

Report for: Cabinet Member Signing

Title: Capital Letters Membership

Report authorised by: Beverley Tarka, Director of Adults, Health, and Communities.

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Ward(s) affected: n/a

**Report for Key
Non-Key Decision: Key Decision**

1. Describe the issue under consideration.

- 1.1 Capital Letters (London) Limited was created on 17 December 2018 with the aim of removing competition and duplication between individual London boroughs when sourcing private sector properties to meet housing need.
- 1.2 In October 2018, Cabinet agreed that Haringey would join Capital Letters in the first tranche of boroughs, and we formally transferred our function for sourcing private sector lets on 14 October 2019.
- 1.3 In joining Capital Letters, Haringey entered into a tranche of agreements with Capital Letters and participating boroughs, including a Members' Agreement, a Service Level Agreement, and a Secondment Agreement.
- 1.4 This report describes our experience as members of Capital Letters, the advantages, and disadvantages of membership along with recommendations on our future membership.

2. Cabinet Member Introduction

Haringey was one of the founding member boroughs when Capital Letters was established and have remained committed to its success throughout our membership. We support the principle of collaboration and boroughs working together across London, and so it is with regret that we are now looking to take the decision to leave.

Unfortunately, being a member of Capital Letters has not delivered for the borough in the way that we hoped and so we must now act in what we believe to be the best interests of the borough and take this difficult decision.

3. Recommendations

That the Member for Housing Services, Private Renters, and Planning (“the Member”) agrees.

- 3.1 That the Council should cease membership of Capital Letters as soon as is practicable; and for this purpose, to delegate authority to the Assistant Director for Housing Demand.
 - 3.1.1 (If required) to serve notice pursuant to the Members’ Agreement to this effect.
 - 3.1.2 To agree with Capital Letters and/or the participating boroughs terms for earlier departure in consultation with the Member and Director of Finance
 - 3.1.3 To end the secondment arrangements for our employees and resume the sourcing of private sector lets within the Housing Demand Service in the Council.
 - 3.1.4 To ensure a smooth transition of service delivery from Capital Letters

4. Reasons for decision

- 4.1 The principle behind Capital Letters is a good one and boroughs working collaboratively to source private sector accommodation was an approach that we were keen to support. It had been hoped that by working together we would be able to influence the market, secure more local lets and avoid the need for increased incentives.
- 4.2 However, the reality has proven difficult to achieve. Haringey committed to the approach – seconding (pursuant to the Secondment Agreement) in 3 experienced members of staff, putting all of our private sector activity through Capital Letters, adhering to agreed incentives and making changes internally that supported the delivery of Capital Letters lets. However, few boroughs showed the same commitment and most kept their options open by working with Capital Letters while retaining some of their own staff and sometimes paying higher incentives. As a result, Capital Letters has not been able to influence the market in the way that was hoped.
- 4.3 The level of lets achieved by Capital Letters has never exceeded what we would have expected to deliver with the same staff in-house. There are also some opportunities in moving back to local control and being able to react to the challenges in the local market.
- 4.4 In a challenging market it is very important to show flexibility and act nimbly when trying to secure lets. As Capital Letters must obtain agreement on incentives from all 19 boroughs, for example, they cannot act nimbly. In agreeing to abide by a set incentive, we also lose flexibility in negotiations and the ability to tweak incentive rates to meet our local need. In keeping to the agreed approach, we have seen ourselves outbid on properties.
- 4.5 As staff are seconded, we are unable to apply any flexibility in the way they are deployed. If the staff had remained with us, given our current pressures, we are likely to have deployed at least one of them to assist with the procurement of

temporary accommodation, rather than continuing to focus all three on private sector lets in such a challenging market.

4.6 The priorities set out in the Capital Letters Corporate Plan (see section 6.8) no longer align with the Councils objectives namely;

- The delivery target is below our requirement and the level of resources and management fee required to deliver the target lets are difficult to justify.
- The transfer of private sector leased accommodation to Capital Letters would not be an approach we would adopt as we already manage leased accommodation through Homes for Haringey.
- The benefits of the development of landlord services are unclear at this stage.

5. Alternative options considered.

5.1 Do nothing and remain as a member of Capital Letters on an on-going basis.

5.2 Defer the decision and consider whether to leave Capital Letters at the end of March 2024 or March 2025 when the final tranche of DLUHC funding ends.

6. Background information

6.1 Capital Letters (London) Limited was created on 17 December 2018 with the aim of avoiding damaging competition and duplication between individual London boroughs when sourcing private sector properties to meet housing need. MHCLG (now DLUHC) committed £38M over 3 years to support the delivery of Capital Letters. The funding has been used to directly employ staff and to subsidise incentive payments to landlords to secure private sector lets.

6.2 The expectation was that member boroughs would second relevant staff into the organisation, and so following Cabinet approval to join Capital Letters, we seconded 3 staff across to Capital Letters when the function transferred.

6.3 13 boroughs joined Capital Letters in the first tranche, and membership has now grown to 19 boroughs. Having committed to 3 years of funding the expectation from DLUHC was that Capital Letters would become self-financing. Additional transitional funding has been agreed by DLUHC for the next 2 years, after which Capital Letters need to have secured alternative sources of income to continue their work. Capital Letters have produced a new corporate strategy, which describes how this will happen, and as part of this process boroughs are being asked whether they are committed to Capital Letters and the approach described. Boroughs were asked to give an indication of their likely position by the end of March 2023, even though it was accepted that it may take boroughs longer to affect their decision given that this will be a Member decision in most boroughs.

6.4 Following a review of the advantages and disadvantages of membership the Chief Executive and the Councils S151 Officer provided Capital letters with an

initial indication of our position of the future of our membership, stating that subject to Cabinet Member approval, we did not intend to continue as members of Capital Letters.

6.5 Following our indicative response Capital Letters on 11 April 2023 served notice on Haringey terminating the Secondment Agreement with effect from 11 May 2023, and indicating that they will stop providing new lets to us pursuant to the Service Level Agreement from the same date.

6.6 Performance

6.6.1 Since joining Capital Letters 656 private sector lets have been secured, which has supported our work to prevent homelessness and meet our homelessness responsibilities. The table below provides a breakdown of lets by year and bedroom size.

Period	Studio	1 bed	2 bed	3 bed	4 bed	5 bed	Total	Target
10/19 – 3/20	3	5	12	7	8	1	36	150
4/20 – 3/21	7	66	115	76	24	1	289	400*
4/21 – 3/22	1	44	112	65	30	2	254	300
4/22- 2/23	1	8	39	20	9	0	77	300**

*Funded one additional officer to try to increase the number of lets.

**DLUHC revised targets down given the market pressures, but we didn't formally sign off a new borough target.

6.6.2 The original expectation was that member boroughs would receive a minimum of 100 lets for each officer they either seconded or funded. In 2020/21 we funded an additional officer, taking our staffing commitment to 4. Targets were not met in any of the years of membership. Due to pressures in the market, performance has been a particular challenge this year with only 77 lets achieved year to date.

6.6.3 One additional benefit of joining Capital Letters was that there was an aspiration to increase the number of lets that were made in-borough. Of the 656 lets achieved 348 are in Haringey with most of the remainder being in neighbouring boroughs (Enfield -156, Islington – 56, Barnet – 39, Hackney - 31 and Waltham Forest – 18). Lets are allocated to boroughs based on an algorithm, which in most cases provides 'first refusal' of an available property to the host borough. This is a positive but given the limited availability of affordable lets in Haringey, it has meant that our activity in neighbouring boroughs risks being reduced – this became particularly evident when Enfield joined Capital Letters in tranche 2.

6.7 Funding and costs

6.7.1 The £38M of DLUHC funding supports the operation of Capital Letters and also subsidises the incentive paid to achieve each let. The amount of subsidy paid to

reduce the costs of the incentive has reduced each year as shown in the table below.

Period	Subsidy per 2 year let
2019 - 20	£1,400 for all bedsizes
2020 - 21	£1050 for all bedsizes (one beds reduced to £350 in June 2020)
2021 - 22	£750 for 2, 3 and 4 beds and £350 for 1 beds
2022 - 23	£500 for all bedsizes plus £500 bonus if the half year target for lets is met.
2023 - 24	Not yet confirmed.

6.7.2 Over the period of our membership, we have benefitted from over £0.5M of DLUHC funding as subsidy for incentives.

Period	Incentive Paid by Council	Voids/ insurance	Total Costs to Council	Subsidy from DLUHC
2019-20	£53,183.56	£2,394.00	£55,577.56	£30,800.00
2020-21	£787,302	£48,722	£892,810.63	£242,950
2021-22	£893,286	£64,801	£995,587.48	£187,950
2022-23 YTD	£241,864	£11,967	£253,831.73	£61,250
Total to date	£1,975,636	£127,885	£2,197,807	£522,950

6.8 Capital Letters – future direction and new Corporate Strategy

6.8.1 Capital Letters have received additional transitional funding from DLUHC for a further year though at a reduced rate. The expectation remains that Capital Letters becomes self- financing and the Board have taken the view that the company’s short-term future lies in retrenching to fewer members and delivering a corporate strategy, which commits to:

- Continue to provide Capital Letters private sector procurement and tenancy sustainment service (targeting 1,000 properties per annum in the first two years; increasing thereafter)
- Establish the company as a private sector landlord, taking private sector lease transfers for member boroughs to deliver savings and service improvements and entering into leases for PSL properties.
- Develop services for landlords, agents and investors to increase supply and generate income.

6.8.1 Capital Letters Borough Representative Body has also voted to support the introduction of a membership fee of £50K from April 2023, which will be payable by boroughs who remain as members.

6.8.2 Members who remain will also be expected to commit to their membership of Capital Letters by seconding or funding staff, adhering to any agreed

approaches e.g., not paying higher incentives, and not undertaking activity that competes with the core functions of Capital Letters.

6.9 Implications of the new Capital Letters corporate plan for Haringey

6.9.1 As described in 6.7.1 the new corporate strategy has 3 main elements – continuing to secure private sector lets though at a reduced rate (1,000 per year), establishing the company as a private landlord that takes on private sector leases and developing services for landlords to generate supply.

6.9.2 Haringey’s interest in being a member of Capital Letters has also been primarily about accessing private sector supply to meet our homelessness need. Given the reduced target of 1,000 lets per year to be distributed across all member boroughs, the number of lets we would be offered would be significantly lower than our aspiration when we joined. If 10 of the 19 boroughs remain as members, this would only be 100 lets each and it would be difficult to justify a resource of 3 officers and a £50K membership fee for this level of activity.

6.9.3 The new corporate strategy places significant emphasis on boroughs being able to transfer their private sector leased temporary accommodation portfolio to Capital Letters as this would allow them to charge LHA rates rather than 90% of 2011 LHA, and so achieve significant savings. Capital Letters would gain a source of income by charging for the management of the leases. However, we have already adopted this approach by managing leases through Homes for Haringey, and so this isn’t a function that we need Capital letters to perform for us. Our own experience of doing this is that it is fraught with difficulty as there are a number of factors relating to the property, the rent level and the resident’s own circumstances that determine whether a lease transfer would be beneficial. It seems unlikely that Capital Letters would be able to take on leases en masse as they hope, and they are currently untested in terms of property management.

6.9.4 It is unclear what the development of services for landlords would entail though it could include offering income collection services or becoming a managing agent. It is unlikely that these are services, which Haringey would choose to benefit from, or that this would lead to a significant increase in landlord interest given they can source these services from many established agencies.

7 Contribution to the Corporate Delivery Plan 2022-2024 High level Strategic outcomes.

7.1 This decision links to Homes for the Future - Everyone has a home that is safe, sustainable, stable, and affordable.

8 Statutory Officers comments (Director of Finance (procurement), Head of Legal and Governance, Equalities)

8.1 Finance

8.1.1 The financial and non-financial reasons for the recommendation to leave capital letters and end the secondment arrangement for our employees has been highlighted in the body of the report above.

- 8.1.2 It was expected that apart from the receipt of subsidy, the number of lets through capital letters would be higher than we would have achieved in-house.
- 8.1.3** The level of subsidy has significantly reduced to a point that it is comparable to the annual membership we pay. The number of lets has never met the set targets annually.
- 8.1.4 If the recommendation is approved, it is currently expected that the Council would not be adversely affected by such decision.
- 8.1.5 This is based on the past and current performances of Capital Letters. As highlighted in the report, their level of lets has never exceeded what we would have expected to deliver with the same staff in-house.
- 8.1.6 The staff on secondment are funded by the Council and would naturally come back to their roles in the Council, which gives us the control to utilise their skills and experiences flexibly.
- 8.1.7 There is opportunity to re-join Capital letters in the future if their corporate priorities changes and aligns with the Council's objectives.

8.2 Procurement

- 8.2.1 There are no procurement implications in this report, there will however be additional work when this service is brought back to LBH and Strategic Procurement will support a future sourcing strategy.

8.3 Head of Legal & Governance [Robin Levett Interim Senior Litigation Lawyer]

- 8.3.1 The Head of Legal and Governance has been consulted in the drafting of this report.
- 8.3.2 The Head of Legal and Governance sees no legal reasons preventing approval of the recommendations in the report.

8.4 Equality

- 8.4.1 The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act.
- Advance equality of opportunity between people who share protected characteristics and people who do not.
- Foster good relations between people who share those characteristics and people who do not.

- 8.4.2 The three parts of the duty apply to the following protected characteristics: age, disability, gender reassignment, pregnancy/maternity, race, religion/faith, sex, and sexual orientation. Marriage and civil partnership status applies to the first part of the duty.
- 8.4.3 Although it is not enforced in legislation as a protected characteristic, Haringey Council treats socioeconomic status as a local protected characteristic.
- 8.4.4 This report relates to the future of Capital Letters membership and the proposed approach to secure private sector accommodation for statutorily homeless households. The decision will therefore effect primarily those who are most at risk of homelessness and families currently in temporary accommodation.
- 8.4.5 Women and BAME communities are overrepresented among homeless households. Of those in temporary accommodation, 57% of households are headed by a lone female and 83% are from BAME Communities. Individuals with those protected characteristics as well as those who identify as LGBTQIA+ and individuals with disabilities are most at risk of homelessness as set out in the Homelessness Strategy.
- 8.4.6 The proposal to bring the sourcing of private sector accommodation in house will provide greater flexibility to respond to local market challenges potentially increasing opportunities to prevent and relieve homelessness and find settled homes for people at risk of homelessness and temporary accommodation residents. Considering the above two points, this decision may positively impact those who share protected characteristics. Additionally, it should be noted that there are currently no predicted negative equalities impacts that would result from this decision.

9 Use of Appendices

None

10 Local Government (Access to Information) Act 1985

- Capital Letters Cabinet Report and Minutes of Cabinet Meeting 9th October 2018 - [Agenda for Cabinet on Tuesday, 9th October, 2018, 6.30 pm | Haringey Council](#)
- Articles of Association - [Approval of Capital Letters Articles of Association.pdf \(haringey.gov.uk\)](#)