£3,500
CL Direct Let Unit Cost	£1,500	£2,450	£2,800

For Direct Lets, the financial advantage is clearer, as each incentive payment would be part-funded by MHCLG for at least the first three years. Under the current scheme, Ealing must fund 100% of the incentive payment itself.

² It is assumed that Capital Letters would carry out rent collection in the Capital Letters leased option, charging £30 pppw (inclusive of bad debt).

Membership

Ealing has the option of joining Capital Letters, a company limited by guarantee, as an “A” or “B” member, as set out in the Articles of Association (Appendix A). “A” members will be able to exercise greater influence of the strategic direction of Capital Letters. “B” members will be able to receive services from Capital Letters but will not be able to access any of the £39.000m made available by MHCLG from top-sliced Flexible Homelessness Support Grant (FHSG), meaning that placements made through the scheme will not receive any additional subsidy. On the other hand, joining as an “A” member, Ealing must commit to procuring no more than 50% of its TA outside of Capital Letters, excluding emergency accommodation and accommodation procured outside of London, placing some constraints on its procurement activity. If this condition were seen to be breached then Ealing could be expelled from the organisation subject to a majority vote of the other “A” members - the Council could be re-admitted as a “B” member were this to transpire. If Ealing elected to leave the organisation itself, it would need to serve at least six months’ written notice.

A summary of the relevant issues is outlined in the table below. Taking all factors into consideration it is recommended that Ealing join Capital Letters as an “A” member, subject to legal and financial due diligence.

Membership Category	Main Advantages	Main Disadvantages
Join as an "A" Member	<ul style="list-style-type: none"> • Greater control over strategic direction • Access to additional MHCLG subsidy for at least 3 years • Can discharge a homelessness duty • Can access higher LHA rates 	<ul style="list-style-type: none"> • Must commit to procuring no more than 50% of its TA outside of Capital Letters, excluding emergency accommodation and accommodation procured outside of London. • Must second or fund staff to carry out procurement function
Join as a "B" Member	<ul style="list-style-type: none"> • Can discharge a homelessness duty • Can access higher LHA rates • No constraints on procurement activity outside of Capital Letters 	<ul style="list-style-type: none"> • Cannot access additional MHCLG subsidy • Must second or fund staff to carry out procurement function
Do not join	<ul style="list-style-type: none"> • No constraints on procurement activity outside of Capital Letters • No need to second or fund staff to carry out procurement function 	<ul style="list-style-type: none"> • Cannot access additional MHCLG subsidy • Cannot discharge a homelessness duty through CL • Cannot access higher LHA rates • Risk that landlords/agents prefer working with CL, reducing the supply of accommodation available to LBE, resulting in increased numbers in B&B

2.1.2 Pan-London Accommodation Collaborative Enterprise (PLACE) LTD.

Ealing has pioneered the use of innovative modular homes amongst local authorities as an alternative to unsuitable Bed and Breakfast accommodation. PLACE Ltd. offers the opportunity to build on this success and increase the supply of modular housing in the borough. PLACE Ltd. has been incorporated by the London Borough of Tower Hamlets as a Company Limited by Guarantee and is currently undertaking a procurement exercise to provide modular housing for use on meanwhile sites across London. Boroughs seeking to access these units must first become a member of PLACE, which will maintain ownership of the modular units. Then, if they can identify an appropriate site, they will be able to lease PLACE's units without the need for a further procurement exercise.

The Mayor has made £11.000m available from the GLA innovation fund as they wish to make better use of sites awaiting redevelopment. Grant has been allocated for up to 200 modular homes, and there is potential for additional funding should the scheme prove successful. Grant funding will allow for a higher specification of modular unit, that meets the London Plan's minimum space standards, and is fully demountable, enabling units to be transferred from one site to another pending re-development. Modular homes will have usable life of at least 45 years, with the intention that they can be placed on several different sites within this time.

A viability assessment was commissioned by London Councils, reflecting all the likely costs associated with the scheme. The results demonstrated that the approach was likely to be viable across London, though larger sites would be required in Outer London due to lower LHA rates. The analysis suggests that in Ealing it would be a near certainty for a site of between 15-20 units to be viable, once the grant funding is taken into account. Boroughs would still need to cover the cost of site works. However, the leasing fee, which is intended to cover the cost of the initial procurement and relocation of units between sites, is likely to be below what Ealing could expect to pay in the market, as a result of the subsidy provided by the GLA. Ealing would need to maintain the units but it is anticipated that management costs could be fully covered by rental income, making the scheme cost-neutral. There may even be scope to generate a surplus through the rent which could be used to cross-subsidise loss-making accommodation.

Any units provided through PLACE will complement Ealing's existing portfolio of modular homes. Until now, modular has been regarded as an alternative to emergency B&B accommodation. However, units procured through PLACE have the potential to be used for longer-term accommodation due to the higher specification enabled by GLA grant funding. Indeed, the Council could even sub-lease these units to a Council-owned company and discharge its homelessness duty. Nonetheless, there are quite significant supply constraints around this proposal and it would be unlikely for Ealing to access more than 50 units through the scheme. The Council will therefore need to continue to pursue direct provision where it is viable to do so. There may be potential for Ealing to acquire additional units through PLACE's procurement exercise, but these would not benefit from GLA grant.

Ealing has the option of joining PLACE Ltd., a company limited by guarantee, as either an “A” or “B” member. Each “A” member will be able to appoint a director, whereas “B” members will be represented as a block, with one director appointed for every eight members. “A” membership is therefore seen to be preferable as it would enable Ealing to exercise greater control over the aims and direction of the organisation.

2.2 Alternative Options Considered

There is no requirement for Ealing to participate in either scheme but if it chose not to, it would lose the opportunity to reduce its TA costs and improve outcomes for residents. Moreover, if the Council decided not to participate in Capital Letters, this would not stop Capital Letters procuring accommodation within Ealing. Although Capital Letters will abide by the agreed IBAA rates, there is a risk that landlords and agents prefer working with Capital Letters, because of the profile it will have when launched and the ability it will give suppliers to let their portfolio of properties, that typically span more than one local authority area, to one organisation, rather than several different Boroughs, each with their own terms, conditions and personnel.

There is less risk associated with opting not to join PLACE Ltd. Nonetheless, this would mean that Ealing would miss out on the opportunity to access subsidised modular housing, at a time when it is struggling to meet the need for temporary accommodation in the Borough, and is generating significant losses across its TA portfolio.

Alternatively, Ealing could decide to join one or both organisations at a later date. However, significant benefits accrue to members joining at the outset. Boroughs participating in Capital Letters as A members in the first wave will have placements subsidised by MHCLG to a greater degree than those joining in later years - indeed, it is not clear whether this subsidy will be available beyond the current spending review, making this a particular consideration. Boroughs in the first wave will benefit to a greater extent from the additional staff funded by MHCLG, who are expected to generate further supply. Founding members will also be able to exercise greater control over the aims and direction of the organisation. This is a relevant consideration with regard to Place Ltd as well, though the biggest concern here would be missing out on a finite supply of subsidised accommodation. By joining early, Ealing has the best chance of accessing some of 200 units procured through the PLACE initiative.

3. Key Implications

Ealing will be required to sign a Member’s agreement to participate in Capital Letters Limited. To participate in PLACE Ltd. Ealing will need to sign the Governance Agreement with Pan-London Accommodation Collaborative Enterprise Limited.

In situations where properties are direct lets with landlords the tenant will sign an agreement with the landlord. Where properties are held by Capital Letters the landlord will be Capital Letters.

The GLA is assuming that PLACE accommodation will be held as temporary accommodation in the general fund in which case the tenancy will be a non-secure tenancy held by council.

A full risk assessment has been undertaken for both schemes as part of the development process. In the case of Capital Letters Ltd. the most significant would be the withdrawal of funding by MHCLG or over-reliance on MHCLG funding and recruitment issues that may delay the scheme. If the scheme fails for either of these reasons the boroughs are unlikely to be in any worse position than they are now.

4. Financial

There is no immediate financial impact stemming from participation in either initiative. In both cases, setup costs have been met through grant-funding, and Ealing is not required to make any contribution towards either organisation on the basis of membership alone.

There is a risk that the schemes may lose funding made available by MHCLG and GLA respectively. However, it is anticipated that both schemes will still be considerably cheaper than B&B even without additional subsidy.

5. Legal

S.1 Localism Act 2011 provides the Council with a 'general power of competence'. This power can be relied upon to establish and participate in both Capital Letters Ltd and PLACE Ltd. Further consideration would need to be given to the legal implications arising from both schemes prior to the final decisions being made.

6. Value For Money

Capital Letters is intended to help Boroughs access a greater supply of good quality accommodation to prevent and relieve homelessness, and where necessary for use as temporary accommodation. A cost benefit analysis has been conducted on a London-wide basis and identified four principal areas of savings: more stable tenancies, improved productivity, co-ordination benefits (pricing) and reduced TA spending. The savings achieved will be monitored against the relevant budgets and reported back to Members as appropriate.

The PLACE initiative will enable the council to provide self-contained modular accommodation, which is much cheaper than available alternatives.

7. Sustainability Impact Appraisal

Making use of meanwhile sites pending regeneration or permanent redevelopment could enhance the local environment in terms of amenity and place-making. Landscaping and external space treatment will be integral to the planning process for these sites. Relocation and reuse of modular homes will make more efficient use of scarce resources. Factory production can reduce and eliminate construction waste.

8. Risk Management

If the projects fail to deliver, it is unlikely that the Council will be in any worse position than currently.

9. Community Safety

None

10. Links to the 3 Key Priorities for the Borough

Both pan-London schemes seek to improve the supply of good quality affordable housing in London and as such fully support the administration priority of increasing the supply of genuinely affordable homes in Ealing.

11. Equalities, Human Rights and Community Cohesion

Although the proposals contained in this report will result in improved customer outcomes in terms of the quality and sustainability of accommodation the client group will remain unchanged. Clients are more likely to be rehoused in the local area which should lead to enhanced community cohesion.

12. Staffing/Workforce and Accommodation implications:

Two vacant Acquisition Officer posts will be funded by the Council and employed through Capital Letters rather than the Council.

13. Property and Assets

No property implications.

14. Timetable for Implementation

Proposed Timescale for Phased Implementation of Capital Letters

Date	Milestone
June 2018	<p>Collaborative Procurement Group signs off Capital Letters documentation.</p> <p>Potential first phase (year 1) boroughs identify themselves and begin internal approval processes (8 boroughs minimum required in first year).</p>
July 2018	Borough Cabinet Papers drafted and submitted
September 2018	<p>Shadow Capital Letters Directors Group meets</p> <p>Business case to be presented to London Councils' Chief Executives London Committee</p> <p>Procurement of IT system</p>
October 2018	<p>Capital Letters Incorporated as an organisation</p> <p>Business case to be presented to London Councils Leaders' Committee</p> <p>Cabinet Approval with first phase Boroughs received</p> <p>Commence discussions with boroughs re possible resource including secondments</p> <p>Recruitment of CEO and key leadership team begins</p>
April 2019	Formal launch of Capital Letters

15. Appendices

Appendix A - Articles of Association of Capital Letters Limited

Appendix B - Articles of Association of Pan-London Accommodation Collaborative Enterprise Limited

16. Background Information Consultation

Name of consultee	Post held	Date sent to consultee	Date response received	Comments appear in paragraph:
Internal				
Cllr Peter Mason	Portfolio holder for Housing and Transformation	13/09/2018	13/09/2018	Throughout
Tony Clements	Executive Director Regeneration and Housing	13/09/2018	27/09/2018	Throughout
Catherine Taylor	Head of Legal (Litigation and Contracts)	August/Sep 2018	August/Sep 2018	Throughout
Nish Popat	Head of accountancy	August/Sept 2018	August/Sep 2018	Throughout

Report History

Decision type:	Urgency item?
EITHER: Key decision OR Non-key decision OR For information (delete as applicable)	No
Report no.:	Report author and contact for queries:
	Lynne Duval – Head of Housing (Prevention)