

Report for: Cabinet 20 October 2015

Item number:

Title: Move 51 Degrees North- update on Haringey's lettings agency

Report authorised by : Tracie Evans, Chief Operating officer

Lead Officer: Andrew Billany, Managing Director, Homes for Haringey

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** No decision required

This report updates Cabinet on progress being made to establish the private sector lettings agency, Move 51Degrees North. This is a subsidiary of Homes for Haringey and has been set up to offer an effective, good quality and affordable alternative landlords and tenants in the private rented market. This initiative is a direct commission for Homes for Haringey by the Council, to support key priorities in the drive to improve Housing within this Borough.

This is a key Haringey Corporate Plan commitment, and is outlined in the Medium Term Financial Strategy.

1. Cabinet Member introduction

1 in 3 of our residents privately rent their home. Yet too many are hit with poor service, eye-watering yet inexplicable fees and in the worst cases, properties barely fit for human habitation. As a Labour council determined to make sure everyone in this borough has a safe and decent home at a price they can afford, we make a pioneering manifesto commitment to set up a not for profit lettings agency.

We want to intervene in the market to champion a new way of doing lettings. A fair way, an affordable way, a transparent way. A new way that puts people before profit.

In essence, we are stepping in to challenge the market to do better for Haringey's renters. As the number of people renting grows, it's more important than ever that they can get a good deal from a lettings agency focused on pushing up standards – not just profits. We want people to live in Haringey and to stay in Haringey. Having a good home and a fair landlord you can trust is a key ingredient in making Haringey a great place to live.

The agency will give a better deal to both tenants and landlords. Many people don't realize that the opaque fees charged to tenants by some agencies are also charged to landlords. Our new not for profit lettings agency will provide a better deal for everyone.

The benefits of our approach are:

- A fair approach – a fair and ethical approach to lettings rooted in high quality service.
- Transparent fees – no hidden fees or charges. One single, up-front fee.
- Better quality homes – the agency will be able to take on homes that landlords are struggling to manage, bringing effective and high quality management to residents' homes.
- People before profit – the agency is a Community Interest Company, so all profits will be spent improving homes, not keeping shareholders happy.

The new agency will operate from Haringey and has been established as a Community Interest Company subsidiary of Homes for Haringey – the housing management company that manages council housing on behalf of Haringey Council. This means that we have access to a well-established pipeline of property maintenance services, meaning effective, affordable services can be provided to landlords and tenants.

The objective is for Move 51° North to transform the rental market both through the different service renters receive through the agency and the impact on existing lettings agencies. If Move 51° North works well, it will also force existing lettings agencies to behave in a fairer and more transparent way in order to compete. In the long term, these changes will push up the standards of the private rented sector and make the borough a better place to live.

2. Recommendations

The report is for noting.

3. Alternative options considered

The report is an update for Members and is not a matter for decision.

4. Background information

4.1 The drivers for establishment of a private sector lettings agency in Haringey are well documented and have been developed since being stated as a manifesto pledge in the May 2014 Council election.

- There are a rising number of Haringey people living in privately rented accommodation, currently standing at 31.5% of all housing stock in the Borough. Poor quality housing in the sector, rising rents, the impact of welfare reform, and mixed standards of tenancy management all lead to difficult conditions for some tenants. Specifically the Council have been vocal about its concerns over exorbitant tenant fees being charged by agents to carry out minor administrative tasks and the number of complaints relating to disreputable practices.
- The Council's Corporate Plan responded to these issues by stating one of its aims as 'London Borough of Haringey will use the Council's housing management organisation, Homes for Haringey, to establish a new not for profit lettings agency service, taking the sting out of letting for tenants by providing a reliable standard of safety and maintenance and removal of extortionate letting

agency fees to tenants, and enabling the Council to work with landlords in a supportive way to drive up standards’.

- In addition to this, there is high and rising demand for private rented properties in the Borough, and a subsequent rise in rents, well above inflation. This has impacted on the Council and Homes for Haringey’s ability to secure reasonably priced private sector housing to help households to avoid homelessness and for use as temporary accommodation (where we have a duty to provide a home, under the homelessness legislation).
- The insufficient supply of affordable settled accommodation (both in the social and private rented sectors) means what was intended as *Temporary Accommodation* is occupied for very long periods (often many years) and the chances of moving to secure settled homes are decreasing. The demand upon Council services, run by Homes for Haringey, remains high - from people without a home or being at risk of homelessness. At the same time, some landlords are looking to remove their properties from our existing portfolios and move to the open market where they can attract higher rental levels, albeit it with shorter term tenancies.
- Most Temporary Accommodation is acquired by the Council, when required, from managing agents, who in turn lease properties from owners. The lease with the owner will usually provide a guaranteed rent and carry some repair obligations. Previous formal tendering exercises have brought Housing Associations and similar organisations into the provision of Temporary Accommodation. However, the model has been essentially the same, with inflated costs of Temporary Accommodation being due to the margins and expectations of the owner *and* agent needing to be factored in. This is an increasingly volatile market, with cost pressures to local authorities particularly acute within London.

4.2 The Lettings Agency will not solve all of the homelessness issues, but will form part of a package of offers to landlords to attract additional properties for use and take a lead role in driving up standards of homes and management in the private rented sector in Haringey. We intend to be active and competitive (and influential) in three sectors of the market -

- Market Rent – at all levels in the local private rented market
- Assured Shorthold Tenancies suitable and at rents affordable for people who are under threat of homelessness and are either fully or partially dependant on welfare benefit. (This would prevent the need to take on a homelessness ‘duty to house’)
- Longer term leased Temporary Accommodation (where we hold a duty to house people and families under the Homelessness legislation).

These would be presented as options to landlords and property owners, with a chance to promote the positive long term advantages of the homelessness prevention offer to owners who may not have previously considered how this may provide attractive long term certainty and value to them.

- 4.3 Homes for Haringey were tasked with setting up the lettings agency, now branded as 'Move 51 Degrees North'. This will open for business in October 2015.
- 4.4 The objective is to provide a commercially run operation, with the appropriate expertise, to deliver the new products and services required. There is also potential to offer a lettings service where there is a need for short term occupation of Council properties which have been 'decanted' for future redevelopment. There is also the flexibility to offer a range of tenures, if necessary, and support Council leaseholders in their aspirations for the use of their properties (should they wish to let them out, or to sell on). Whichever route a new opportunity has come through, if it increases the number of properties available for Homes for Haringey to place households in, the structure allows for us to be nimble and respond quickly to opportunities, both in and out of the Borough. This approach is one way in which the Council can exert influence over the quality of private rented sector accommodation, only taking on properties which are safe and in good condition, and specialising in homes which are affordable to people on low and middle incomes, with the ability to provide on-going support to clients that have been placed in private sector accommodation.

The Core Product

- 4.4 Fundamentally, the agency intends to have a better offer for both tenants and landlords than the private sector market currently provides. For tenants, the low fees are 'one off' and transparently promoted, so will be attractive. We will be a trusted name, having a track record of delivering good services to our tenants with established mechanisms for tenants to have a voice. Tenants will see that we will only accept good quality lets. And in the end tenants follow the properties. For the landlord, we will have low fees (compared to the market) backed by a large financially secure organisation (which won't be running off with the landlord's money), which is in it for the long term and can offer an experienced, good service with ongoing advice.
- 4.5 There are further 'products' to be worked up to offer to landlords to further address need, such as guaranteed income short term lets. It is important that we are following up with the next product to landlords to attract properties across all 3 market areas. (Market rent, Assured Shorthold Tenancies to prevent homelessness and Temporary Accommodation)
- 4.6 As part of the Council's regeneration plans, it is looking to build properties for a range of tenures including market rent, affordable rent and shared ownership. The Agency will offer a strong option to let and manage these type of tenures, eliminating the need for the Council to procure the service externally, and ensuring surplus achieved from managing the portfolio is reinvested in services to the community and not in private company profits. The Agency will also generate a new customer base of private sector tenants and landlords which can be used to provide the Council with a new point of access to market its future housing products from its regeneration programme.
- 4.7 The Agency will have a positive brand and reputation in the private rented sector. It will also have established a centre of sales and marketing expertise that can be used to help enhance the marketing of other products to enhance services and address the impact of increasing homelessness.

Move 51 Degrees North

- 4.8 The Lettings Agency will be set up as a company in its own name and will be called 'Move 51 Degrees North'. Extensive market research was undertaken in arriving at the name and branding guidelines. It has a strong visual brand and appeals to the target market of landlords and tenants. The website is live at the end of September and can be viewed at <http://www.move51.london>
- 4.9 The agency will begin trading on 6 October 2015. It operates out of 48 Station Road and is managed by a Director of Lettings, reporting into the Homes for Haringey executive, through a company board, to the Homes for Haringey Board of Directors.
- 4.10 The agency offers all that a high street agency offers, is regulated by the appropriate sector organisations, and has been set up with a view to be able to move into sales, acquiring properties for the Council with Right to Buy receipts, and promoting new products into the private sector which have direct benefits for our housing needs. The initial step however is to attract new landlords we have not previously engaged with into our sphere of influence.

5. Financial implications

- 5.1 While income generation is not the primary aim of the Agency, it is important that it is financially viable and will pay back the investment and cover its annual costs by year 5. A market assessment has been used to model fees and assumptions. All assumptions have been conservative, with project management costs, marketing and staffing costs all at generous levels to ensure we are modelling on a worst case scenario.
- 5.2 As assumptions are based on market research so there is always a risk that the costs could be higher than estimated. However, when considered alongside the savings to be achieved from not using the higher subsidy rate for spot purchase (currently at £5k per property per year) the net cost to the Council will reduce and this will be calculated to track the benefits.

If there is a change of legislation which means there cannot be an administration fee charged to the tenants, the response must be to increase the management fee to the landlord. The whole market will need to respond to this in the same way so we can revert to a higher fee model and still be viable and retain our below market charges 'unique selling point.'

- 5.3 The Council has already approved, through the Medium Term Financial Strategy, up front cash funding for the agency of £200k over 2 years and expected this investment to be paid back by year 3. This was stated before our detailed modelling was completed which now shows a higher investment of £476k (an additional £276k) is required over 2-3 years resulting in a higher payback by year 5. The Assistant Director of Finance has been consulted and has confirmed that although there is sufficient budget to launch the Lettings Agency in Year 1, (the cash flow forecast shows that the £200k investment will be spent by January 2016) the additional investment and the impact on returns needs to be re profiled and is outlined in section 6.

	Year 0 £'000s	Year 1 £'000s	Year 2 £'000s	Year 3 £'000s	Year 4 £'000s	Year 5 £'000s	Total Financial Plan £'000s
Turnover		25	188	380	547	694	1,833
Other Income streams		101	259	332	344	403	1,440
Direct Costs, net		(48)	(75)	(119)	(148)	(182)	(572)
Gross Margin		77	371	593	744	915	2,701
Fixed Costs	(16)	(332)	(380)	(415)	(424)	(465)	(2,031)
Corporate Bonus		(16)	(16)	(16)	(16)	(16)	(82)
Operational Cashflow	(16)	(271)	(25)	162	303	435	589
Set-up	(144)						(144)
Capital	(42)						(42)
Set-up & Capital	(186)						(186)
Loan & interest							
Tax							
Net Cash Inflow/(Outflow)	(202)	(271)	(25)	162	303	435	402

5.4 We need to be alive to the opportunities of perhaps buying small local lettings agencies, at appropriate points in time. This would extend our market share at fairly minimal costs - this is a purchase of short term cash flow (because the landlord can leave the management contract at the end of the tenancy.) It could also secure HfH additional experienced staff with local knowledge and a track record of delivery. Such opportunity would need to be subject to robust financial and legal scrutiny however we would need to act quickly. An approach to this opportunity will be included in the revised business case to the Chief Operating Officer and to Cabinet in due course.

6. Contribution to strategic outcomes

6.1 This is a key Haringey Corporate Plan commitment, and is outlined in the Medium Term Financial Strategy.

7. Comments of the Chief Finance Officer

7.1 The budget approved for the Letting Agency as part of the MTFs was Investment of £200,000 in 2015-16 and £250,000 in 2016-17, which would in turn lead to savings of £225,000 in 2016-17 rising to £500,000 per annum for 2017-18 and subsequent years. Thus the initial Investment was expected to have been paid back in 2017-18 and a significant surplus / saving made thereafter.

Revised modelling demonstrates that the initial set-up costs were underestimated and the revised plan shown in Paragraph 5.4 shows that the Lettings Agency is only expected to make a net surplus in the 4th year, with a maximum surplus of £435,000 in the 6th year. Therefore it will be necessary for additional funding to be agreed additional funding to enable the Lettings Agency to continue. The source of this funding is being considered by the Chief Operating Officer.

The change in funding required is shown in the table below;

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6		Total
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21		
	£000s	£000s	£000s	£000s	£000s	£000s		£000s
Net Position Assumed Within the MTFS	200	25	-500	-500	-500	-500		-1775
Net Position Assumed Within Revised Modelling	202	271	25	-162	-303	-435		-402
Additional Funding to Required	2	246	525	338	197	65		1373

The additional funding required compared to the assumptions in the MTFS period 2015-16 to 2017/18 is £773,000.

Although the Lettings Agency is still assumed to make a surplus in the longer-term, this will now take longer to achieve and given that the initial set-up costs are now higher there is a greater risk that the surplus will not be achieved.

However, this position relates to surplus / deficit made by the Lettings Agency as a stand-alone organisation. It would be expected that the impact to the Council's wider finances is more positive as the lettings agency has the potential to reduce the level of Council spend on Temporary Accommodation, where the Council has a significant overspend due to rising rent levels in the Private Sector.

8. Comments of the Assistant Director of Corporate Governance and legal implications

8.1. The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and makes the following comments.

8.2. In formulating these comments, advice was sought from specialist Counsel, and taking account of advice received by Homes for Haringey from its external solicitors.

8.3. The Assistant Director of Corporate Governance can confirm that there is a sound legal basis for establishing a Lettings Agency (the Agency) pursuant to the terms of the Homes for Haringey Articles of Association, providing that (1) it remains a subsidiary of Homes for Haringey, and (2) any profits which are generated by the Agency are distributed to Homes For Haringey in accordance with its constitutional documents i.e. "applied solely towards the promotion of its objects".

8.4. The Assistant Director of Corporate Governance can also confirm that there is a sound legal basis for establishing the Agency as a Community Interest Company (CIC) given the driver of the Agency is to generate income for the benefit of the community, coupled with the ability to distribute profits made. Those features enable the creation of a CIC to have an advantage over other vehicles such as a charity, or a company limited by guarantee. However, it is important that steps are

taken to ensure that all of the relevant legislative framework which governs CICs is complied with.

- 8.5. The Assistant Director of Corporate Governance can also confirm that the creation of the Agency could potentially amount to notifiable State Aid – that is aid from the Council or Homes for Haringey which exceeds EUR 200,000 over any period of three fiscal years - in the context of, for example, (1) financial assistance already given by (and to be given) the Council to Homes for Haringey; (2) the provision of any services from the Council or Homes for Haringey to the Agency otherwise than on commercial market terms - i.e. any benefit afforded to the Agency from sharing support services and office space with Homes for Haringey; (3) the benefit of any guaranteed business streams from the Council or Homes for Haringey to the Agency.
- 8.6. The Assistant Director of Corporate Governance can confirm that officers will continue to work through any State Aid issues, such as those stated in paragraph 7.5 above, with a view to resolving them. Accordingly, the Assistant Director of Corporate Governance supports the comments made in the financial implications section of the report, in making the point that the Agency needs to be financially viable, and to treat the existing £200k authorised as a start up investment - and any further funding - as a loan made on commercial terms.
- 8.7. In concluding, the Assistant Director of Corporate Governance makes the point that care also needs to be taken over not breaching EU procurement rules in the context of the Agency letting and managing Council properties. It is with that risk in mind, why the advice is that any services supplied by the Agency to the Council or Homes for Haringey should be delivered at cost price, and as such any profit making activity should be limited to external business streams.

9 Equalities and Community Cohesion Comments

- 9.1 There is no policy change required within this project and therefore no EQIA has been undertaken. However, an initial review was prepared as part of the preparation for the Medium Term Financial Strategy and no impact to protected characteristics was identified as a result of this project. There is however a general potential benefit to all residents of Haringey, providing additional options to people wishing to rent a home and landlords wishing to be supported in managing their property well.
- 9.2 All staff roles within the new agency were advertised internally at Homes for Haringey so open to all employees to apply.
- 9.3 We have targeted leaseholder landlords who are subletting, to make them aware of the benefits of one management company on mixed estates. The benefit of this is that the wider service offer to all residents on our estates, no matter what their tenure, is enhanced by reducing the risks around of rogue landlords and tenants adversely affecting all residents.
- 9.4 Being present on estates as a managing agent enables better management of Anti Social Behaviour cases and close working with Council and Homes for Haringey services.

- 9.5 Being a subsidiary of Homes for Haringey, the agency is accountable to regulators and the Board of Management, and through the Residents Scrutiny Panel, so a safer rental option for residents and security for landlords.
- 9.6 Registration as a prospective tenant is open to all tenants who wish to rent at market rent levels
- 9.7 As a subsidiary company of Homes for Haringey, the Agency adheres to the same equality standard and regulations.

10 Head of Procurement Comments

Not applicable

11 Policy Implication

- 11.1 This initiative is in support of the Corporate Plan objective to improve housing standards across tenures in Haringey. It supports a raft of policy and strategy initiatives to support the delivery of the Housing strand of the Corporate Plan, linking well with other proposals around private rented sector licensing, the use of the sector to provide good quality housing for people at risk of losing their home and driving up the quality of neighbourhoods. It is a direct response to the identification of poor standards within the private rented sector in Haringey and looking to Homes for Haringey to set up a lettings agency to improve standards and to provide a reliable service for tenants and landlords. This also drives Homes for Haringey in its intention to deliver 'joined up' housing services and advice, providing operational and policy opportunities in areas such as the management of sub-let leasehold properties on Estates and providing a service to failing landlords, who would otherwise be subject to enforcement action.

12 Reasons for Decision

No decision required

13 Use of Appendices

None

14 Local Government (Access to Information) Act 1985

None