

## **Local lettings agencies: a good practice guide**

Providing access to the private rented sector while generating income

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## Foreword

The private rented sector (PRS) plays many roles exceptionally well, but will always provide housing in a market context. Within that market, some landlords actively choose to let to tenants on low income and who are in receipt of local housing allowance, and so may not be able to afford a full market rent. There, landlords are generally satisfied that having longer-term tenants, who regard the property as their home, offsets the lower rent. However, strong demand for rental property at market rates and perceived problems with local housing allowance has meant that some landlords are unwilling to enter this part of the market.

In 2008, *The Private Rented Sector: Its Contribution and Potential* recommended that the supply of property to tenants on lower incomes might be improved by the introduction of local lettings agencies. This proposal addressed a cluster of problems that had become evident in the sector: criticism that landlords and tenants were often poorly served by letting agents; competition between access schemes that had created unreasonable expectations of rents that could be charged to local authorities seeking temporary accommodation; and the need for mediating agencies to offset some of the perceived risks at the lower end of the market. In particular, these risks included landlords' fears that low-income tenants would fall into rent arrears and be more likely to be 'bad' tenants; and tenants' fears that they would be subject to illegal eviction or sudden rent increases.

Local lettings agencies were conceived to be the very best in lettings agencies, but with a remit to produce sustainable, affordable tenancies. Landlords would actively seek to use the agencies because they would offer probity, reliability and great value for money. Tenants would also be happy to use the agencies because their objective would be to create long-term tenancies that were free from the incentive to maximise profits through high tenancy turnover. Charging landlords for the service meant that it could become self-sustaining. It was not necessary to ration assistance: rather, help might be available to any household likely to be able to sustain a tenancy.

Crisis has always been at the forefront of developing innovative approaches to the use of the PRS as a means of tackling homelessness, creating oases of security in what can be an insecure sector. This guidance note strongly indicates that local lettings agencies need to be planned and developed as businesses, with staff that have a professional approach to the management of property. Scheme development must be based on a thorough understanding of the market and of property procurement, of the services for which landlords will be prepared to pay, and of the level of charges that landlords would regard as competitive. This guide and accompanying events and workshops across the country are essential tools for any organisation seeking to introduce a local lettings agency. There is no political will to revive the social housing sector. Local lettings agencies offer a 'next-best' alternative.

Dr. Julie Rugg

# 1. Guide summary

The private rented sector (PRS) has long been recognised as a potential source of accommodation for homeless people and those on low incomes, particularly single homeless people who are generally the lowest priority when it comes to allocating the scarce supply of social housing.

For the PRS to be suitable for homeless and/or vulnerable people it needs to offer good quality, well located housing, with an appropriate degree of security, and at an affordable price. It needs to be accessible to vulnerable groups, who may be reliant on Housing Benefit. In addition, it should provide some choice of location and the scope to provide those who want it, with a long term home.

Since the early 1990s, PRS access schemes have been established by local authorities and the voluntary sector to assist people to access and sustain accommodation in the PRS. Schemes typically offer some combination of the following:

- Financial security for the landlord against rent loss, damage, and theft.
- Affordability assessments and support with Housing Benefit claims.
- Assurances as to minimum property standards and management practices to increase attractiveness to potential tenants.
- Careful assessments of each tenant's needs to ensure their suitability for independent living.
- Support for both landlord and tenants to ensure a successful landlord/tenant relationship.

## 1.1 What is a local lettings agency?

In 2008, the University of York published 'The Private Rented Sector: its contribution and potential' (Rugg and Rhodes), a comprehensive overview of the private rented sector which set out recommended 'directions of travel' for government policy. Under the heading 'Equalising the rental choice' it was recommended that "Social lettings agencies could be established to deal with all the private renting procurement required by statutory agencies in a given area. These agencies should charge a standard management fee, and move the housing benefit market away from a culture of 'incentive inflation.'"

It was subsequently suggested that such agencies might be better labelled 'local lettings agencies' (in order to avoid confusion with social housing) and work was undertaken to identify and share best practice through the DCLG and a series of regional events.

Local lettings agencies are a form of PRS access scheme and so will have in place the key features for such schemes. Additionally, the terminology has come to be applied specifically to those schemes that operate on a commercial basis and so generate income through their activities.

The specific model for a given area will vary depending on the nature of existing service provision, the housing market and the clients with whom the agency intends to work. There are some features, however, that local lettings agencies are expected to share:

- Offer a competitive package to landlords, normally charging a lower fee than mainstream lettings agents.
- Run by charities, housing associations or local authorities and are therefore not there to make a profit for shareholders.
- Specifically targeted at individuals and groups who would not normally be able to use 'mainstream' lettings agencies, for example clients in receipt of housing benefit.
- Provide a person-focused service and are often linked to other services or support, either through the host charity or a partner agency.
- Develop and maintain good working relationships and provide support to local landlords.
- Potentially further develop into social enterprise models by offering training and employment opportunities for clients, for example in gardening and property maintenance skills.
- Do not rely on grant funding as the income generated offsets the costs incurred in delivering the service.

## 1.2 Crisis and the PRS

From 1997 to 2010 Crisis worked with partners across the UK to deliver Crisis SmartMove, a rent deposit and advice scheme model which helped over 14,000 single homeless people into a new home. Crisis also makes the social and financial case for PRS access schemes and, since the closure of the National Rent Deposit Forum in 2006, runs a national advisory service for local authorities and others setting up and running schemes.

Since 2009 Crisis has been working in partnership with the DCLG to help

implement the Rough Sleeping Strategy and prevent homelessness amongst single people with a particular focus on rough sleeping. To assist local authorities and voluntary sector agencies in the development of PRS access schemes, Crisis provides a dedicated website ([www.privatedsector.org.uk](http://www.privatedsector.org.uk)) which collects good practice guidance, information and research on the PRS from across the homeless sector.

Since 2010, Crisis has been managing the Crisis PRS Access Development Programme. This is a three year programme of investment, backed by £10 million DCLG funding, in community based services to help single homeless people find and sustain good quality accommodation in the PRS. In the three year period, the programme will create over 140 new PRS access schemes and over 8,000 new tenancies.

### 1.2.1 Crisis and social enterprise

The 3xE Network is run by Crisis to bring together organisations using social enterprise and supported employment models, and organisations working with unemployed people who are homeless or at risk. 3xE works in partnership with social enterprise infrastructure organisations throughout England to improve take up of their services by homeless sector social enterprises. 3xE also funds a variety of support services specially tailored to the needs of the homelessness sector to enable organisations to start and develop social enterprises or supported employment schemes. The network is funded by the Big Lottery Basis programme.

### 1.2.2 Crisis and local lettings agencies

Crisis worked closely with the DCLG on implementing the recommendations from the Rugg and Rhodes review and particularly the establishment of local lettings agencies. At the regional events set up to promote and facilitate the sharing of best practice, Crisis chaired discussion sessions and hosted the final event attended by c. 80 local authorities.

Late in 2010 and early 2011, Crisis Ethical Enterprise and Employment (3xE) Network hosted two local lettings agency events in London and Birmingham. The events brought together practitioners aspiring to begin charging for existing PRS access scheme services and presentations were well received from select schemes already operating local lettings agencies.

This good practice guide to local lettings agencies is a summary of the discussion points arising from the two local lettings agency events, the experiences of the case studies who spoke at those events, the social enterprise experience of the 3xE Network and a recent survey of local lettings agencies nationally.

### 1.3 The case studies

In order to assist the development of this good practice guide, Crisis surveyed local lettings agencies across England and Wales. Each scheme surveyed varied greatly in terms of scale, delivery method, services provided and client group assisted. Users of this good practice guide should bear in mind that whilst knowledge of other operating local lettings agencies is useful, any local lettings agency model should be appropriate for the local housing market.

We would like to thank the following local lettings agencies for their input:

- Devon Homes4let
- DPMS Lettings / Derbyshire Local Lettings Agency
- EXtraLet
- Ikon Lettings
- Plymouth Homes4let
- Real Lettings
- SmartLets
- Wigan Housing Solutions
- YorHome

### 1.4 Who is this guide for?

This guide is intended for service providers and those involved in commissioning and designing services for homeless people and people on low incomes who are considering developing a local lettings agency. It is intended to provide practical guidance and instruction for those considering setting up an income generating PRS access scheme or developing an existing scheme to incorporate an element of income generation.

### 1.5 How to use this document

This guide is intended to be used as a step by step process to creating a local lettings agency from the initial idea stage through to a full scale business plan. To assist agency development, the guide provides examples of case studies, templates and example documents and financial forecasting tools. Each section contained within the guide features a section summary intended to act as a checklist of actions to be completed before moving onto the next section of the guide.



## 2. Why operate a local lettings agency?

### Key points:

- Careful consideration should be given to organisational aims and how an income generating model may support and/or impede them.
- Cost cutting exercises or changing to a different PRS access scheme may achieve similar objectives to income generation and may be better aligned with organisational aims and objectives.
- Local lettings agencies require senior management buy-in.

It is a natural aspiration to wish to charge for PRS access schemes currently delivered for free and the current economic climate places even more pressure on services to cut costs or look at income generation. However, it is important that before costly and time consuming feasibility exercises are initiated, the need for the local lettings agency is properly thought out and justified.

### 2.1 What is the primary aim of the local lettings agency?

Schemes with a focus on income generation will seek to maximise income by undertaking the following activities:

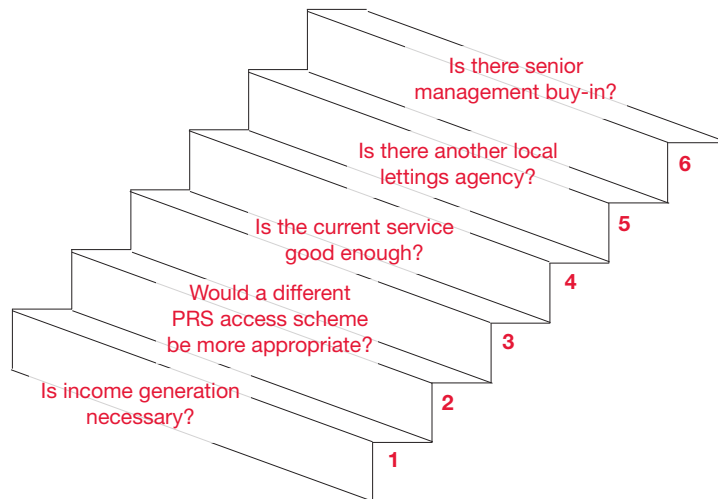
- Work in partnership with private landlords and in certain circumstances, advocate on their behalf.
- Serve notices and commence eviction proceedings on tenants as a result of anti-social behaviour or non payment of rent.
- Make judgements on clients as to their suitability for the PRS based on their housing history.
- Refuse to assist certain clients that would not be suitable for the PRS.

When considering a local lettings agency approach it is necessary to consider the effect of income generation on the existing aims of the organisation/existing PRS access scheme and where there may exist a conflict.

For example, a focus on income generation could mean that:

- A more stringent eligibility criteria with regards to client support needs is operated to reduce the risk that clients may pose to the agency.
- The relationship with the landlord may require a greater emphasis than is currently provided.
- At times the agency may have to advise on eviction procedures or issue Section 21 notices to end a tenancy.
- A far wider cohort of clients may need to be assisted than has previously been the primary focus of an organisation in order to maximise income. For example, the income generated from tenancies created under the shared accommodation rate needs to be balanced out with the much larger incomes generated from providing family accommodation in three and four bedroom properties.

Organisations that have traditionally worked with a very narrowly defined client group, a client group with significant support needs or tried to source private rented sector property for all clients requiring assistance may find that a move to income generation conflicts with these organisational objectives. If this is the case then an organisation may wish to prioritise another form of PRS access scheme above an income generation model.

**Figure 1:** Decision making process on the need for a local lettings agency

## 2.2 Identifying the need for a local lettings agency

The following diagram illustrates the thought processes that should be carried out when making the initial decision on the need for a local lettings agency and whether or not a feasibility study should be undertaken.

### 2.2.1 Is income generation necessary?

The continued existence of other sources of funding may mean that income generation is not necessary.

Other sources of funding could include:

- Local authority/county council.
- Homeless prevention fund.
- Discretionary housing payment fund.
- Crisis PRS Access Development Programme (maximum two years only).
- Other local charities/partnerships.
- Statutory bodies.
- Second homes council taxes.
- Improvement & efficiency partnerships.
- DWP/DCLG funding bid rounds.
- Trusts.

When making a decision to move away from existing sources of funding to income generation, consideration should be given to future reliance on these sources. Once income generation has been initiated, these sources of funding are likely to be withdrawn. It is however, apparent that the traditional sources of funding are over-stretched and under pressure and that is likely to be one of the drivers when considering moving towards a new business model.

If income generation is being considered to top up some funding cuts that have been made, could simple cost cutting exercises achieve the same results, for example, looking at savings from back office systems and efficiencies in the first instance?

Full income generation may not be necessary in all circumstances. A part income generation approach may be sufficient, for example, charging landlords a one off administration fee.

### 2.2.2 Would a different PRS access scheme be more appropriate?

A different type of or review of an existing PRS access scheme may be more appropriate than the development of a full scale local lettings agency. In order to assess whether a different PRS access scheme would be more appropriate, you should answer the following questions:

- What are the reasons for pursuing income generation?
- Is there anyway that these objectives can be achieved without income generation?
- What are the downsides to the organisation of pursuing income generation, for example, only clients with low level support needs will be assisted?

This is illustrated in the example below:

**Problem identified:** High damage claims on cash deposits, organisation decides that it needs to generate income to offset the high costs.

#### **Non-income generation solution:**

Change PRS access scheme to a bond/guarantee scheme or provide more pre-tenancy training upfront for clients on their responsibilities as a PRS tenant or introduce post tenancy support such as regular tenancy health-checks to reduce damage claims.

### 2.2.3 Is the current service good enough to introduce charging?

It is difficult to introduce a charging structure for a poorly performing scheme when one of the few reasons landlords and agents may be using the scheme is

because it is free. A combination of the following list of indicators may suggest that a scheme is performing well and that landlords/agents may be receptive to a fee structure.

- Low void rates.
- Sustained tenancies.
- High landlord satisfaction rates
- Positive feedback received at landlords' forums.
- Low number of landlord complaints
- Existence of and compliance with service standards.
- Adequate supply of properties from landlords.
- Adequate supply of clients looking for properties.
- Low damage claim rate on existing bond/deposit/guarantee.

For schemes that are under-performing, it may still remain an aspiration to become an income generating service, but resources may be better dedicated to a service improvement plan that is income generating after five years rather than in the short term.

### 2.2.4 Is there another local lettings agency?

If another organisation, for example, a local authority, housing association or local charity, is already operating a local lettings scheme in the local area, then this may affect the success of setting up a new local lettings agency covering the same area. Any competitor activity may affect the ability to procure new landlords, properties and clients effectively. Where local competitors exist, exploring partnership opportunities for an existing PRS access scheme may be a more appropriate option.

### 2.2.5 Does the local lettings agency have senior management buy-in?

Any shift towards an income generation model will not be possible without senior management team/Board buy in and consent. These individuals are responsible for overseeing the “business” of the organisation and safeguarding its long term reputation, operations and sustainability. As such any decision to create a local lettings agency will need to be approved by these individuals. A business case will need to be presented to senior management. The following is a list of items that should be included in the business case:

- How would a local lettings agency support the aims and objectives of the organisation?
- What is a local lettings agency?
- What are the reasons for creating a local lettings agency?
- What are the options available?
- What are the benefits of creating a local lettings agency?
- What are the risks associated with the project?
- What are the costs of the project? Where possible these should be broken down into stages to give senior management the option of developing the idea a little further but not fully committing to the development of the local lettings agency. For example, costs for stage one may be the costs of carrying out a feasibility study.

- What are the project timescales?
- What is the initial investment of resources and staff?
- How will the development of the project be monitored and reported back to senior management team?
- Is there a similar organisation already offering this service that can be used as a case study?

## 2.3 What are the repercussions of a poorly researched local lettings agency?

The repercussions of a poorly researched, ill-thought out local lettings agency would be hugely detrimental to the organisation. Effects could include:

- Negative impact upon future work of the organisation with local landlords.
- Negative impact upon future work of the organisation with letting agents.
- Negative impact on local partnership working with local landlords’ associations, the local authority, charities, housing associations etc.
- High financial loss.
- Poor media and press coverage.
- Negative impact on organisation’s professional reputation.

## Section summary

Before progressing you should have:

- Identified your primary aims and considered the implications of moving towards an income generating model.
- Considered alternative income sources and the potential for cost savings elsewhere.
- Applied a 'health check' to the existing service to consider its suitability for income generation.
- Obtained senior management buy-in to further explore the potential of establishing a local lettings agency.

## 3. What do you need to know?

### Key points:

- Landlords, local landlords' associations and agents should be consulted when conducting market research into the viability of developing a local lettings agency.
- Local Housing Allowance (LHA) rates should be scrutinised to ensure they are adequate for a local lettings agency model.
- Mix of clients, landlords and properties should be considered when examining the feasibility of a local lettings agency model.

### 3.1 Ongoing engagement with local landlords and agents

Schemes should include local landlords and letting agents in the planning and developmental stages of the local lettings agency in order to smooth the transition to a fee charging service. This could involve including a landlord, agent or local landlords' association representative on a steering committee or having regular meetings of a landlord business club to discuss development progress. More information on a landlords' business club can be found at [www.privaterentedsector.org.uk/business-club.asp](http://www.privaterentedsector.org.uk/business-club.asp).

### 3.2 The importance of market research

Once it has been decided that the development of a local lettings agency should be further explored, it will be necessary to look at its feasibility. Initially this should include market research and a risk analysis (see section four) but may be expanded to include elements of the business planning/operational stages. As the subsequent development (and success) of any local lettings agency

will be dependent on the findings of the feasibility study, sufficient time and resource should be dedicated to it. This may involve employing the expertise of a third party where appropriate. Where there is close local partnership working with landlords and agents or local resistance to a fee charging model, an "independent" view may be essential.

Any feasibility study should include an element of market research carried out with local landlords and agents. Below are some suggestions on the types of enquiries to be made with each stakeholder.

#### 3.2.1 What to ask landlords and local landlords' associations?

- What services that could be provided by a local lettings agency would they be willing to pay for?
- How much would they be willing to pay?
- Would they be likely to use a fee charging service? If not, why not?

#### 3.2.2 What to ask local agents?

- What fees do they charge landlords for a full management service? What services does this include?
- What fees do they charge landlords for a tenant find service? What services does this include?
- What fees do they charge landlords for a rent collection service? What services does this include?
- What fees do they charge tenants?
- Do they arrange repairs and if so up to what limit? Do they markup the charge of the repairs back to landlords?
- When can landlords expect to receive their rent payments from the agent?

- What tenant referencing/credit checks do they carry out?
- How could a local lettings agency work in partnership with local agents?

### 3.2.3 Are there any relevant case studies?

- Is there a similar organisation operating a local lettings agency?
- What services do they provide?
- What do they charge?
- How many staff deliver the service?
- What challenges did they have to overcome at set up stage?

### 3.2.4 Are the Local Housing Allowance (LHA) rates adequate?

Cuts to the cost of the Housing Benefit bill have pushed LHA rates to the 30th percentile since 1 April 2011. This means that landlords who have already suffered a cut to their rental income by agreeing to reduce their rents in line with the new LHA rates may be unwilling to further reduce their rental income by paying local lettings agency charges.

The following example illustrates the changes for the Inner South East London Broad Rental Market Area (BRMA) by showing the pre 1 April 2011 LHA rate, the June 2011 LHA rate and the perceived losses for the landlord from the LHA cuts coupled with a potential local lettings agency fee of 10%.

All figures should be balanced against what a landlord could feasibly achieve if the property was let on the private market.

### 3.2.5 Is the client mix right? Is the local agent/landlord mix right?

Consideration should be given to the mix of properties and therefore clients of the proposed local lettings agency. As local lettings agencies typically charge a percentage fee of the monthly rent, the higher the rental value, the higher the income generated for the local lettings agency.

	Shared	1 bed	2 bed	3 bed	4 bed
<b>March 2011</b>	£390.00	£849.98	£1100.67	£1300.00	£1799.98
<b>June 2011</b>	£368.33	£800.02	£1000.00	£1249.99	£1600.00
<b>Mthly loss from LHA rate</b>	£21.67	£49.96	£100.67	£58.01	£199.98
<b>10% "mgmt charge"</b>	£36.83	£80.00	£100.00	£125.00	£160.00
<b>Landlord perceived "mthly loss"</b>	£58.50	£129.96	£200.67	£183.01	£259.98

Homeless agencies whose core client group are single homeless will generate less income than agencies dealing with two and three bed properties for families. Such homeless agencies may therefore, need to diversify the client groups they will assist in order to maximise profits. Homeless agencies may also wish to consider offering the local lettings agency service to the wider private market, for example, young professionals, in order to subsidise the services offered to the original core client group.

Consideration should also be given to the circumstances of clients and the possible effect on housing benefit claims. It is assumed that some clients will be eligible for full housing benefit (and possibly direct payments) where as other clients may be in employment and eligible for only part housing benefit. The mix of clients/properties should be considered in conjunction with considerations on the relationship with the housing benefit department, cash-flow, resources dedicated to rent collection etc.

If commercial agents currently supply the majority of properties for the existing PRS access scheme then it may be difficult to implement charging structures. Any local lettings agency may be looked at as competition particularly if rates being charged are lower. In areas where a high proportion of PRS access scheme properties are procured by commercial agents, then joint agency fees may need to be considered and

agreed. For example if an Agent is being paid 12%, then the local lettings agency may only wish to charge the commercial agent 6% as some of the management functions may be provided by the commercial agent (to be agreed in advance of the tenancy). They may, for example, be arranging all repairs on behalf of the landlord and so reduce the costs for the local lettings agency. In such a case a lower fee may still make financial sense.

Devon Homes4let and Plymouth Homes4let met some resistance from local commercial agents in the initial development stages, who had already worked with existing PRS access schemes operated by PATH. This was overcome once the agents could see that the local lettings agencies would work with tenants that the commercial agents would normally turn down. The local lettings agency has also not “poached” any landlords from commercial agents.

Mix of landlords is also important to consider. If supply is generally provided by only a few large property portfolio landlords, then it may be risky implementing a local lettings agency. The impact of losing one of the landlords may prove too great to make the local lettings agency viable.



### 3.3 What are the different market research methods?

The following is a list of suggested mechanisms for carrying out the market research:

- Discussions with local authority housing departments on the types of properties procured and clients housed within their current PRS access schemes.
- Attendance at local landlords' forums and landlord association branch meetings.
- Use of surveymonkey.com to carry out an online survey.
- Use of a postal survey to all known landlord contacts.
- Cold calling landlords and local agents.
- Mystery shopping to local agents.
- Desk based research using websites and/or newspaper ads.

### Section summary

Before progressing you should have:

- Devised a method for ensuring ongoing engagement with local landlords and letting agencies.
- Devised a strategy for carrying out market research and developed a list of questions to ask landlords, letting agents and other local stakeholders.
- Analysed the local housing allowance rates in comparison to the market rents in order to establish whether landlords would be willing to pay fees from rents received.

## 4. What are the risks associated with a local lettings agency?

### Key points:

- The identification of risks is essential to the effective long term management of a local lettings agency.
- Risks can be attributed to four different categories; strategic, compliance, financial and operational and can be internally or externally driven.
- Risks should also be identified in relation to the effect the local lettings agency may have on the host organisation.

### 4.1 Performing a risk analysis

According to the Federation of Small Businesses, on average, around two thirds of all start ups will fail in their first year. The top five reasons are listed below:

- Cash-flow management – having enough monthly cash flow income in order to meet the monthly necessary expenditure. This is a particularly important issue to address at the start up stage, because expenditure will be committed (for example, staffing, overheads/on costs) before any income is being generated. This is why start up funding is often necessary. Examples of start up funding include:
  - Devon Homes4let received £45k from Spark.
  - Plymouth Homes4let received £85k from Spark.
  - YorHome received £40k local area agreement money attached to NI156 (reduction in the use of temporary accommodation).
  - Worcester Housing & Benefits Advice Centre received £40k from Crisis, £20k from Worcestershire County Council and £10k from Worcester City Council.
- EXtraLet received £70k in second homes council tax money.
- Derbyshire local lettings agency received £200k from East Midlands Improvement & Efficiency Partnership.
- Real Lettings received £300k from DCLG.
- Wigan Housing Solutions received £84k from Wigan Council and £34k from Spark.
- Lack of focus – lack of focus refers to providing too many products in too many markets and subsequently, spreading the business resources too thinly. It is advisable that as the local lettings agency service is developed, focus is perhaps given to developing one effective product before expanding into another market. For example, a full management service may be considered first, followed by tenant find and rent collection services.
- Tax bills – due to the delay in which payments, such as PAYE payments and VAT payments are due to the HM Revenue & Customs (HMRC) coupled with poor cash-flow management, large tax bills can be difficult to pay and can result in business failure. The VAT threshold from 1 April 2011 is £73,000.00. If financial projections estimate turnover in the region of this threshold (please note turnover not income), then a VAT registration should be made. It is beneficial to do this at the start rather than chase landlords/tenants at a later date for VAT payments.
- Lack of insurance – claims arising from large compensation claims can

cripple an under-insured business. Certain insurances are a legal requirement, for example, employers' liability insurance.

- Reliance on too small a number of customers – this relates to relying too heavily on a very small number of customers. If one customer then ceases to be a customer, this can negatively impact upon the whole business. For example, relying on procuring large portfolios of properties from only a couple of landlords would significantly impact on the business income if one landlord was lost.

It is important to analyse all the risks associated with the set up of the local lettings agency at the time of investigating the viability of an agency.

The case study local lettings agencies cited the following as some of the risks they identified with their models:

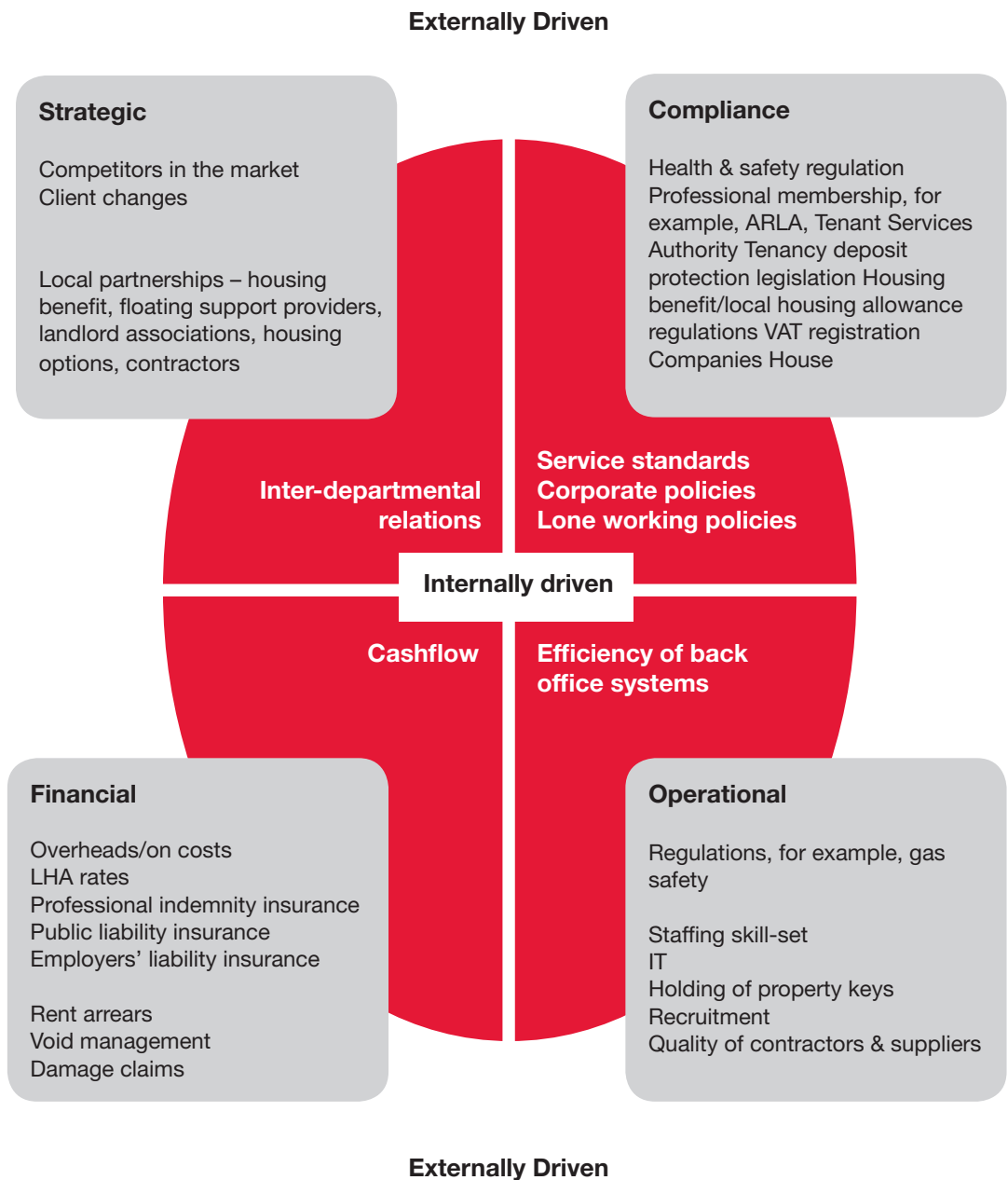
- LHA reform and other housing benefit issues including relationship with the housing benefit department.
- Not procuring enough properties to cover operational costs.
- Detrimental effect to the local lettings agency of staff changes.
- Financial risk – the local lettings agency model would not be self-sustaining.
- Lack of suitable tenants.
- Compromise on standard of properties to ensure supply.
- Concerns that the partner private agent would not fulfill their part of the local lettings agency and co-operate with the policies & procedures agreed at the outset.
- Property voids and subsequent loss of income.
- Anti-social behaviour of tenants.
- Damage caused to properties by tenants.

The following risk management techniques have been employed by the case study local lettings agencies to alleviate the possible effects of the risks identified above.

- “LHA reform is an ongoing issue for us which will see a drop in earned income for us. To offset, we will need to have more properties on the books, and seek to take on a greater number of non-HB tenants to make up for the loss. We set targets for agents to reach in order to cover costs. This issue will get looked at in every board meeting to look at and all decisions get based on an ever moving position, based on the property portfolio. e.g. taking on new staff, moving offices etc would all be dependent on the financial position of the company” – Devon Homes4let and Plymouth Homes4let.
- “Careful vetting of tenants although this was previously not a complete success. Rigid insistence on decent homes plus standard even though this was expensive” – Exeter City Council EXtraLet.
- “Key performance indicators monitored monthly tight systems for voids and arrears collection, proper assessment of clients managing the message” – Real Lettings.
- “Robust management procedure, dedicated account managers, Housing Benefit specialist, in house maintenance team” – Derbyshire Local Lettings Agency.
- “Sound market research, defining our unique selling point (our support for tenants)” – Wigan Housing Solutions

A template is provided below to perform a basic risk analysis.

Figure 2: Example risk analysis



## Section summary

Before progressing you should have:

- Identified financial, operational, compliance and strategic risks that could affect the success of your local lettings agency.
- Decided whether the risks you have identified are internally or externally driven.
- Assessed the likelihood and severity of risks and decided upon risk mitigation strategies.

## 5. Who should manage the local lettings agency?

### Key points:

- Local lettings agencies can either sit within existing organisations; local authority, housing association, voluntary/community/charity or the private sector or be created as standalone or distinct subsidiaries organisations in the form of social enterprises or community interest companies (CICs).
- There are advantages and disadvantages associated with each type of local lettings agency and careful consideration should be given to the most appropriate model for the local context.

- CICs were introduced by legislation in 2005 and are like normal companies, either limited by guarantee or limited by shares but they are required to carry out activities that fulfil a community purpose.

### 5.1 Who should manage the local lettings agency?

In considering the type of existing organisation that a social lettings service could sit within, there are four potential options – local authority; private sector; third sector; housing association. Analysis of the advantages and disadvantages of each option are as follows:

	Advantages	Disadvantages
<b>Local authority</b>	<ul style="list-style-type: none"> <li>Established organisation with management structure and administrative capacity</li> <li>Could move service to social enterprise model over time as it becomes self-funding</li> <li>Could potentially provide in-house maintenance services if own housing stock exists</li> <li>Housing benefits department “in-house”</li> <li>Good awareness of client history</li> <li>Access to clients looking for accommodation</li> </ul>	<ul style="list-style-type: none"> <li>Conflict of interest between local authority enforcement role and local lettings agency</li> <li>Conflict of interest between housing advice role and local lettings agency</li> <li>Landlords may therefore be unwilling to engage</li> <li>Difficult to source external funding</li> <li>May find sourcing additional resources/staffing for the local lettings agency project difficult in the current environment of budget cuts</li> </ul>

	Advantages	Disadvantages
<b>Private sector</b>	<ul style="list-style-type: none"> <li>• Independent identity from local authority &amp; social housing providers</li> <li>• Operating for profit so high service standards/process efficiencies essential</li> </ul>	<ul style="list-style-type: none"> <li>• No evidence of market demand will prove difficult to source investment and start up funds</li> <li>• Profit margins liable to be small, not large enough to attract a private business</li> <li>• Unlikely to move to social enterprise model in long term</li> <li>• Due to low profit margins from social sector, it may prove more financially attractive to operate in the private market also and then a conflict of interest exists</li> </ul>
<b>Voluntary/ community/ charity</b>	<ul style="list-style-type: none"> <li>• Independent identity from local authority</li> <li>• Established organisation with management structure and administrative capacity</li> <li>• Service can be established as social enterprise</li> <li>• Able to source external funding and charitable donations such as furniture, repairs service etc</li> </ul>	<ul style="list-style-type: none"> <li>• Any conflict of interest would have to be managed, dependent on third sector organisation's role and remit</li> <li>• The organisation's current business structure may not allow for business activities to be conducted</li> <li>• If the organisation has traditionally been "client" focused, landlords may be unwilling to engage</li> </ul>
<b>Housing association</b>	<ul style="list-style-type: none"> <li>• Established organisation with administrative capacity and management structure</li> <li>• In-house maintenance services</li> <li>• Experience in providing housing management functions</li> <li>• Existing partnership with housing benefits department</li> <li>• Existing housing area officer structure</li> <li>• Registered with the Tenant Services Authority</li> </ul>	<ul style="list-style-type: none"> <li>• Staff knowledge/skills gap in dealing with PRS, in particular private landlords and assured shorthold tenancies (ASTs)</li> <li>• Due to scale of some organisations it may be difficult to provide the personalised landlord &amp; client services that make local lettings agency schemes successful and tenancies sustainable</li> </ul>

	Advantages	Disadvantages
<b>New social enterprise/ community interest company (CIC)</b>	<ul style="list-style-type: none"> <li>• The service is independent and objective, and focused on working for the landlord, as a commercial agency would be.</li> <li>• Management fees are generally lower than commercial agencies.</li> <li>• The service is able to attract funding from a wider range of sources</li> <li>• Ability to be flexible and respond to emerging business opportunities</li> <li>• If the local lettings agency is unsuccessful there is less impact on the reputation of the parent organisation</li> <li>• If the local lettings agency is unsuccessful there is less financial risk for the parent organisation</li> </ul>	<ul style="list-style-type: none"> <li>• Running costs for a standalone service are likely to be higher as opposed to one with an existing structure</li> <li>• Higher risk in establishing a new organisation if demand for service is unclear</li> <li>• Need to establish service in the local market, no existing reputation on which to base contact with landlords and clients</li> <li>• Need to establish relationships with local contractors to outsource certain services</li> <li>• Need to consider insurance policies such as public, professional indemnity and employers' liability</li> <li>• Need to consider company registration, VAT registration and accounting practices</li> </ul>

A further option for structuring a local lettings agency would be to establish the agency as a standalone enterprise or as a distinct subsidiary of an existing organisation. This model has higher start up costs and will require the new organisation to establish relationships, credibility and reputation from scratch. The advantages and disadvantages of this approach are shown above.

### 5.2. Community interest companies (CICs)

One method of setting up a standalone agency is to create a community interest company (CIC). CICs were introduced in 2005 to address the lack of legal vehicle for non-charitable social enterprises across the UK. They are essentially normal companies either limited by

guarantee or limited by shares, however they have important additional features in place to safeguard their social mission.

#### 5.2.1 How do CICs differ from normal companies?

CICs are required to carry out activities that fulfil a community purpose. This community purpose is defined when the application to set up the CIC is made. A further requirement of a CIC is that there be a “lock” on all the CIC assets. This “lock” prevents profits from being distributed amongst shareholders and requires that all assets of the CIC are used for the community purpose as specified.



### 5.2.2 What is the legal liability of the CIC?

A CIC benefits from limited liability which means that the CIC will be liable for the actions of its Directors and Directors will not incur personal liability, except in exceptional circumstances (for example, committing fraud).

### 5.2.3 Who regulates CICs?

CICs are regulated by the CIC regulator, a subsidiary of the Department for Business Innovation and Skills (BIS), <http://www.bis.gov.uk/cicregulator>. The regulation of CICs is intended to be “light-touch” as opposed to the type of regulation governing the operation of charities in the UK.

### 5.2.4 What are the reporting requirements for CICs?

CICs are required to file annual accounts and an annual return with Companies House. CICs also are required to file a community interest report annually which explains the progress made by the CIC in meeting their community purposes (as stated at set-up), involving its stakeholders and disclose any payments made during the year to its Directors.

### 5.2.5 What paperwork and fees are involved with the set-up of a CIC?

An application should be made to Companies House in the first instance for a fee of £35. This application includes form CIC36 which is the form which describes the community purpose of the CIC as well as the activities that

the CIC will perform to achieve this community purpose. Also required to be submitted are the company’s Articles of Association and some administrative forms for each named Director of the CIC. Companies House and the CIC Regulator can raise any issues or concerns they have with the proposed CIC at this time. If there are no issues raised then the process can be as quick as two to three weeks from the date of application.

## Section summary

Before progressing you should have:

- Decided on the desirable structure of the proposed local lettings agency.
- Identified any disadvantages associated with this structure and built these into risk management plans.
- Taken into consideration other organisations and partnerships that already exist locally when deciding on the most desirable structure of a local lettings agency.

## 6. What is involved in operating a local lettings agency?

### Key points:

- The staff skills required to deliver a local lettings agency service may differ from those skills currently required to deliver a PRS access scheme.
- Local lettings agencies should consider the professional and legal requirements associated with running an income generating business; accounting, VAT registration, reporting, insurance, professional body membership and handling client monies in accordance with the service standards specified in the appendix.
- Effective back office data management will be crucial to the success of a local lettings agency in managing rent accounts, monitoring tenancies, managing repairs and contractors and monitoring performance.

### 6.1 What kind of services should a local lettings agency offer?

#### 6.1.1 Full management services

In this instance the local lettings agency deals with all aspects of property management; letting and starting the tenancy, rent collection and repairs. The local lettings agency will also take some steps towards ending the tenancy, they may serve a notice but not take court action. Local lettings agents are not legally entitled to initiate legal proceedings on behalf of their landlord.

The type and cost of repairs the local lettings agency is authorised to carry out without seeking further authorisation on the landlord's behalf is normally agreed in advance. The local lettings agency

will normally use rent collected to pay for the repairs carried out but where the cost of repair exceeds the income, then the landlord will have to make up the shortfall.

Typical services include:

- Marketing of the rental property.
- Accompanying viewings.
- Advising on rent levels.
- Finding a tenant.
- Pre-tenancy training for tenants.
- Welfare benefits advice for maximizing income of tenants.
- Referral routes for tenants to further employment and training opportunities.
- Undertaking a reference check (of sorts) of the tenant.
- Providing the tenancy agreement.
- Assisting the client with housing benefit form completion & submission.
- Inventory and tenant check in.
- Arranging annual gas safety checks/energy performance certificates (usually billed to landlord separately).
- Rent collection and chasing late payment.
- Manage the transfer of utilities.
- Conduct management visits and manage tenancy issues.
- Handle maintenance issues using approved contractors.
- Payment of property specific bills.
- Providing landlords with information and advice on good practice in letting property, including HMO and registration requirements, guidance on landlord rights and responsibilities.
- Free membership to a landlords' association.
- Mediation between landlord and tenant if required during the tenancy.

- Underwriting of damage up to a month's rent.
- Provision of tenancy support or referral/partnership with a third party agency to deliver this support.
- Tenant check out.

Typical cost of this service is 8% to 10% of the monthly rent.

#### 6.1.2 Tenant finder service

Services commonly provided by a local lettings agency under a tenant find service include:

- Marketing of the rental property.
- Advising on rent levels.
- Finding a tenant.
- Undertaking a reference check (of sorts) of the tenant.
- Providing the tenancy agreement.
- Assisting the client with housing benefit form completion & submission.
- Inventory.
- Case study local lettings agencies responses on tenant find fees included £100.00, 5% of annual rent as a one off payment and 50% of first month's rent.

#### 6.1.3 Tenant finder & rent collection service

This is where in conjunction with the services provided under tenant find, rent is also collected on behalf of the landlord during the tenancy. Other management functions, such as possession issues and any repairs, are dealt with by the landlord.

A one-off fee is usually charged for the "tenant find" service and a monthly fee (as a percentage of the rent) for the monthly rent collection fee.

The typical cost of this service is 5% of the monthly rent.

#### 6.1.4 Leasing arrangements

Leasing arrangements, commonly referred to as private sector leasing (PSL) and Housing Association leasing (HAL), are schemes that lease properties from private landlords for a period of time (normally two to five years). The landlord receives a guaranteed below market rent for the period of the lease and the property is fully managed by the scheme. In addition to the full management services listed previously, many schemes also guarantee at the end of the lease to provide the property back to the landlord in the same condition as at the start of the lease minus fair wear and tear.

Leasing schemes attract special housing benefit subsidy allowances where the accommodation offered by the leasing scheme, by arrangement with the local authority (LA) or directly by the LA, either discharges a homelessness function or prevents the person being or becoming homeless.

Local Authorities claim almost the total cost of their Housing Benefit bill back from the Department for Work & Pensions (DWP). This is referred to as "rent rebate". Local Authorities will be unwilling to pay any amount for accommodation over and above what they can reclaim from DWP. There are special rent rebate rules that apply to leased accommodation that meets the definition given in the paragraph above.

For the financial years 2011/2012 and 2012/2013 (ending on 31 March 2012), the rent rebate that a local authority can reclaim is the lowest of the following:

- Weekly housing benefit entitlement.
- Maximum weekly subsidy amount (90% of LHA January 2011 rate + £40 inside London/£60 outside London).
- There is an upper cap limit - £375.00 BRMAs some outer London BRMAs and outside London / £500.00 within certain London BRMAs.

For leasing schemes, this means that the rent charged to a tenant can be the lowest of any of the above. Please note: The local authority can refer any rent they believe to be un-reasonably high to the rent officer for a rent officer determination on the property.

Leasing schemes derive their “income” from the difference between the rent that can be charged to the client and the amount of rent guaranteed back to the landlord. Guaranteed rents to landlords are typically 15% to 20% below the rent charged.

Whilst the income generation potential from leasing schemes is probably highest of all the income generation models, the following concerns should be considered:

- The subsidy arrangements are only fixed until 31 March 2013, therefore making it difficult to carry out financial projections beyond this time.
- Tenants that are looking for employment opportunities will find it difficult to afford the rent if they go back to work and are not in receipt of full housing benefit.

- The potential impact the proposed Universal Credit system may have on rents that can be charged and subsidies that can be reclaimed.

More information on the subsidy system available at: <http://www.dwp.gov.uk/docs/s1-2011.pdf>

#### 6.1.5 Administration fees

Some local lettings agencies charge landlords administration fees. These are typically in the region of £199.00 to £250.00.

#### 6.1.6 Repairs

Some local lettings agencies charge a 10% administration mark up on all repairs carried out on behalf of the landlord.

#### 6.1.7 Service of notices

None of the local lettings agency case studies charged landlords a fee for serving a section 21 or section 8 notice.

#### 6.1.8 Court proceedings

Several of the local lettings agency case studies charged landlords only the actual cost of court proceedings, although one scheme had a fixed fee of £175.00.

#### 6.1.9 Tenant charges

There were very few tenant charges cited by the local lettings agency case studies in comparison to the charges levied at landlords. Some case study examples of tenant charges include:

- £30 administration fee that could be paid weekly by tenants.
- Pet deposit of £100.00.
- One month’s rent in advance.
- £10.00 per week contribution to a maximum bond of £300.00.

## 6.2 What are the liabilities of local lettings agencies?

Actions carried out by the local lettings agency on behalf of the landlord are generally treated in law as though they have been done by the landlord. Landlords are bound by any agreement or contract made on their behalf with a third party (ie a tenant) providing the local lettings agent is acting within the authority they have been given.

If the local lettings agent agrees to something that has not been authorised by the landlord (for example, allowing a pet at the property) then the local lettings agency could be liable for any losses to the landlord or tenant.

If the local lettings agency fully managing the property fails to carry out a statutory duty (such as an annual gas safety check), then the local lettings agency, as well as the landlord could be held responsible for the non compliance of the legislation.

Responsibilities of landlords and local letting agents should be clearly set out in the Terms of Business.

## 6.3 What staff skills are required?

When considering and developing the new services to be provided by the local lettings agency, some decisions will need to be made with regards to the staffing of the new agency. These include:

- How many staff will be required to deliver the services proposed?
- Which roles will deliver which services?

- Are there any services proposed that can be outsourced if staff do not have the necessary skills?
- Can staff members be up-skilled via training to provide the proposed services?
- Is recruitment required of any new members of staff? If so, where ideally would these staff members be recruited from? What competitive salary would need to be offered to recruit these members of staff?

To assist with the projection of staffing resources required to operate a local lettings agency, the case studies have the following members of staff:

- Plymouth Homes4let has 3 members of staff supporting a portfolio of 105 properties.
- YorHome has 0.8 FTE for lettings agency - but input from finance (approx 2 days pcm), admin (approx 1 day pw), all tenancy support transferred to temporary accommodation support worker team, internal management time (2 days pcm), housing advice via housing options and securing bond for tenants (4 hours per customer). This staffing resource supports a property portfolio of 50 properties.
- EXtraLet has 1.75 full time officers supporting a portfolio of 55 properties. This breaks down to 1 local lettings agency officer, 0.5 rent officer and 0.25 technical officer.
- Real Lettings has 7 officers supporting a portfolio of 164 properties.
- DPMS Lettings has 14 staff supporting a portfolio of 233 properties. The breakdown of staff is as follows; 2 x account managers 2 x lettings assistance (front of house)

1 x Finance manager 1 x housing benefit specialist 2 x admin support (back of house) 1 x manager 5 x staff (maintenance).

- Wigan Housing Solutions has 7 staff supporting a portfolio of 60 properties.

When considering the training requirements of staff, the following training options are possibilities:

- Business Link is the Government's online resource for businesses. Training on various aspects of running a small business are available around the UK. [www.businesslink.gov.uk](http://www.businesslink.gov.uk)
- ARLA offers specific training on the business of letting and managing properties. [www.arla.co.uk](http://www.arla.co.uk)

In partnership with inside Housing Solutions and supported by the DCLG, Crisis has developed a training programme on improving the use of the PRS to assist those in housing need. There are five modules; services for landlords, services for clients, inspecting properties, organisational principles and property management. [www.insidehousingsolutions.com](http://www.insidehousingsolutions.com)

## **6.4 Professional body membership**

Membership of a professional body is important to consider when setting up a local lettings agency. Membership can enhance the reputation of the local lettings agency but also provide valuable good practice advice and training opportunities on running a lettings business.

Please note: There is no current regulation for the lettings industry, however, this is an area of concern for a number of organisations who actively lobby the Government for regulation of the sector. It was also a recommendation that was made by the Rugg Review of the PRS in 2008.

Below is a guideline of the professional bodies that cover the business of letting.

### **6.4.1 Association of Residential Letting Agents (ARLA)**

ARLA is a professional and regulatory body for letting agents and agencies in the UK. Membership of the association is available to agencies where employees/partners/directors have completed a recognized Residential Letting and Property Management qualification. Application is by way of application form submitted with supporting documentation. Membership is subject to completing annual continuing professional development as well as compliance with the byelaws, articles or association and The Property Ombudsman Code of Practice for Residential Letting and Property Management.

Cost: £50.00 application fee/£180.00 annual membership fee  
Further information: [www.arla.co.uk](http://www.arla.co.uk)

### **6.4.2 The National Approved Letting Scheme (NALs)**

NALs is an accreditation scheme which established minimum levels of service and is open to all bona fide firms and Residential Social Landlords providing letting and managements services to the PRS. Organisations are required to meet the criteria and standards of NALs. NALs aims to ensure compliance

with the standards and will oversee complaints and will withdraw or suspend accreditation of organisations who do not comply. Application is by way of an application form submitted with supporting documentation.

Cost: £125.00 + VAT application fee/£100.00 + VAT annual membership fee. Further information: [www.nalscheme.co.uk](http://www.nalscheme.co.uk)

#### 6.4.3 UK Association of Letting Agents (UKALA)

UKALA is operated by the National Landlords' Association (NLA) and aims to represent the interests of letting and managing agents in the UK. UKALA has a code of practice to which all member agencies are expected to adhere. Members of UKALA benefit from the association with the NLA by having access to the telephone help line, the website, publications, training, discounted products and services, marketing opportunities direct to the landlord membership. Further information: [www.landlords.org.uk/agents](http://www.landlords.org.uk/agents)

#### 6.4.4 Tenant Services Authority (TSA)

The definition of a registered housing association has been updated. The term 'registered housing association' has the same meaning as in regulation 2(1) of the Housing Benefit Regulations 2006. 'Registered housing association' means a private registered provider of social housing, as defined by the Housing and Regeneration Act 2008. These bodies (formerly known as Registered Social Landlords (RSLs)) are registered with the Tenant Services Authority, the regulator of social housing in England.

The TSA (formally the Housing Corporation) is the regulator of social housing in England. There are six service standards that social housing providers are expected to meet, aimed at improving the services received by tenants of registered providers; tenant involvement and empowerment, home, tenancy, neighbourhood and community, value for money and governance and financial viability.

Information on registering with the TSA is available at: [www.tenantservicesauthority.org](http://www.tenantservicesauthority.org)

### 6.5 Handling client money

As local lettings agents will be handling client monies (rent due to landlords, client deposits, any client savings schemes), good practice around handling these monies is essential. However, unlike Estate Agents who are regulated by the Estate Agents Act 1979 and enforced on by the Office of Fair Trading (OFT) with regards to the proper practice of handling client monies, there are no such regulations for letting agents.

Client monies should be handled in the following way:

- All client monies kept in a separate client account and all clients notified of this.
- Detailed records of all transactions kept relating to a client account.
- Detailed receipts of all monies received.
- Correct reporting of the annual accounts by a qualified accountant/ auditor.



- Keep accounts and records for six years after the end of the accounting period to which they relate.

Client's Money Protection Schemes are insurance policies through which clients' monies are protected against mis-appropriation of the monies by the local lettings agency. Under the insurance policy, Landlords and tenants can apply for compensation. Members of ARLA and NALs are required to have a money protection scheme in place and are required to contribute to the cost of these schemes. For example, NALs charges in the region of £220.00 per year for this protection.

Registered housing providers are not required to join the client money protection scheme by NALs.

## 6.6 Rent management

The local letting agency's income (and that of the landlord) is dependent on how effective the agency is at handling rent issues. Poor rent management will affect cash-flow, the reputation of the local lettings agency and result in landlords not wanting to use the services of the agency. The following are essential elements of an effective rent management system:

- Checking tenant's entitlement to housing benefit prior to property searches.
- Assistance provided to tenant in completing the housing benefit application along with checking that all supporting documentation has been provided.
- Receipted submission of housing benefit application form to local department.

- Effective partnership working with the local housing benefits department, to include:
  - Named case officer within the housing benefits department.
  - Regular meetings with named case officer to discuss partnership working and any problem cases.
  - Arrangement of direct payments where possible.
  - Quick notification of any suspension/cancellation of tenant housing benefit claims.
- Ensuring tenant's entitlement to other welfare benefits has been maximised.
- An effective and capable back office system for recording rent payments and rent payments due.
- Monthly standing order set up for clients paying full or part rent.
- Developing a standard rent arrears protocol for chasing non payment of rent.

## 6.7 Tenancy monitoring

The local lettings agency will need an appropriate back office system for monitoring and recording property and tenancy details. This should include recording the following necessary data:

- Landlord contact details, address, e-mail and phone number.
- Tenant contact details, family composition, relevant housing history and support needs.
- Rental property details, size, address, features, utility suppliers, gas safety certificate expiries, energy performance rating and certificate expiry.
- Property photos, inventory documents.
- Tenancy details, tenancy start, tenancy end, bond/deposit, type of service provided by agency.



- Financial records.
- Repairs and notes.
- Report generation.

### 6.8 Managing repairs and contractors

In order to fulfil the repairs obligations of a local lettings agency full management service, it may be necessary (if the agency is not part of an existing organisation that has an in-house repairs team) to establish a team of local contractors to carry our works. The following considerations should be applied to the management of repairs and contractors:

- Tenant process for reporting repairs and processes in event of an emergency occurring out of hours.
- Classification of repairs, for example, which repairs are potentially more urgent in nature than others.
- Service standards for making repairs, for example, urgent repairs will be completed within 24 hours, all other repairs within five working days.
- Pre-agreed amount up to which the local lettings agency does not need to seek pre-approval for carrying out a repair.
- Protocol for contacting the landlord for repairs required above the pre-agreed amount.
- A team of local contractors to carry out any necessary repairs, preferably at agreed discounted rates, to enable the local lettings agency to achieve an income from managing the repairs. All contractors should carry adequate insurances and be registered with a recognised trade body where necessary.

- Plumber
- Electrician
- Heating engineer
- Builder
- Gardener
- General handy person
- Domestic energy assessor
- Well documented receipts for all works carried out to be re-claimed from client monies.

One of the local lettings agency case studies, Real Lettings, receives a charitable donation in the form of repairs work from United House as part of their corporate social responsibility. United House complete all Real Lettings' dilapidation and non-urgent work which minimises the financial risk of the scheme. Real Lettings do also carry out their own, more urgent repairs when completion of works within strict timescales is required.

### 6.9 Monitoring performance

It will be essential to continually monitor the performance of the local lettings agency. Good performance monitoring has the following benefits:

- Improves awareness of the need to meet the financial targets as identified in the financial projections to ensure effective cash-flow management and business sustainability.
- Provides reassurance to senior management who may have been skeptical on the viability of the local lettings agency model.
- Can identify areas of the business that require improvement.
- Can enhance the reputation of the local lettings agency with local landlords.

- Can enhance the reputation of the local lettings agency with other stakeholders and partners.
- Improve efficiency through more effective use of time and resources.

Performance is most commonly monitored by a set of performance indicators. Performance indicators should:

- Reflect the performance and progress made by the local lettings agency.
- Be measurable.
- Be compared to a standard, like a budget or target.

The following give examples of key performance indicators for a local lettings agency:

- Number of new enquiries regarding the services provided by the local lettings agency from landlords.
- The source of new landlord enquiries.
- Number of new properties procured per month.
- Percentage of properties managed that are tenant find, rent collection, full management.
- Percentage of properties that are shared, 1 bed, 2 bed, 3 bed and 4 beds.
- Void management rate.
- Damage claim rate against bond/ deposit/guarantee.
- Rent arrears rate.
- Average length of tenancy created.

Performance should be monitored on a monthly basis and performance indicators circulated to senior management, board members and stakeholders. They could also be communicated as part of a marketing strategy to landlords and tenants.

### **6.10 Documentation required**

Consideration should be given to what new documentation will be required for the operation of the local lettings agency and what documentation already exists. Crisis suggests the following paperwork for the operation of a local lettings agency.

- Terms of business/landlord & lettings agency agreement.
- Tenant application form.
- Landlord application form.
- Any tenant referencing paperwork.
- Landlord information pack.
- Tenant information pack.
- Property standards document.
- Tenancy agreement.
- Bond/deposit/guarantee agreement.
- Inventory/check in/check out.
- Rent arrears protocol.
- Possession protocol including a Section 21 notice and Section 8 notice.
- Repairs protocol.
- Key performance indicators/targets.
- Complaints procedure.
- Lone working procedures.

## Section summary

Before progressing you should have:

- Developed a specification of the services that will be offered by the local lettings agency that adhere to the service standards specified in the appendix.
- Identified any gaps in staffing/staff skill-sets required to deliver the specified services and devised a strategy to fill these gaps, either by recruitment or the identification of training requirements.
- Considered the need for professional body membership.
- Fully assessed back office data management systems and identified any new requirements.
- Compiled a list of new partnerships to be developed and identified potential delivery partners.
- Developed a set of performance indicators to evaluate the local lettings agency.
- Compiled a list of documentation, protocols and procedures to develop.

## 7. How do you calculate financial projections?

### Key points:

- A cash-flow forecast for at least the first year of the local lettings agency operation should be completed so that periods of shortcomings with regards to cash-flow can be predicted and mitigated as much as possible.
- A cash-flow forecast should be completed prior to the beginning of every financial year.
- A profit and loss forecast for at least the first three years of local lettings agency operation should be completed in order to predict the break-even point at which the income generated by the local lettings agency is the same as the costs involved in the delivery of the agency.

Performing financial projections is an essential element of local lettings agency planning. Projections should err on the cautious side and be as accurate as possible. The information and templates provided below will provide ideas on where to start with financial projections. The following financial projections are recommended:

- Cash-flow forecasting – income and expenditure on a month by month basis should be projected for at least the first year of local lettings agency operation (and subsequently before the beginning of each financial year) so that periods of shortcomings with regards to cash flow can be predicted and mitigated as much as possible. A template for forecasting cash-flow is shown in Figure 3: Cash-flow forecasting template.
- Profit and loss forecast – income and expenditure on an annual basis should be projected for at least the first three years of local

lettings agency operation and these forecasts should be reviewed before the beginning of each financial year. A template for profit and loss forecasting is shown in Figure 4: Profit & loss forecast template.

- Break-even point forecast – once the cash-flow and profit and loss forecasts have been completed, the break-even point can be more accurately predicted. The definition of “break-even” is the point at which the income generated by the local lettings agency is the same as the costs involved in the delivery of the local lettings agency. Conclusions can also be drawn on how many properties need to be contained within the local lettings agency portfolio in order to maintain the “break-even” point. The majority of case study local lettings agencies had a break-even point or projected break-even point of between one and three years.

### 7.1 Information to include in the financial projections

- Income from managed lettings – this should take into consideration all realistic projected income from managed lettings. The following should be considered when projecting income from lettings.
  - When income may begin to start being generated, for example, this may not be until the local lettings agency has been operational for 6 months if new partnerships need to be created with landlords, referring agencies etc.
  - Rate at which properties will be procured, the number per month. If an existing PRS access

- scheme operates, an estimate could be established from current procurement rates.
- What the sources of income will be, for example, the percentage of properties procured on a tenant find basis, the percentage of properties procured on a full management basis.
  - The mixture of properties to be procured, for example, percentage that will be shared accommodation, percentage one beds, percentage two beds, percentage three beds, percentage four beds. If the local lettings service is to be offered to all clients, a breakdown of the housing register bed needs could be used to estimate these percentages.
  - The “drop off” rate of properties when tenancies created come to an end.
  - The void rate of properties that are vacant at any one time. The local lettings agency case studies had void rates ranging from 1.33% to 5%.
  - Income from fixed fees – this could include for example, any income from administration charges, inventories, mark ups on repairs, service of notices etc.
  - Grants – this should include any start up funding received or lump sums from third parties.
  - Staff/Officers – this should take into consideration the staffing requirements of the local lettings agency service. The following should be considered when projecting staffing costs.
    - Inclusion of national insurance, pension contributions, agency fees where appropriate.
    - Number of full time equivalent (FTE) posts required to deliver the local lettings agency service and respective salaries.
    - Allowance of inflation in salary costs for subsequent years, normally two or three percent.
    - Any proportion of management costs that need to be allocated to the local lettings agency to take account of a line manager’s increased area of responsibility.
    - Any other salary costs that need to be considered, for example, this may include a proportion of human resources or finance departments’ salary costs.
    - Travel – all travel costs associated with the delivery of the local lettings agency, such as public transport costs and mileage (normally £0.40 to £0.45 per mile).
    - Set up costs including legal costs – this may include the cost of registration with Companies House and associated accountancy/legal fees or consultancy fees.
    - Professional body membership – this is the membership fees charged by any professional bodies such as ARLA, NALs or UKALA.
    - Rent and rates – the cost of rental of premises, heat, lighting, water, business rates etc.
    - Website development – the cost of developing and maintaining a professional website.
    - IT/Equipment – the costs of mobile phones, computers/laptops, printers, cameras, software, to let boards etc.
    - Training – the costs of training for local lettings agency staff.

- Recruitment – the costs associated with the recruitment of any new staff, for example, advertising the post, meeting room hire for interviews etc.
- Pre-tenancy training/tenancy support – the costs associated with providing a pre-tenancy training programme and ongoing tenancy support, for example, room hire costs for tenancy training, cost of external tutors, cost of providing an out of hours service for tenancy support, cost of providing moving in packs etc.
- Damage/rent arrears claims – the monetary loss of claims made against deposits/bonds/guarantees for damage and/or rent arrears. Existing PRS access schemes can use their current claim rates as an estimate for the local lettings agency. The rent arrears rates for the local lettings agency case studies ranged from 3% to 15%. Damage claim rates for the local lettings agency case studies were typically 15% to 20%.
- Marketing/PR – the costs of all marketing and PR to promote the local lettings agency, for example, newspaper adverts, landlords’ forums, leaflets, flyers etc.
- Stationery – the costs of all officer stationery, for example, letterheads, paper, pens etc.



Figure 4: Profit & loss forecast template

	Year 1	Year 2	Year 3	Totals
TURNOVER				
1) Income from managed lettings				
2) Income from fixed fees				
3) Grants and other funding				
COST OF GOODS SOLD				
4) Staff costs				
5) Travel				
GROSS PROFIT				
OPERATING COSTS				
6) Set up costs inc legal costs				
7) Professional body membership				
8) Rent and rates				
9) Website development				
10) IT/equipment				
11) Training				
12) Recruitment				
13) Pre-tenancy training/tenancy support				
14) Damage/rent arrear claims				
15) Marketing/PR				
16) Stationery				
OPERATING PROFIT				
CUMULATIVE				



## Section summary

Before progressing you should have:

- Completed a cash-flow forecast for at least the first year of operation of the local lettings agency.
- Completed a profit and loss forecast for at least the first three years of operation of the local lettings agency.
- Established a predicted break-even point for when the cost of delivering the local lettings agency is equal to the income generated by the local lettings agency.

## 8. How do you make a local lettings agency operational?

### Key points:

- Developing a business plan is essential to monitoring whether a local lettings agency is meeting its business objectives and a useful tool for managing business priorities.
- Managing the transition from a PRS access scheme that offers free services to a landlord to one that charges fees to landlords is difficult but can be managed by using pilots, incremental fees or by separating services.
- Profits generated by local lettings agency can be used for other social and community purposes.

A business plan describes the complete operation of the local lettings agency and typically includes the following information:

- Executive summary.
- Vision of the business – business idea, business goals, what the business does, what makes the business different, legal requirements affecting the business.
- Marketing – market research, profiling landlords, profiling tenants, pricing, managing market risks, promotion & advertising.
- Running the business – staff, premises, suppliers, equipment, operational risks.
- Financial projections – start up costs, profit and loss forecast, cash-flow forecast, sourcing finance, financial risks.

A business plan template can be found at [https://online.businesslink.gov.uk/Starting\\_a\\_Business\\_files/BusinessPlanTemplate01.doc](https://online.businesslink.gov.uk/Starting_a_Business_files/BusinessPlanTemplate01.doc)

Your business plan should include short and long term goals as well as regular review stages to allow for a full assessment of progress made by the local lettings agency.

### 8.1 Managing the transition to income generation

Local lettings agencies that are derived from existing PRS access schemes offering free services to landlords often struggle with managing the transition to income generation. Crisis has identified a number of different models that may assist PRS access schemes with deciding the best method.

#### 8.1.1 Pilots

Some schemes have chosen to use pilots to manage the transition to income generation. Pilot schemes can have the following features:

- A “selected” group of landlords to trial the product.
- A “selected” group of tenants to trial the product.
- Lower fees for the landlords in the pilot.
- Small number of tenancies created and managed.

The benefits of a pilot scheme are as follows:

- Creates a landlord “voice” to champion the local lettings agency if the pilot is successful, particularly if landlords are skeptical in relation to a fee charging service.
- Creates a couple of case studies that can be used in the marketing materials of the new local lettings agency.

- Allows staff to “learn” the new local lettings agency service and manage a small number of properties initially.
- Allows the local lettings agency to identify any problem areas in delivering the service before it becomes mainstream.
- Can reward existing landlord customers for their loyalty to the previously free PRS access scheme.

### 8.1.2 Incremental fees

Some schemes have introduced incremental fees to encourage landlords to use the new local lettings agency service. Some examples of using incremental fees include:

- Charging a lower management fee for the first few months and increasing the fee charged after the initial months. For example, Ikon Lettings operating in Bridgend and Swansea charge a management fee of 7% for the first six months which then increases to 10% for subsequent months.
- Offering a free service for the first few months and then introducing a fee after the initial months.
- Offering all existing landlords of the PRS access service a lower rate for the first tenancy managed by the local lettings agency.
- Operating the first year of the local lettings agency at a lower management fee and then increasing the fee after that time. For example, Exeter City Council’s ExtraLet initially offered an 8% management which then increased to 10%.

The benefits of incremental fees are as follows:

- Reduces the perceived financial risk that landlords will have in using the local lettings agency service.
- Encourages landlords to trial the new local lettings agency service.

### 8.1.3 Separate services

Some schemes have continued to offer their free existing PRS access scheme in addition to the local lettings agency but distinctly separated the services that will be offered by each scheme. For example, Worcester Housing Advice & Benefits Advice Centre (WHABAC) offer their free PRS access scheme (a basic tenant find service with little additional support) whilst their local lettings agency offers enhanced tenancy support, guaranteed rent, repairs service is available for a 10% management fee.

PATH continues to operate its deposit guarantee scheme, which interacts with the local lettings agencies, Devon Homes4let and Plymouth Homes4let. As the local lettings agencies are set up as standalone companies, there is no conflict of interest between the fee paying services and the free services provided to landlords.

Schemes that continue to offer free services in conjunction with local lettings agencies should ensure that there are clear tangible benefits attached to services charging fees.

### 8.1.4 Full charge/No other option

Some schemes have introduced a full charging local lettings agency from the outset and offered no other alternatives to private landlords. This can be a successful approach if the previously offered PRS access scheme was a professional service of high standard and landlords at the time knew they were onto a “good” deal and are as

such more willing to accept immediate charges. They will also know that the alternative of using a letting agent will still be a more expensive option than using the local lettings agency.

For example, DPMS Lettings found that when they introduced a management charge, 98.7% of landlords accepted the fee without question. They were able to do this because they had consistently provided a high standard, professional PRS access scheme before the introduction of the local lettings agency.

## 8.2 What does success look like?

When asked what they felt were the main selling points of their local lettings agency, the case study agencies responded as follows:

- “Low voids - properties can be filled quickly. Linked into key services & organisations i.e. local authority” – Devon Homes4let and Plymouth Homes4let.
- “Ability to offer support, detailed advice, links to Housing Benefit” – YorHome.
- “Guaranteed rent, full management. Taking the hassle away from letting accommodation.” – WHABAC.
- “Guaranteed rental income for landlords and a constant supply of tenants” – ExtraLet.
- “Professional service that’s superior to any high street letting agency. Dedicated team of staff and robust management procedures. Delivering a quality service on time every time. Supporting the tenants to maintain a healthy tenancy helping the most needy secure a happy home” – DPMS Lettings.

- “Assessed clients with support back-up guaranteed rent” – Real Lettings.
- “Support to Tenants, knowledge of staff (all completed relevant CIH courses), no hidden charges to Landlords” – Wigan Housing Solutions.

## 8.3 Reinvesting profits

A social enterprise is a business with primarily social objectives whose surpluses are principally re-invested for that purpose in the business or in the community rather than being driven by the need to maximise profit for owners and shareholders of the business.

Once a local lettings agency surpasses its break-even point and begins to generate an operating profit, then certain decisions will have to be taken as to how this money should be re-invested in accordance with its social objectives or the needs of the community.

Obviously, as the local lettings agency grows in size and portfolio, the operating costs will also grow as more members of staff or other resources may be required to provide a consistent level of service.

Possible ideas for reinvestment:

- Development of a handy person/ gardening scheme that provides training opportunities for existing tenants or other clients of the organisation to carry out repairs/ maintenance services for the local lettings agency property portfolio. These services could be further developed and offered to landlords not using the services of the local lettings agency but as a standalone service at good rates for landlords.

- Development of a furniture restoration/recycling project which could assist with training opportunities for restoring furniture as well as helping existing/new tenants of the scheme with furnishing their properties.

When asked what they felt were the main selling points of their local lettings agency, the case study agencies responded as follows:

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- “Ability to offer support, detailed advice, links to Housing Benefit” – YorHome.
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- “Assessed clients with support back-up guaranteed rent” – Real Lettings.
- “Support to Tenants, knowledge of staff (all completed relevant CIH courses), no hidden charges to Landlords” – Wigan Housing Solutions.

## Section summary

Before progressing you should have:

- Developed a business plan with specified project review stages and circulated to senior management for approval.
- Developed a plan to manage the transition to income generation.
- Developed long term objectives for the re-investment of profits generated by the local lettings agency.

## Further advice & assistance

Crisis Private Rented Sector Advisory Service  
private.renting@crisis.org.uk  
[www.privaterentedsector.org.uk](http://www.privaterentedsector.org.uk)

Crisis 3xE Network  
[www.crisis.org.uk/3xE](http://www.crisis.org.uk/3xE)

Business Link  
[www.businesslink.gov.uk](http://www.businesslink.gov.uk)

## Acknowledgements

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- Devon Homes4let
- DPMS Lettings / Derbyshire Local Lettings Agency
- EXtraLet
- Ikon Lettings
- Plymouth Homes4let
- Real Lettings
- SmartLets
- Wigan Housing Solutions
- YorHome

## Appendix – Code of practice

### Operational Service Standards

The local lettings agency will:

- Comply with all the relevant legislation relating to Data Protection.
- Not release any confidential client information without the client's prior written consent, unless legally required to do so.
- Offer equality of professional service regardless of race, religious belief, gender, sexuality and age.
- Provide a service that is consistent with the Crisis Good practice guide to local lettings agencies.
- Act within the law in the conduct of all its business.
- Ensure that all staff have a current enhanced Criminal Records Bureau (CRB) disclosure.
- Hold all client monies in a separate client account and make arrangements for Client Money Protection where applicable.
- Outline all services provided and charges in their Terms of Business and provide all landlords with a copy of this document.
- Actively encourage feedback on its services from partners, landlords and tenants.
- Actively engage with its local landlords' association, where in existence.
- Provide training opportunities for all staff to continue their professional development.
- Charge reasonable fees for services provided.
- Undertake an annual financial review to include making revised profit and loss and cash-flow projections for the next three years.
- Undertake ongoing performance monitoring and establish a set of key

performance indicators to monitor performance.

- Have adequate professional indemnity, public liability and employers' liability insurance.
- Have in place a comprehensive complaints procedure.
- Have in place lone working procedures to ensure the personal safety of all lone working agency staff.

### Landlord Service Standards

Note: If the local lettings agent is not employed to manage the property, only the sections of the service standards which are relevant to finding a tenant and letting the property will apply.

Before the tenancy the local lettings agency will:

- Have a minimum property standard for all properties accepted by the agency and make available to landlords a copy of the standard.
- Visit the property and give advice on any repairs/refurbishments that are needed in order for the property to meet the minimum property standards.
- Not let the property until all repairs/refurbishment to meet the minimum property standard have been completed.
- Provide all landlords with an information pack.
- Explain the housing benefit system to all landlords.
- Give advice on the level of rent that can be expected.
- Arrange for safety checks on gas and electrical appliances to be carried out, if requested to do so by the landlord.

- Explain to the landlord their rights and responsibilities and the tenant's rights and responsibilities.
- Give advice on what actions need to be undertaken if the property is mortgaged.
- Give advice on insuring the building and contents and other insurance schemes which may be available to protect their interests and which are not normally covered in standard household policies where a tenant is in residence.
- Accompany potential tenants to view the rental property.
- Choose a tenant in a way agreed with the landlord and provide the landlord with background information on the client subject to client confidentiality.
- Arrange for the preparation of an inventory of the property and its contents, together with acceptance by the tenant of the inventory.
- Provision and completion of a tenancy agreement that does not contain any Unfair Terms as defined by the Consumer Contracts Regulations 1999.
- Take a deposit from the tenant to protect against possible damage or agree with the landlord another sort of guarantee.
- Arrange for the protection of the deposit in accordance with the Tenancy Deposit Protection Legislation where applicable.
- Assist with the transfer of bills for the services for which the tenant will be responsible into the tenant's name.
- Carry out appropriate tenant referencing and tenant background checks.
- Ensure that where a tenant has identified support needs, this support is in place prior to the commencement of the tenancy.
- Carry out a risk assessment of all tenants and make all staff, contractors and landlords aware of any significant personal safety risks associated with the tenant, subject to client confidentiality.

### Tenant Service Standards

Note: If the local lettings agent is not employed to manage the property, the tenant will be provided with contact details of the landlord.

#### On the tenant's approach to the local lettings agency, the agent will:

- Discuss with the tenant their property requirements and the areas within which they wish to look for properties and take into consideration the location of any local and support services with whom the tenant is engaged.
- Liaise with any other third party agencies involved in the tenant's case.
- Request that the tenant completes an application form and identify any support requirements and training/employment opportunities from which the tenant may benefit.
- Carry out a tenant risk assessment.
- Provide the tenant with an information pack.
- Check the tenant's eligibility for housing benefit and any other relevant welfare benefits.
- Accompany the client to property viewings.
- Clearly explain to the tenant their rights and responsibilities in the PRS.
- Register the tenant for any relevant pre-tenancy training programme.

**On finding a suitable property for the tenant, the local lettings agency will:**

- Perform an affordability assessment for the tenant on any suitable property found.
- Ensure that the property meets a minimum property standard and that the property has undergone all required safety checks on furnishings and gas and electrical services.
- Provide advice on sourcing furniture.
- Explain the purpose of the inventory to the tenant and agree the document.
- Provide advice on the requirements of a tenancy deposit or guarantee to secure the tenancy.
- Confirm how any deposit will be protected under the tenancy deposit protection legislation.
- Assist with the completion of the housing benefit application form.
- Provide the tenant with details of utility providers in the area and assist the tenant where necessary in arranging for the accounts to be set up in the tenant's name.
- Ensure that the tenant understands how all the appliances within the property operate and is provided with advice on reducing utility bills.
- Ensure that the tenant understands the terms of the tenancy agreement.

**During the tenancy, the local lettings agency will:**

- Carry out tenancy health checks at regular intervals throughout the tenancy.
- Arrange with the tenant in advance a time for access to the property in order to inspect the condition of the property in accordance with the tenancy agreement.

- Respond to all requests for maintenance or repair which might in some cases have to be referred to the landlord for approval.
- Respond promptly to all tenant queries.
- Provide out of hours contact information for any urgent queries and repairs.
- Liaise with any third party support providers as appropriate.
- Liaise with the housing benefit department on the tenant's behalf where necessary.
- Collect the rent and pass it onto the landlord every month or as otherwise agreed.
- Provide a statement of account to the landlord every month or as otherwise agreed.
- Provide detailed receipts for all deductions.
- Carry out a tenancy health-check periodically during the course of the tenancy as often as agreed with the landlord to check that the property is being looked after.
- Arrange to have routine maintenance work carried out, up to a pre-approved limit agreed in advance with the landlord. Any expenditure above that limit will be referred to the landlord for approval.
- Discuss any tenant's requests for repairs with the landlord in accordance with pre-approved limits set out above.
- Use only contractors pre-approved by the local lettings agency ensuring they carry all necessary insurances and where applicable, belong to a recognised trade body.



- Monitor the rent payment record and take all reasonable and necessary steps, in accordance with the local lettings agency's rent arrears protocol, to obtain prompt payment of any monies owed.
- Provide regular updates to the landlord.

**Before the tenancy ends, the local lettings agency will:**

- Pursue payment of any rent arrears in accordance with its rent arrears protocol and avoid any action that could be construed as harassment.
- Serve the tenant with the correct period of notice.
- Arrange to visit the property to check its condition and provide advice to the tenant on any damage that requires rectifying prior to the tenancy end.
- Arrange to visit the property the day the tenant vacates to check the condition of the property and note any deductions to be made from the tenant's deposit or bond guarantee.
- Provide any further advice and assistance to the tenant as necessary.

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