

Rother District Council

Report to: Cabinet

Date: 24 May 2021

Title: Private Sector Leasing Scheme

Report of: Head of Service Housing and Community

Cabinet Member: Cllr Byrne

Ward(s): All

Purpose of Report: To seek approval for a private sector leasing scheme that will enable the Council to provide tenancies to households that are homeless or at risk of homelessness. To seek approval to issue fixed-term rent guarantees to private sector landlords.

Decision Type: Key

Officer

Recommendation(s): **Recommendation to COUNCIL:** That:

- 1) lease agreements be entered into with property owners to enable the provision of tenancy agreements between the Council and households who are homeless or at risk of homelessness;
- 2) the Head of Service Housing and Community be authorised to enter property and rent account management contracts; and
- 3) fixed-term rent guarantees be issued to private sector landlords to provide access to tenancies for households who are homeless or at risk of homelessness.

Reasons for

Recommendations: Improve housing outcomes and reduce the cost to the Council of providing temporary accommodation by preventing homelessness through greater access to quality and affordable accommodation.

Introduction

1. A key objective within the Council's Housing, Homelessness and Rough Sleeping Strategy 2019-24 is to reduce homelessness and it is a Corporate Plan target for the Rother Tenant Finder Scheme to secure 100 tenancies a year for homeless households by March 2023.
2. As of May 2021, the Council had over 100 households in temporary accommodation; the number accommodated prior to the COVID-19 pandemic was 55 households. As outlined in the recent report to Cabinet in March 2021 (Minute CB20/119 refers) regarding the purchase of accommodation for

temporary use, the average cost of placing a household with children is £2,500 for an average length of stay of 66 days. The average cost has latterly been revised upwards to £2,590 per household.

3. The recommendations seek to support the Council to reduce the number of households forced to use temporary accommodation and avoid the costs to the Council of these temporary accommodation placements. The two measures proposed are:
 - Private Sector Leasing Scheme
 - Rent Guarantee Scheme
4. During the COVID-19 pandemic there have been fewer properties made available to the Rother Tenant Finder scheme due to a significant stagnation in the lettings market. There also continues to be an increase in the level of rents charged. The situation has prompted a review of the Rother Tenant Finder service and the various incentives offered to private sector landlords and estate agents.
5. The limited number of properties the Rother Tenant Finder Scheme has successfully secured for tenants during the pandemic has been achieved through the provision of 0% loans to the tenant to meet the deposit and rent in advance costs. In addition, the Council has secured tenancies through incentive payments to landlords and agents which are funded through a combination of external government grants.
6. The Housing Needs Team has reviewed a range of options that may increase the number of tenancies it can secure in the private rented sector for homeless households to access. This report proposes two new and more interventionist measures that will enable the Council to secure more accommodation and prevent and relieve homelessness more effectively. The options proposed are that the Council lease properties from property owners and manage tenancies directly – by way of a third-party property management contract - as well as a rent guarantee offer to landlords.

Private Sector Lease Scheme

7. Private Sector Leasing will give the Council access to properties for a fixed period. Property owners will be guaranteed a fixed monthly payment. The value of the payment will be negotiated on a case by case basis between the Local Housing Allowance (LHA) rate and 10% below this rate, depending on the property type, location and standard; the payment will not exceed the relevant LHA for that property type. The Council will then sub-let the property to tenants that are homeless or at risk of homelessness.
8. The Council will place tenants into the properties on Non-Secure Tenancies. In most cases tenants will claim Housing Benefit to meet the costs of their rent. The rents charged to tenants will be the same as the applicable Local Housing Allowance for the size of the property.
9. Each lease will be for a fixed period; during the term of the lease the Council will have exclusive rights to place tenants of its choosing in the properties. Leases can be ended ahead of expiry by giving of 3 months-notice by either party or at a break-clause point, six months into the agreement.

10. For properties to be accepted onto the scheme they must meet or exceed defined standards. Property owners will provide a property that is free from all category 1 and all significant category 2 hazards as defined by the Housing Health and Safety Rating System (HHSRS) and meet all other relevant statutory requirements before occupation. This will include an Energy performance Certificate at minimum grade 'E', a landlord's gas safety certificate and full compliance with the electrical safety standards. Documentation showing compliance with this legislation will be provided to the Council by owners ahead of leases being finalised. In addition, property owners will be advised and supported to implement measures to raise the level of their EPC rating.
11. Property owners will retain full responsibility for the management, maintenance and repair of the external fabric of the building to include all external doors, walls and windows as well as associated structures such as soil pipes, guttering and chimney stacks.
12. The Council will manage the interior of the building and make good any tenant related damage to the property. The condition of the property will be assessed by means of an inventory and accompanying photographic and video evidence. The condition of the property at lease commencement will be agreed with the property owner. At the end of the lease period the property will be returned to the owner in the same condition as when the lease commenced save an allowance for reasonable wear and tear.

Property Management

13. Properties will be managed by an external management organisation for which a specification is being finalised. The Council may wish to deliver certain aspects of the property management itself with the support of a third-party specialist contractor. It is the intention to develop in-house property management expertise and resources over time; this will leave open the option of the Council managing its own properties when the scale of properties under lease and Council ownership makes this option financially beneficial.

Financial Assessment

14. The scheme will be funded from external Homelessness Prevention Grant that is allocated annually by the MHCLG. It is proposed that the scheme be expanded in a measured way with up to 15 active leased properties in the first 12 months of the scheme and then a further 15 properties in the second 12 months. Once this milestone of 30 properties has been reached it is proposed that a review is undertaken to ascertain if the scheme is operating effectively.
15. The financial assessment undertaken includes an illustration of the costs which can be avoided by being able to accommodate households via the private sector leasing scheme rather than temporary accommodation. These projections have been verified in consultation with neighbouring local authorities delivering similar temporary accommodation schemes.
16. As already highlighted, the average cost to the Council of accommodating households with children in temporary accommodation is £2,590 per

household; therefore, for each property the Council secures by way of a lease these costs will be avoided.

	NO. OF PROPERTIES	COST	COST AVOIDED	TOTAL
Year 1	15	£27,192	-£38,850	-£11,658
Year 2	30	£70,090	-£77,700	-£7,610

A more detailed financial appraisal is given at Appendix A

17. The above table illustrates that the 15 leases achieved in year 1 will cost the Council £27,192 and avoid temporary accommodation costs of £38,850, leaving a balance of £11,658 in avoided temporary accommodation costs over the period. The total number of leases the Council will have by the end of year 2 is projected to be 30, achieving £7,610 in avoided costs during year 2.
18. The table also assumes that a property is only occupied by one household over the three-year lease period and therefore shows the minimum level of cost avoidance that could be achieved. In addition, it will be necessary to create a fund to offset the future cost of repair that may be required at the end of the lease period, each property will contribute 5% of the annual income it generates to the fund.

Rent Guarantee Scheme

19. Up until the time of COVID-19 the Rother Tenant Finder was delivering good results in securing properties to assist households that are threatened with homelessness; however, recently it has become clear that the lettings market expects tenants to have a guarantor and rent payments to be underwritten.
20. The Council has previously looked to tackle this issue through using a commercial insurance premium product. This has had some success; however, some landlords had negative experiences when it came to claiming for lost rent against these agreements; therefore, the Council no longer offers the insurance policy product as part of Rother Tenant Finder. We therefore require a new means of underwriting landlord risk of rent arrears.
21. The proposed rent guarantees will have the following conditions:
 - Guarantees will be time limited to 12 months after which the landlord will assume full liability for the rent.
 - The Council will be liable for up to six months of rent arrears accrued during the first 12 months of the tenancy.
 - Guarantees will be provided for Assured Shorthold Tenancies with a minimum fixed term of 12 months.
 - Tenancies must be assessed as affordable for the tenant.
 - The landlord or their agent must inform the Council in writing within seven days of the first missed rent payment and within seven days of all subsequent missed payments.
22. The Council's Tenancy Sustainment Officer will monitor with tenants their rent accounts and offer support to sustain rental payments. There will be detailed

assessments of those tenants to whom the Council will offer rent guarantees to minimise the risk of the Council needing to reimburse landlords. However, even with the support in place, there is a risk that some tenants will default on their rent payments.

23. The table below provides a profile of the level of financial risk to which the Council will expose itself if it were to provide 10, 20 or 30 rent guarantees per annum up to the value of 6-months' rent, over a 12-month fixed term period.

NO. OF GUARANTEES (PER ANNUM)	AVG. RENT (PCM)	100% ARREARS	20% ARREARS	10% ARREARS	5% ARREARS
10	£750	£45,000	£9,000	£4,500	£2,250
20	£750	£90,000	£18,000	£9,000	£4,500
30	£750	£135,000	£27,000	£13,500	£6,750

24. It is proposed that an arrears level of 20% is a reasonable worst-case scenario; however, the team will operate to an arrears target of 5% which is comfortably achieved by most Registered Providers, for example. The number of guarantees is limited to 30 in the first year and will only be extended in consultation with Section 151 Officer if the level of arrears is below 20% overall.

25. The scheme will be funded from external Homelessness Prevention Grant that is allocated annually by the MHCLG. Again, the average cost to the Council of accommodating households with children in temporary accommodation is £2,590 per household; therefore, for each property the Council secures by way of a rent guarantee these costs will be avoided.

NO. OF GUARANTEES (PER ANNUM)	AVG. RENT (PCM)	20% ARREARS	AVOIDED COSTS	TOTAL
30	£750	£27,000	-£75,000	-£48,000

26. The above table illustrates that 30 rent guarantee agreements will cost the Council £27,000 (assuming arrears of 20% of rental income); the same 30 tenancies secured through rent guarantee agreements will avoid temporary accommodation costs of £75,000, leaving a balance of £48,000 in avoided temporary accommodation costs.

Conclusion

27. Both the private sector leasing and rent guarantee schemes are designed to improve access to quality and affordable accommodation for households who are homeless or at risk of homelessness. The two schemes offer the Rother Tenant Finder a more competitive offer to landlords and property owners that will enable the Council to reach its Corporate Plan target of securing one hundred tenancies a year for homeless households by March 2023.
28. The two schemes will prevent the need for the Council to place households in expensive temporary accommodation, avoiding the associated cost. The Private Sector Leasing Scheme proposal will enable the Council to avoid up to £11,000 of temporary accommodation costs in its first year and £7,000 in

its second year. The Rent Guarantee Scheme will enable the Council to avoid up to £48,000 for every 30 rent guarantees issued.

Financial Implications

29. The financial implications associated with the recommendations are addressed within the main body of the report. The risks associated with the management of the properties is included at Appendix B.

Legal Implications

30. The lease agreement between the Council and the property owner, alongside the non-secure tenancy agreement between the Council and tenant are predicated elsewhere in the county and we are consulting with our legal team to finalise these agreements. We are also consulting legal colleagues to refresh rental bond agreements that have been utilised by the Council in the past and enable the delivery of rent guarantees to landlords.

Environmental

31. The accommodation leased will be offered to tenants with the following standard: EPC E or above. The housing will comply with Health and safety standards for rented homes (HHSRS) and Decent Homes Standard.

Other Implications	Applies?	Other Implications	Applies?
Human Rights	No	Equalities and Diversity	No
Crime and Disorder	No	External Consultation	No
Environmental	Yes	Access to Information	No
Risk Management	No	Exempt from publication	No

Chief Executive:	Malcolm Johnston
Report Contact Officer:	Joe Powell
e-mail address:	Joe.powell@rother.gov.uk
Appendices:	A – Financial appraisal B – Property management risk register
Relevant Previous Minutes:	CB20/119
Background Papers:	None
Reference Documents:	None

Financial Appraisal

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Year 1 total
Total 2 bed units in scheme	1	4	5	6	7	8	10	12	13	14	15	15	15
Housing Benefit income	-648.22	2,592.88	-3,241.10	-3,889.32	-4,537.54	-5,185.76	-6,482.20	-7,778.64	-8,426.86	-9,075.08	-9,723.30	-9,723.30	-71,304.20
Voids 10%	64.82	259.29	324.11	388.93	453.75	518.58	648.22	777.86	842.69	907.51	972.33	972.33	7,130.42
Management Cost @ 10%	64.82	259.29	324.11	388.93	453.75	518.58	648.22	777.86	842.69	907.51	972.33	972.33	7,130.42
Rent payment to landlords	615.81	2,463.24	3,079.05	3,694.85	4,310.66	4,926.47	6,158.09	7,389.71	8,005.52	8,621.33	9,237.14	9,237.14	67,738.99
Bad Debt at 5%	32.41	129.64	162.06	194.47	226.88	259.29	324.11	388.93	421.34	453.75	486.17	486.17	3,565.21
Repairs & maintenance	41.67	166.67	208.33	250.00	291.67	333.33	416.67	500.00	541.67	583.33	625.00	625.00	4,583.33
C/Tax liability @ 1 month	13.65	54.60	68.25	81.89	95.54	109.19	136.49	163.79	177.44	191.09	204.74	204.74	1,501.39
Utilities	9.00	36.00	45.00	54.00	63.00	72.00	90.00	108.00	117.00	126.00	135.00	135.00	990.00
Gas Safe	4.17	16.67	20.83	25.00	29.17	33.33	41.67	50.00	54.17	58.33	62.50	62.50	458.33
Insurance	16.67	66.67	83.33	100.00	116.67	133.33	166.67	200.00	216.67	233.33	250.00	250.00	1,833.33
Sinking fund for hand back cost	32.41	129.64	162.06	194.47	226.88	259.29	324.11	388.93	421.34	453.75	486.17	486.17	3,565.21
Total costs	895.42	3,581.70	4,477.12	5,372.54	6,267.97	7,163.39	8,954.24	10,745.09	11,640.51	12,535.94	13,431.36	13,431.36	98,496.64
TOTAL	247.20	988.82	1,236.02	1,483.22	1,730.43	1,977.63	2,472.04	2,966.45	3,213.65	3,460.86	3,708.06	3,708.06	27,192.44

	Month 13	Month 14	Month 15	Month 16	Month 17	Month 18	Month 19	Month 20	Month 21	Month 22	Month 23	Month 24	Year 2 total
Total 2 bed units in scheme	16	18	20	21	22	23	25	26	27	28	29	30	
Housing Benefit income	- 10,371.52	- 11,667.96	- 12,964.40	- 13,612.62	- 14,260.84	- 14,909.06	- 16,205.50	- 16,853.72	- 17,501.94	- 18,150.16	- 18,798.38	- 19,446.60	- 184,742.70
Voids 10%	1,037.15	1,166.80	1,296.44	1,361.26	1,426.08	1,490.91	1,620.55	1,685.37	1,750.19	1,815.02	1,879.84	1,944.66	18,474.27
Management Cost @ 10%	1,037.15	1,166.80	1,296.44	1,361.26	1,426.08	1,490.91	1,620.55	1,685.37	1,750.19	1,815.02	1,879.84	1,944.66	18,474.27
Rent payment to landlords	9,852.94	11,084.56	12,316.18	12,931.99	13,547.80	13,800.00	15,395.23	16,011.03	16,626.84	17,242.65	17,858.46	18,474.27	175,141.96
Bad Debt at 5%	518.58	583.40	648.22	680.63	713.04	745.45	810.28	842.69	875.10	907.51	939.92	972.33	9,237.14
Repairs & maintenance	666.67	750.00	833.33	875.00	916.67	958.33	1,041.67	1,083.33	1,125.00	1,166.67	1,208.33	1,250.00	11,875.00
C/Tax liability @ 1 month	218.38	245.68	272.98	286.63	300.28	313.93	341.23	354.87	368.52	382.17	395.82	409.47	3,889.97
Utilities	144.00	162.00	180.00	189.00	198.00	207.00	225.00	234.00	243.00	252.00	261.00	270.00	2,565.00
Gas Safe	66.67	75.00	83.33	87.50	91.67	95.83	104.17	108.33	112.50	116.67	120.83	125.00	1,187.50
Insurance	266.67	300.00	333.33	350.00	366.67	383.33	416.67	433.33	450.00	466.67	483.33	500.00	4,750.00
Sinking fund for hand back cost	518.58	583.40	648.22	680.63	713.04	745.45	810.28	842.69	875.10	907.51	939.92	972.33	9,237.14
Total costs	14,326.78	16,117.63	17,908.48	18,803.90	19,699.33	20,231.15	22,385.60	23,281.02	24,176.45	25,071.87	25,967.30	26,862.72	254,832.23
TOTAL	3,955.26	4,449.67	4,944.08	5,191.28	5,438.49	5,322.09	6,180.10	6,427.30	6,674.51	6,921.71	7,168.92	7,416.12	70,089.53

PROPERTY MANAGEMENT RISK REGISTER

RISK	LIKELIHOOD	IMPACT	MITIGATION
That the offer may not be competitive meaning landlords will not sign up and the income projections will not be met	Medium	High	Monitor initial levels of interest. Increase resources for promotion and financial incentives as necessary
Lower than anticipated level of income from Housing Benefit	Low	Medium	Regular monitoring of rent accounts using appropriate software either directly or through a property management contract. Regular meetings between PSPO and tenant or agent to monitor.
Reputational risk to the Council and harm to tenants?	Low	Medium	All properties fully inspected against HHSRS. Minimum EPC 'E'. Landlord supported to raise EPC level. Gas safety checks. Electrical safety checks. Fire risk assessments. Management contract to include property visits
Accommodation becomes unaffordable for tenant	Low	Low	Regular monitoring of tenant HB claims and meetings with RP manager to flag potential issues
Insufficient supply of tenants to fill the leased accommodation	Low	High	Currently over 90 households in TA alone and up to 20 per week approaching the authority for housing assistance
Changes to benefits legislation reduces safeguards and/or revenue streams for SLA	Medium	Medium	Monitor possible changes in benefits policy and undertake regular scheme reviews
Rent arrears	Medium	Medium	Pre-tenancy checks and support needs assessments undertaken Property Management to provide regular visits and contact with tenants to identify issues. Also support from Rother TSO and 3 rd party floating support as necessary. Full affordability checks undertaken when tenancy commences. Tenants understand that NTQ will be

RISK	LIKELIHOOD	IMPACT	MITIGATION
Tenant ASB	Medium	Medium	served and possession proceedings started if necessary Tenants undertake tenancy readiness session to understand obligations. Regular contact with RDC community safety to flag issues. Agreement in place to refer to mediation services as applicable
Legislation changes and LL refuses to raise standards.	Low	Medium	Leasing agreements make clear that landlords need to adapt to changes in legislation. Support landlords to join reputable professional landlord organisation. Explore funding options with landlord for works if needed. Be prepared to take enforcement action if necessary.
Dispute with LL on property condition at hand back	High	Medium	Full photographic inventory taken at tenant move in. Produce explanatory information on meaning of 'fair wear & tear' together with asset depreciation tables. Regular visits and contact with tenants should mean that issues are known well in advance of tenant check-out
Council liable for greater level of rent arrears under rent guarantee scheme than budgeted for	Medium	Medium	Ensure that TSO and floating support services put direct payments to landlord in place with DWP assistance for tenants claiming Universal Credit. Procedure put in place to request direct payments once first missed rent payment is notified