

REPORT TO:	CABINET 10 December 2018
SUBJECT:	Proposal to Join Pan-London Homelessness Prevention Procurement Hub (“Capital Letters”)
LEAD OFFICER:	Shifa Mustafa, Executive Director of Place Leonard Asamoah, Head of Housing Solutions
CABINET MEMBER:	Councillor Alison Butler, Deputy Leader and Cabinet Member for Homes and Gateway Services
WARDS:	All wards

CORPORATE PRIORITY/POLICY CONTEXT/ AMBITIOUS FOR CROYDON

The recommendations in this report will support the Corporate Plan objectives of **Good, decent homes, affordable to all**, whereby we will work on partnership with local landlords and agents to provide good quality and affordable temporary accommodation in the Private Rented Sector. The recommendations will also support aspirations **Our children and young people thrive and reach their full potential** encourage by providing long terms and sustainable accommodation enabling families with young children to plan their lives .

FINANCIAL IMPACT

The financial impact of joining this procurement hub will generate savings for the temporary accommodation budget. The costs to the Council of tackling homelessness is currently £28.2m (gross budget) and £3.2m (net costs).

The proposal is anticipated to procure 220 properties per year from the joined-up pan London initiative. The proposed potential savings for 220 units is estimated at £0.300m in the first year 2019/20.

FORWARD PLAN KEY DECISION REFERENCE NO.: 1718CAB

The Leader of the Council has delegated to the Cabinet the power to make the decisions set out in the recommendations below.

1. RECOMMENDATIONS

The Cabinet is recommended to.

- 1.1 Note the £38 million over three years potentially being made available by MHCLG specifically for pan-London collaboration on the procurement of accommodation for homeless households
- 1.2 Approve the decision to join a Company Limited by Guarantee (provisionally, “Capital Letters London Ltd”(Capital Letters) that will be established by the London boroughs to support the aforementioned aims, as an ‘A’ member

- 1.3 Approve the appointment of the Head of Housing Assessment and Solutions as the Council's Member Representative of Capital Letters.
- 1.4 Delegate authority to the Director of Housing Assessment and Solutions in consultation with the Deputy Leader and Cabinet Member for Homes and Gateway services and the Director of Law and Monitoring to approve operational staffing and arrangements, the final form of agreement and documents and all other matters pertaining to the Council's membership of and participation in Capital Letters

2. EXECUTIVE SUMMARY

- 2.1 Capital Letters is a proposed joint endeavour between a group of London boroughs to reduce the costs of temporary accommodation and deliver improved outcomes for homeless families, by jointly procuring and managing accommodation across London. London Housing Directors and the officer team at London Councils have been working on a model which will enable better outcomes for homeless and at risk households as well as for councils. The proposal is to establish a not for profit company, limited by guarantee called "Capital Letters". This report outlines the proposal and recommends that the London Borough of Croydon should join the company. Capital Letters will collaboratively procure new properties on behalf of London boroughs supported by the MHCLG top-slice and on a pan-London basis. In addition to the top-slice, the pan-London procurement is intended to have a deflationary effect on procurement and allow a more rational allocation of supply across London, allowing households to be housed closer to placing boroughs. Member boroughs will also be able to transfer existing leased properties into Capital Letters. Boroughs will also be able to convert often expensive nightly paid accommodation where appropriate.
- 2.2 Capital Letters will grow in phases, with an initial number of boroughs joining in the first year, followed by phase two a year later, and eventually including, if not all, then the clear majority of London boroughs. There are also two types of company membership, A and B. The distinction is noted in the Articles of Association appended to this report.
- 2.3 Properties are expected to be a mixture of Private Rented Sector properties let by the property owner to households nominated by the boroughs, and properties leased directly from landlords or from managing agents.
- 2.4 By the end of the third year of operation it is envisaged that Capital Letters will have a staff complement of around 270 officers and an annual income of £238m. By this stage it will have secured almost 20,000 additional properties to help prevent and tackle homelessness, and will have an estimated 13,000 properties either fully or partially under its management.
- 2.5 Capital Letters will be established as a not-for-profit Company Limited by Guarantee, wholly owned by the member boroughs. Boroughs must become members of the company in order to participate in and benefit from its activities and access the additional MHCLG funding. The benefits expected are to:

- support the Council in reducing the use of nightly paid accommodation so tenants can be offered more security and better property standards.
- access the grant offer from MHCLG of £38m (top sliced from FHSG) designed to contribute to the management fee; incentive support for direct lettings in the PRS; as well as costs associated with setting up the CL business including a new property listing IT system.
- Potentially access 100% of current LHA (Boroughs can only access 90% of 2011 LHA) reducing the financial pressure on the Borough
- reduce nightly paid costs to the Boroughs
- increase opportunity to procure accommodation in or closer to the host Boroughs – as there will be an independent mechanism to allocating properties procured.
- maximise economies of scale and provide better grant rates for providers and therefore increase procurement numbers as providers will be more attracted by the competitive rates; and
- reduce both numbers in nightly paid as well as overall numbers of homeless as Boroughs can discharge duty into any leased accommodation.

2.6 This report asks the Cabinet to approve the recommendation that Croydon becomes a member of the proposed company, Capital Letters London Ltd. Detailed operational decisions about seconding staff and procuring through the company will be approved by the Head of Housing solutions in consultation with the Deputy Leader and Cabinet Member for Homes and Gateway under delegated authority. The overall benefits to local residents in Croydon include access to additional units of accommodation which will increase choice .

3. Background

3.1 The immediate background to this work is the increasing level of homelessness and the resulting provision of Temporary accommodation (TA) and prevention placements. In March 2017 there were 77,240 households in TA nationally, an increase of 60 per cent since March 2011. Seven out of ten of these households are placed by London boroughs. The cost of providing TA in 2015/16 (£845 million) accounted for more than three quarters of the total cost of providing homelessness services nationally (£1.15 billion). This taken alongside the devastating affect homelessness has on individuals, families and children is simply unsustainable, particularly given the draconian cuts to Local Government funding.

3.2 Homelessness responds to a combination of structural economic and housing market factors. Government policy, particularly in relation to housing and welfare, also has an impact on levels of homelessness. There are serious concerns that access to market housing will be affected by the rate at which house prices and private rents are likely to rise in comparison to household incomes. Affordability is an increasingly significant issue for households in Croydon, despite the fact that house prices and private sector rents are lower than particularly inner London. Median House prices in Croydon are over 10 times median salaries. Competition for market rented housing is pushing up rents, and local landlords are sadly reluctant to let their homes to people on benefits. The most common reason for homelessness continues to be the loss of a private rented tenancy. This is exacerbated by the Government's decision to freeze the Local Housing Allowance (LHA), even though the council had

previously demonstrated to Government that Croydon had the biggest mismatch between LHA and actual rent levels of any English local authority.

- 3.3 In Croydon, the Council has been tackling homelessness in recent years through a wide range of Initiatives which includes acquiring properties in the Private Rented Sector to place homeless households and a great emphasis on prevention, stopping families actually becoming homeless. Because of these actions the number of decisions the council had to make in response to households applying as homeless in 2017/18 was 1336, the fewest in 11 years; and a strong indication of the impact Croydon's 'Gateway & Welfare' approach is having. The number of people in temporary accommodation also fell from 2,449 in March 2017, to 2005 in March 2018, the lowest level in 6 years. The number of households placed in emergency accommodation has fallen from 801 at the beginning of the financial year to 667 at the end of 2017/18. These figures show how the council has shifted its focus and activity, through its Gateway and Welfare Service, to intervening early, and preventing homelessness before it reaches a crisis point wherever it can. In 2017/18, the council managed to prevent or relieve homelessness for 2,155 households, the highest number since 2010/11.
- 3.4 In recognition of this, MHCLG have provisionally allocated £38 million over three years to the scheme, which has been top sliced from the Flexible Homeless Support Grant (FHSG). Whilst it is hoped that MHCLG will fund the project in full, allocation of some of these funds may take place in the next national spending review and therefore the Ministry have now confirmed the funding for three years which reduces the risk for the Council.
- 3.5 MHCLG funding is expected to be used in the following three ways:
- Contribution to Private Sector Leases (PSL),
 - Private rented placement incentive payments,
 - Central cost contribution, e.g. for additional procurement staff, tenancy sustainment staff, IT and premises for the company.
- 3.6 Participating boroughs who become full members of Capital Letters will initially second staff from their procurement and management teams performing this function to Capital Letters¹. This will allow the existing skills, expertise, local knowledge and client relationships held by those officers to be absorbed into Capital Letters.
- 3.7 The activity of seconded staff continuing with the procurement activities they were previously undertaking for their borough will be supplemented by approximately 20 additional staff employed directly by Capital Letters. It is anticipated that this will lead to 4,300 additional properties within Greater London being procured in the first three years.
- 3.8 Boroughs will be allocated at least as many properties over the first year as were procured by the staff it seconds in the previous year. Any additional properties would be allocated to the participant boroughs in proportion to the

¹ Boroughs do not have to second staff, although most are likely to as this is considered an effective means of supporting the requirement of placing a minimum of 50% of their relevant procurement through Capital Letters as referred to in paragraph 3.14

staff resources they have contributed through secondment or funding of staff recruited directly by Capital Letters. 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 into account the provisions of the homelessness suitability order as they apply to individual households. This should mean that a smaller number of households have to move a long distance from their home borough than is currently the case. Proposed allocation policy principles are set out in the model Service Level Agreement appended to this report.

- 3.9 The company will be funded by a combination of MHCLG grant, rents from tenants and top up payments from member local authorities. These are the payments that are already made by local authorities, for example through Discretionary Housing Payments (DHP) or other existing budgets when Local Housing Allowance (LHA) rates do not cover full rent. They will be made lower for local authorities as a result of the MHCLG subsidy, so the net impact for Croydon should be a real reduction in expenditure per property.
- 3.10 The company will be established as a private company limited by guarantee, owned and managed by the boroughs who constitute limited liability members of the company. The liability is limited to £1. It will also be Teckal compliant in relation to public procurement regulations, which means that as a company member Croydon will be able to use the company's services without undertaking a competitive procurement process.
- 3.11 The activity of the company will be supported by a digital Property Listing Platform (PLP). A specification for this IT system has been developed by London Ventures, in consultation with the Capital Letters working group. Soft market testing has identified a number of providers who would be able to develop a product which meets the specification requirements. Initially, one borough will lead on the procurement of this PLP on behalf of the company.
- 3.12 The timescale for programme delivery assumes the new company is established and trading by April 2019, with a first wave of boroughs joining by then and a second wave of boroughs joining in April 2020.
- 3.13 Therefore, the Cabinet is asked to approve the recommendations that Croydon joins the company as an A member so that the borough may benefit from the services provided by the collaborative enterprise.
- 3.14 A minimum condition of being an A member of Capital Letters is that at least 50% of the annual supply of new non-emergency accommodation for homeless households for that borough is provided by Capital Letters in the first year. This is a minimum requirement, many boroughs will put through a higher percentage of their supply.
- 3.15 The work that Capital Letters undertakes will support and enhance the procurement/Housing Initiatives work being undertaken in Croydon as it will enable the Council to gain access to properties on a wider geographical area across London which will increase choice and opportunities for our residents where they wish to relocate to other parts of London.

3.16 It is also envisaged that being part of larger procurement framework, the Council will benefit from economies of scale and drive down costs and improve quality which will benefit homeless households where Croydon has a statutory duty. In this way, the decision to join a pan London Procurement Hub will mean that not only will this complement existing local activity but it will be an additional tool/ remedy to help the Council meet its statutory obligations under homelessness legislation which have increased with the implementation of the Homeless Reduction Act in April 2018.

4. CONSULTATION

4.1 At this stage, no consultation is needed as the proposed procurement hub will support existing mechanisms of temporary accommodation procurement already established in the borough.

5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

5.1 MHCLG has provisionally allocated £38m of funding top-sliced from the Flexible Homelessness Support Grant (FHSG) over a three year period to fund the Capital Letters project detailed in this report.

5.2 The gross budget of the Homelessness Service in Croydon for 2018/19 is £28.2m (net cost £3.2m), with the major cost element being £24.1m for the rent payable to landlords for the supply of temporary and emergency accommodation. The main source of income derives from the rents and charges that are levied to occupants.

5.3 Although the Council has a statutory duty to pay benefits, the level of subsidy that is recouped from the DWP is capped. The high rent levels charged by suppliers of temporary accommodation are leading to budgetary pressures within the Housing Benefits budget due to this variance between the statutory benefits paid out and the Government subsidy received.

5.4 The budgetary pressure on TA has further increased as a result of the requirements of the Homelessness Reduction Act which came into effect in April 2018. To alleviate these pressures, the Council has recently introduced various initiatives to increase supply, including the approval of significant capital investment to purchase street properties to be let as temporary accommodation.

5.5 Joining the pan London initiative will provide a further supply of units for use as temporary accommodation, to be procured at a lower cost to the Council than is currently the case. There will be robust governance and monitoring arrangements in place to monitor the financial impact of Croydon's membership.

5.6 The amount and type of temporary accommodation procured each year will vary depending on demand. Acquiring leased accommodation on a longer term basis via 'Capital Letters' should reduce the need to repeatedly procure the more expensive nightly paid accommodation on an ad hoc basis.

- 5.7 In addition, leasing via 'Capital Letters' will be cheaper on a net cost basis because: (a) the MHCLG top sliced funds will be used to cover part of the incentive payment to the landlord; and (b) as a private company 'Capital Letters' can benefit from Government subsidy at the full 2018 Local Housing Allowance (LHA) level whereas leases directly procured by the Council are only eligible for subsidy at a rate of 90% of the January 2011 LHA.
- 5.8 It is anticipated that a financial benefit of £116m will accrue across London boroughs over the first three years of the initiative, however at this stage it is not possible to quantify exact levels of savings that will be realised within the Council's General Fund. It is forecast that a potential saving of at least £0.300m will be delivered in the first year (2019/20), increasing in future years as the project expands. Once more detailed savings projections are available these should be incorporated into the Council's Medium Term Financial Strategy as appropriate.

RISKS

- 5.9 There is a risk that MHCLG funding will only be provided for the first year.
- 5.10 As this is a new scheme, the benefits from membership will continue to be closely measured and reported to ensure that membership for Croydon remains beneficial.

Approved by: Lisa Taylor, Director of Finance, Investment and Risk

6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER

- 6.1 The Solicitor to the Council comments that:
- The Council owes a statutory duty to provide temporary accommodation and / or assistance to applicants who are assessed as homeless or threatened with homelessness^{6.3} Under S1 of the Localism Act 2011 the Council has the power (subject to certain restrictions) to do anything that individuals may generally do.
- 6.2 The report describes Capital Letters as a Teckal company. Under Regulation 12 (4) of the Public Procurement Regulations 2015, a contracting authority may award a contract to any person without undertaking a competitive process where:
- (a) the contracting authority exercises jointly with other contracting authorities a control over that legal person which is similar to that which they exercise over their own departments;
 - (b) more than 80% of the activities of that legal person are carried out in the performance of tasks entrusted to it by the controlling contracting authorities or by other legal persons controlled by the same contracting authorities; and
 - (c) there is no direct private capital participation in the controlled legal person with the exception of non-controlling and non-blocking forms of private capital

participation required by national legislative provisions, in conformity with the Treaties, which do not exert a decisive influence on the controlled legal person.

- 6.3 It is understood that the officer team of the London Councils have commissioned legal support from Law firm Trowers and Hamlin in developing the model described in (and template documents appended to) this report. In addition the Council's own legal advisors have also reviewed the model described in this report and have not raised concerns that would be a prevention to implementation. Legal advice will continue to be taken as required.

Approved by: Sean Murphy, Head of Commercial and Property Law and Deputy Monitoring Officer on behalf of the Director of Law and Governance and Monitoring Officer.

7. HUMAN RESOURCES IMPACT

- 7.1 This paragraph should include any considerations in relation to staffing levels, restructuring/regrading, recruitment, employee relations, the Council's personnel policies or other human resources matter Member councils will be required to second staff to the company. Temporary accommodation is currently procured within the Council's Housing Service and it is anticipated that two staff members will be seconded to the company. The report proposes that all arrangements for these secondments are delegated to the Head of Housing Solutions.
- 7.2 There is no requirement for additional staff as the staff to be seconded will be from existing resources.

8. EQUALITIES IMPACT

- 8.1 The proposal to join the Pan London Hub will enhance and support our current work to increase supply in the Private Rented Sector (PRS) and will be an additional tool to enable the Council to meet its statutory obligations under Homelessness legislation. The key benefits for service users will be in relation to the quality and location of accommodation, as well as the provision of tenancy sustainment support.
- 8.2 A comprehensive review of homelessness was undertaken that provided equality information of existing homeless applicants. In relation to gender, 6 out of 10 homeless households applying in Croydon is headed by a single female applicant and 68% are made by households headed by a female applicant. In relation to age, homeless households tend to be younger than the general population, and Croydon has a slightly younger population structure than the rest of London. Over half of homeless households accepted are aged between 25 and 44. In relation to race, black households tend to be overrepresented among homeless households. In Croydon, 46% of homeless households are of Black ethnic background (compared to 20.2% of the general population on census day 2011), and 24% from a White ethnic background. In relation to disability the numbers of people accepted as homeless with physical

or learning disabilities is very small compared to other groups. Only 5 homeless applicants were assessed as vulnerable due to a physical disability in 2017/18 (less than 1% of the total).

- 8.3 Joining the Pan-London Homelessness Prevention Procurement Hub will help the council meet its equality objective to increase the support offered to people who find themselves in a position where they are accepted as homeless especially those from BME backgrounds and women.
- 8.4 An equality analysis was undertaken to ascertain if there will be any positive or negative impacts on groups that share protected characteristics, this found that the proposed actions will have a positive impact on all protected groups as pan London procurement will mean good quality accommodation in a wider area of choice as well as the ability to cater the needs of applicants with disabilities and those who need adapted accommodation. A London wide procurement hub will also support specific needs of victims of domestic abuse, women, and the elderly as well a wider area of choice for applicants from diverse background. The analysis further demonstrated that the policy is robust. The evidence shows no potential for discrimination and we have taken all opportunities to advance equality and foster good relations, subject to continuing monitoring and review.

9. ENVIRONMENTAL IMPACT

- 9.1 No specific adverse environmental impacts have been identified resulting from the proposals contained in this report.

10. CRIME AND DISORDER REDUCTION IMPACT

- 10.1 No specific adverse crime and disorder impacts have been identified resulting from the proposals contained in this report and implement a strategy for the reduction of crime and disorder in the area.

11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION

- 11.1. The decisions recommended are required to join the company and participate in the collaborative procurement approach and to access the MHCLG funding.
- 11.2. The estimated aggregate financial benefit of the proposal to London boroughs collectively is up to £116m, plus potential savings on changing how placements are made and reduced repeat homelessness through tenancy sustainment. The company will build on the Inter Borough Accommodation Agreement (IBAA) which has led to reduced spending through rate-sharing and the application of a cap on rates paid for certain accommodation. The company will work within this system, and provide further opportunities to rationalise and secure efficiencies in the procurement of accommodation for homeless households.
- 11.3. Capital Letters will be set up in a number of phases (see proposed timescale in Appendix B). There are a number of reasons why it would be advantageous for

Croydon to be part of the first wave of boroughs which are anticipated to start operations in April 2019.

- 11.4. The MHCLG subsidy per borough will be greater in the first year. This is important in terms of the proportion of centrally funded staff compared to borough funded staff, which should provide a greater uplift to procurement numbers for the boroughs in the first wave. The MHCLG subsidy per property will also be greater in the first year and boroughs joining in the first year will receive an additional year's subsidy from MHCLG compared with boroughs joining later.
- 11.5. The boroughs involved in the set-up of the company will have much more control over the way it is set up and shaped than boroughs who join later after the organisation has been established.
- 11.6. Boroughs who do not join Capital Letters will still have properties procured by Capital Letters in their area. Although Capital Letters will abide by the agreed IBAA rates, there is nevertheless a significant risk that landlords and agents will prefer to work with Capital Letters than within individual boroughs because of the profile it will have when launched, and because of the more streamlined ability to let properties across London with one organisation than with a number of different boroughs, all with slightly different terms and conditions and different personnel.
- 11.7. If Capital Letters is successful then it will be possible for Croydon to secure more private rented and leased properties in London within or close to the borough, thus reducing the need to place families in B&B and hotel annexes, in more distant parts of London or outside London altogether. It would be better to secure these benefits sooner rather than later.
- 11.8. The decisions recommended are required to join the company and participate in the collaborative procurement approach and to access the MHCLG funding.

12. OPTIONS CONSIDERED AND REJECTED

- 12.1 There is the option not to join the company in the first phase. This would result in a lost opportunity to access MHCLG grant funding, alleviate the costs of providing temporary and prevention accommodation, increase the procurement of leased temporary accommodation, reduce the use of expensive nightly paid accommodation and enable the placement of many households closer to home.
 - 12.2 Rather than A membership in the first phase, the Council could alternatively join the company as a B member. This would still enable the Council to receive services from Capital Letters but would mean that the Council has less influence over the strategic direction of the company. It would also mean Croydon would not have access to additional MHCLG subsidy for newly procured properties. The distinction between A and B membership is noted in the appended Articles of Association.
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APPENDICES TO THIS REPORT:

Appendix 1 – Articles of Association
Appendix 2 – Members Agreement
Appendix 3 – Service Level Agreement
including schedules on procurement,
nominations and management
Appendix 4 – Management Agreement
Appendix 5 – Lease
Appendix 6 – Assured Shorthold Tenancy
Agreement

BACKGROUND DOCUMENTS:

None