

REPORT FOR: **CABINET**

Date of Meeting:	17 June 2015
Subject:	Proposal to develop a commercial Lettings Agency
Key Decision:	No
Responsible Officer:	Tom Whiting, Corporate Director of Resources
Portfolio Holder:	Councillor Glen Hearnden, Portfolio Holder for Housing Councillor Keith Ferry, Deputy Leader and Portfolio Holder for Business, Planning and Regeneration
Exempt:	No, except for appendix 2 to the report which is exempt under paragraph 3 of Schedule 12a of the Local Government Act 1972 (as amended) because it contains commercially sensitive and confidential information relating to the financial and business affairs of the Council
Decision subject to Call-in:	Yes
Wards affected:	All
Enclosures:	Appendix 1 : Executive Summary Appendix 2 (Exempt) : Feasibility Report plus appendices

Section 1 – Summary and Recommendations

This report sets out the business case for the development of an independent trading company wholly owned by the council to operate as a lettings agency. The agency would trade providing services to private landlords and would be capable of providing management services for other General Fund rented housing. Based on current projections, the agency would require a short-term working capital loan from the Council of up to £100,000 to cover the first year of trading, which would need to be made on commercial terms. As preparatory work advances, it is hoped that the drawdown from the available loan would be less than this amount.

Recommendations:

Cabinet is requested to:

Approve the development of further preparatory work, described in the report, to enable officers to report back to a future Cabinet meeting to approve a suitable company structure for a Lettings Agency.

Reason: (For recommendations)

The proposed lettings agency is intended to; support the council maintaining access to private properties to meet its statutory housing duties, generate an income stream back to the General Fund and provide a management vehicle for new and acquired housing in council ownership. Overall the proposals support the council's priorities to make a difference for the most vulnerable and for families.

Section 2 – Report

Introductory paragraph

The establishment of a lettings agency will contribute the first significant strand of the council's commercialisation strategy, alongside the existing HB Public Law Practice.

In practice the delivery of an ethical and trusted lettings agency service can help improve standards in the market, avoid exploitation of both tenants and new / accidental landlords and provide a vehicle for the delivery of management services for the council's own acquired housing stock (outlined elsewhere in this report). In addition any potential newly built private rented units owned by the council could be managed via this agency. Finally the agency should produce a positive revenue stream for the council to contribute to the General Fund.

Options considered

Options considered included:

- Do nothing - which would not generate income and would see the management costs of the new private rental stock "leak" out of the Council. Equally, the housing tenure data as presented in the report suggests that the PRS will be the main source of new housing supply in Harrow and the Council risks losing access to supply opportunities if it does not take a position in accessing and managing housing stock in the PRS.
- Enter into a strategic partnership - This option could cause conflict between the council and a partner in terms of bringing new standards to the market and would still see revenue "leak" away.
- Opt into a Franchise - while this could minimise some of the set up risks it was felt that the knowledge held in house within the council could minimise such

risks assuming that commercial expertise is commissioned. There are also limitations on a new business identity from a franchise operation and recurring franchise costs that hinder profitability in the future.

Background

The idea to create an agency developed from the concept of developing PRS properties to generate an income stream and was expanded to identify the synergies of working with the existing Help2Let product offered to private landlords. In order to develop the idea a focused project was set up and a project manager appointed to test the assumptions and viability model over a 6 week period. The project report produced is provided in part two of this report. The report analyses the growth in the market, the financial model showing potential cash flows and the offer that could be made to landlords.

Current situation

The commercialisation strategy sets out a proposed direction of travel and will require a further report to cabinet setting out the details of company structure(s) proposed. At this stage officers are confident that a lettings agency would sit comfortably in the likely structure that will be brought to a future cabinet.

It would be desirable to continue with the work already begun to establish a viable lettings agency in preparation for the formal establishment of the company which will need to sit outside the council as a wholly owned subsidiary in order to trade.

The following work needs to be done prior to commencing trading as a lettings agency:

- Refine offer and marketing to be put in front of landlords
- Define and produce an independent web site
- Identify suitable premises
- establish HR policies and terms of employment
- Establish working practices, policies and procedures
- Establish registrations (rent deposit, dispute resolution, etc.)
- cash collection procedures
- insurance
- accounting framework
- establishing the company

Why a change is needed

The Executive Summary of the Feasibility & Business Report that is attached as appendices to this report sets out the case to establish a “Harrow Lettings Agency” – operating in the commercial private rented sector within an agreed company structure. This proposal is in keeping with the commercialisation agenda of the Council and would fit within an approved Company structure to be agreed at a future Cabinet meeting.

There are some key factors that have contributed to the proposal to establish a “Harrow Lettings Agency” as described.

- ✓ Housing data for choice and supply points to the PRS as being the dominant tenure now and in the years ahead
- ✓ New housing supply will come overwhelmingly from the PRS as the owner occupied sector and the social housing sector continue to stall in growth or decline against all tenures

- ✓ The Council should consider a new relationship with the PRS in meeting housing need and statutory homelessness – otherwise need will not be met and costs will rise
- ✓ A commercial “Harrow Lettings Agency” can be established for a relatively small investment within a prudent business model that should generate a healthy profit in year 2 of the company trading
- ✓ Business risks can be managed within an appropriate risk management format
- ✓ There is an opportunity to set up an ethical business in the PRS that can be profitable and be a sector leader in it’s business terms and working relationships
- ✓ There is an overall fit with the Council’s commercialisation agenda and this strand captures a key element of the current and potential housing agenda of the council

Implications of the Recommendation

Considerations

The model of cash flows set out in the project report shows positive net cash flows achieved towards the end of year one, with a healthy diversified business stream from years 3 onwards. Conservative assumptions have been used to predict turnover with private landlords and once established there are significant opportunities for growth as new developments come on stream in and around Harrow. However, there are set up costs to be invested and the preparatory work can be off set against early years profits reducing tax liabilities.

Staffing/workforce

In order to develop stage two of this project - i.e. post project verification and pre company formation - the project manager used for phase one report is able to develop much of the work. Ultimately once established the new company will need to employ staff directly using appropriate terms and incentive based payment systems.

Risk Management Implications

The risks associated with this project have been identified and monitored in a risk register shared with the project board of officers and Housing Portfolio holder who have overseen development to date. Risks at this stage are minimised by the proposed preparatory work set out in this report and for the new company the risks will be in the early months of set up.

There is a separate risk register in place.

Legal Implications

- The Localism Act 2011 and associated Regulations specify that commercial trading must be undertaken through a company.
- HB Public Law's private sector partner, Bevan Brittan, are advising the council on legal requirements as the project progresses, including the appropriate company structure and the legal implications arising from the chosen structure

Financial Implications

The financial implications of the proposed decision are contained within the appended report.

- There are no capital implications in the current or future years
- Trading is assumed to commence half-way through this financial year, and the reporting period is assumed to be the same as that of the Council for ease of producing consolidated financial accounts. This means that the first year of trading will be a part year.
- The revenue forecasts contained within the appendix project a small loss in the first part year of trading due to the need to fund some initial costs of establishing the business and to start to build a client base of landlords. There may be a need for the Council to provide working capital to the company initially on commercial terms to cover the initial trading period.
- This loss is projected to be covered by a profit in the first full year of trading, with profits then building steadily as the business reaches its projected business potential.
- In practice, the agency would require a short-term working capital loan from the Council of up to £100,000, to cover the first year of trading, which would need to be made on commercial terms. As preparatory work advances, it is hoped that the drawdown from the available money would be less than this amount. Should the company fail to achieve its income targets, some or all of this money may be at risk.
- As can be seen from the projections included in the appendix, the business is projected to generate income streams which would belong to the Council as the company would be wholly-owned by the Council.
- The project has been modelled in isolation at this stage, and has been demonstrated as being viable in its own right. In practice the business is likely to form part of a group structure with additional companies set up to deliver other areas of commercialisation, some of which are included on the agenda for this meeting. As well as being a logical decision, this group structure may well deliver benefits such as economies of scale, and be potentially more tax-efficient than stand-alone companies. Further work is being undertaken in respect of the legal and taxation aspects of the commercialisation agenda, and these will ultimately determine the extent to which any particular business strand generates income for the Council.

Equalities implications / Public Sector Equality Duty

An initial Equalities Impact Assessment indicates that there are no adverse impacts generated by this report a full EqlA will be produced for the final business report.

Council Priorities

The Council's vision:

Working Together to Make a Difference for Harrow

Please identify how the report incorporates the administration's priorities.

- Making a difference for the vulnerable
The proposed agency will work to offer fair terms and minimise or eliminate charges to tenants while offering fair terms of business.
- Making a difference for communities
The agency will work to ensure that properties are well managed and tenants & landlords are made clearly aware of their rights and obligations to local communities
- Making a difference for local businesses
While the proposed agency will offer competition to existing businesses it is unlikely to ever take more than a small percentage of the 18,000 private tenancies let in the borough as recorded in the 2011 census. By setting high benchmark standards the agency should demonstrate that fair charges to landlords can deliver high quality services which will undermine the cheap and ineffective agencies that potentially tarnish the industry.
- Making a difference for families
Families of all ages and income levels will be able to access high quality well managed homes and use the service as a benchmark for the level of service that should be on offer.

Section 3 - Statutory Officer Clearance

Name: Dave Roberts

on behalf of the
Chief Financial Officer

Date: 15 May 2015

Name: Stephen Dorrian

on behalf of the
Monitoring Officer

Date: 15 May 2015

Ward Councillors notified:	YES
EqIA carried out: EqIA cleared by:	NO EqIA will be produced in relation to overall commercialisation agenda and separately for the formation of each company

Section 4 - Contact Details and Background Papers

Contact: Paul Mullins, Interim Senior Special Projects Manager, 0208 420 9680 ext 5680 paul.mullins@harrow.gov.uk

Background Papers: None.

Call-In Waived by the Chairman of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in applies]</i>
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