

**Report to:** Cabinet

**Date of Meeting:** 17 July 2017

**Report Title:** Social Lettings Agency 2 Year Review

**Report By:** Andrew Palmer

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### **Purpose of Report**

To advise Members of the current financial position of the Social Lettings Agency and to present options for the future of the scheme in light of recent changes to Local Government funding for homelessness prevention.

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### **Recommendation(s)**

- 1. That Members consider the impact of the new financial arrangements introduced by central government on the operation of the current Social Letting Agency scheme**
- 2. That members consider the options outlined in the report and agree that option 3 should be pursued as the best way forward.**

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### **Reasons for Recommendations**

In February 2015 cabinet gave approval to pilot a Private Sector Leasing (PSL) scheme as part of the development of a Social Lettings Agency (SLA). The report to cabinet in February 2015 included a feasibility study (carried out by Shelter on behalf of HBC) which recommended the formation of an SLA within which two distinct modes of service delivery could be adopted by the council:

- i. Lease accommodation in the private rented sector in order to make accommodation available for people with a housing need and assist with homelessness prevention.
- ii. Manage accommodation on behalf of private landlords in competition with high street letting agents

The PSL scheme (described at (i) above) was set-up in April 2015. The PSL scheme was funded by the Temporary Accommodation Management Fee (TAMF). This was a demand led payment from Government which paid a supplement of £60 per week, per property, in addition to the standard Local Housing Allowance rate. The TAMF payments enabled the scheme to offset the operating costs of managing accommodation. The model proved to be financially viable and was delivering a small surplus to the council on the 49 properties leased.

In March 2017 the government confirmed that the TAMF would be replaced by the Flexible Homelessness Support Grant (FHSG). This is a ring-fenced grant payment for the purposes of homelessness prevention activity. This change to the funding model has changed the nature of the PSL scheme project from an income generating initiative (which successfully provided affordable housing solutions to households) to one which now represents a net cost to the council. As such, the cost effectiveness of the PSL model needs to be compared to the full-range of homelessness prevention activity available while, in addition, its longer-term viability needs to be reviewed.

## Introduction

1. The aims and objectives of the SLA are to reduce levels of homelessness through improving access to private sector accommodation. In 2016/17 the PSL scheme was successful in generating an income surplus of **£21,771.38**. After two years of operation the PSL scheme has secured forty-nine units of accommodation under lease and provided over 50 vulnerable households with safe, secure and affordable accommodation.
2. Under the current PSL arrangements the council offers private sector property owners a three year fixed-term lease which guarantees a rental income to the owner and gives an assurance that accommodation will be returned to the property owner in the same condition in which it was leased. The council then takes full responsibility for managing the properties under the scheme, enabling vulnerable households who are either homeless or at risk of homelessness to access the accommodation under a council tenancy.
3. In autumn 2016 the government announced that the TAMF (Temporary Accommodation Management Fee) would be replaced by a new funding system. In response to this announcement the procurement of new properties was suspended in November 2016. In March 2017 Government announced that the new funding model to be adopted to replace the TAMF would be the Flexible Homelessness Support Grant (FHSG), this is fixed grant for 2 years; Hastings received the following grant allocation:

2017/18 - £451,580

2018/19 - £519,586

4. The following announcement accompanied the new funding:

“Under the existing ‘temporary accommodation management fee’, funding can only be used for expensive intervention when a household is already homeless, rather than on preventing this happening in the first place. The new grant will empower councils with the freedom to support the full range of homelessness services. This could include employing a homelessness prevention or tenancy support officer to work closely with people who are at risk of losing their homes.”

5. It remains unclear what funding model will be in place beyond 2019 or at what level this funding is likely to be.

6. Based upon the amount of TAMF received for 49 units during 2016/17 we estimate there will be a net shortfall in future years of some £163,000 per annum that would need to be met through the council's FHSG allocation. The new funding model (FHSG) needs to be viewed as replacing a demand led system of subsidy delivered through higher levels of Housing Benefit with an annual cash limited grant to the council. Therefore, the higher the number of properties leased the larger the burden upon the grant fund.
7. The new funding arrangements have necessitated a review of the scheme and a consideration of its future viability. In considering ways forward officers have revisited the original recommendations made by Shelter in the cabinet report of February 2015. The February report set out an option for the development of a property management service within the SLA which would offer services along similar lines to that of high street estate agents. The commercial model outlined would allow the council to continue to improve access to private sector accommodation whilst generating an income towards offsetting the costs of operating such a service.
8. Access to effective property management services will also be required by the Local Authority owned Housing Company, the proposals for which are currently before cabinet. The skills and expertise gained within the Social Lettings team since having successfully managed accommodation under the PSL scheme leave the council well placed to deliver a property management service to the new Housing Company, on a commercial basis.

## The Current Financial Position

9. As of April 2017, 49 units of accommodation have been leased:

Shared (HMO)	Studio	1 Bed	2 Bed	3 Bed	4 Bed	Total
15	1	8	10	13	2	49

10. A full SLA budget projection for 2017/18 is available at Appendix A.
11. The first leases between the SLA and property owners are not due to expire until April 2018.
12. The cost to the council of operating the 49 unit scheme under the new FHSG funding will total some £163,262 per annum. Whilst the SLA continues to receive some £45,550 more in rental income from tenants than it pays to owners under the terms of the lease agreements, this does not cover the full costs of operation.
13. Therefore in order to meet the full cost of operating the scheme, the new Flexible Homelessness Support Grant (FHSG) will be needed to meet the gap left in the PSL scheme budget by the termination of the TAMF payments. The amount of FHSG required to support the 49 units currently under lease will be **£117,712** for 2017/18. This is a significant call upon the additional grant the council has received

through FSHG, which might be usefully employed on alternative prevention methods or be required to offset potential increases in bed & breakfast expenditure.

14. The Private Sector Leasing (PSL) scheme contains within its staffing budget one full-time Tenancy Manager, one Tenancy Procurement Officer and one part time Income Recovery Officer. In November 2016 the decision was made to leave vacant the Tenancy Procurement Officer post as the procurement of new accommodation was suspended pending the governments funding review. The current staffing resources within the 2017/18 SLA budget will need to be reviewed pending a final decision as to the future of the SLA.

#### SLA Staffing Structure

	<b>Sum of FTE</b>	<b>Salary Cost</b>
<b>Income Recovery Officer</b>	0.65	£17,308
<b>Tenancy Manager</b>	1.0	£32,682
<b>Procurement Officer (Vacant)</b>	1.0	£39,539
<b>Total</b>	<b>2.65</b>	<b>£89,529</b>

15. In addition, it is important to highlight that the government has introduced a change to the welfare benefit system with the introduction of Universal Credit (UC). Hastings became a UC 'full service' area on 14 December 2016. This may also impact on the viability of the SLA scheme as it guarantees rent payments to property owners under the terms of the lease; however, under UC rules the Council will be less able to receive rent payments directly. At present, six SLA tenants have been required to apply for UC with no payments having been received for housing costs; this leaves outstanding arrears of **£12,242.13** as of 11 June 2017 for these six tenants.

### **Options for the Future**

**Option 1:** continue to expand Private Sector Leasing (PSL) scheme and increase the level of Flexible Homelessness Support Grant (FHSB) used to fund it.

16. As already highlighted, the total net cost of operating the PSL scheme under the current portfolio of 49 properties is **£117,712**. This equates to an ongoing annual cost of **£2,402** to sustain a single homelessness prevention year on year. By way of comparison, the £117,712 funding provided by the FHSB for the purposes of homelessness prevention, could fund three fulltime Housing Options Officers;

Housing Options Officers secure on average 60 homelessness preventions each per year; this represents 180 homelessness preventions annually, with no ongoing cost for sustaining these.

17. Option 1 is not recommended given the high cost of preventing homelessness relative to the cost of other homelessness prevention options.

**Option 2:** terminate the PSL scheme.

18. **Lease termination** – the current lease agreements between the council and property owners have a minimum of a 3 month notice period before the lease can be terminated. The council has a responsibility to ensure that existing PSL scheme tenants are not made homeless and forced to use expensive B&B accommodation at a further cost to the council. The process of securing suitable and affordable accommodation for the 49 households currently accommodated under the SLA would be time consuming and resource intensive; therefore, some provision would need to be made to support current PSL scheme tenants to find alternative affordable housing.
19. **Tenancy termination** – it is estimated that the process of securing new accommodation for 49 households would take 9 to 12 months for the current team to achieve. The staffing cost of this would be up to £89,000. PSL scheme tenants are accommodated under a non-secure tenancy with the council. While it is possible that some property owners will wish to retain the tenants who are currently living in their properties, the council will need to terminate their existing tenancy agreements. In the event that a tenant refused to vacate the council would have to take the appropriate steps to recover the property. In such circumstances the council risks reputational damage and might incur Court and or legal fees associated with the terminations.
20. Option 2 is not recommended as up to 49 households would need re-housing over a short period of time. There would also be an adverse impact on the council's reputation with Landlords which might jeopardise the viability of future schemes which seek to work with private sector Landlords.
21. Nevertheless it is suggested that the council takes the opportunity to exit the current leasing arrangements in a managed way as and when tenants leave their existing accommodation or as and when leases come to their natural end. Such a proposal would be carried out in line with option 3 set out below.

**Option 3:** Wind down the existing PSL Scheme and develop a business case for a new property management service that would operate on a commercial basis similar to that offered by some high street agents; in order to help sustain current PSL scheme tenancies and grow the Social Lettings Agency.

#### Winding down the PSL scheme

22. Under Option 3, the council will offer a property management service to existing PSL scheme property owners as an alternative service to the PSL scheme. This will give both the council and property owners an exit strategy for the PSL scheme, beyond simply terminating leases and tenancies, as outlined in Option 2.

23. The council would give the property owner the option to transition to the new service either at the end of their lease period or if a property were to become void. This would provide a mechanism for sustaining existing PSL scheme tenancies beyond the 3 year lease period. It would also provide a service offer to new Landlords wishing to work with the council to provide affordable, safe and secure accommodation to households in housing difficulty; allowing the Social Lettings Agency to continue to expand.
24. It remains possible that existing PSL scheme property owners will not wish to transition to the new property management service nor want to keep the existing tenant. In cases where the lease has expired and tenants remain in the property the council will support the household to secure alternative accommodation and ensure that the household do not become homeless.
25. As the FHSG is only fixed until March 2019 and the last of the leases expire in November 2019 it is possible that the council may have to terminate some leases ahead of their becoming void or the lease expiring. However, it is expected that the FHSG will either be extended beyond March 2019 or an alternative funding option will be available to sustain the PSL scheme until all leases have expired in November 2019.
26. It is recommended that officers are directed to explore option 3. This option allows the council to responsibly wind down the PSL scheme while providing an opportunity to sustain current tenancies within the SLA. In addition, option 3 will allow the council to continue to prevent homelessness, generally improve access to well managed private sector accommodation and improve the revenue position of the SLA. In addition, it will ensure that the council has an appropriate vehicle in place with which to offer income generating services to the council's new Housing Company.

#### Property Management Service

27. The level of Flexible Homelessness Support Grant (FHSG) available to the council throughout 2017/18 and 2018/19 will enable the PSL scheme to continue at its current level of 49 properties without impacting on council core budgets. The level of FHSG will enable the council to wind down the PSL scheme responsibly, allowing for existing tenancies to be sustained via a new property management model, where possible, and for alternative housing solutions to be found for tenants in a planned and measured way when leases begin to expire.
28. The property management model would require the property owner to enter into a standard Assured Shorthold Tenancy (AST) agreement with the tenant directly, becoming the Landlord. The council and the Landlord would enter into an agreement for the council to manage the property in return for a percentage of the rental income, alongside a tenancy finder service, as recommended by Shelter in 2015. Property owners would retain the option of entering into a tenancy agreement with their tenant directly without having the council manage it for them.
29. A council operated property management service could provide affordable tenancies to households within the lower quartile of market rates. It would be necessary to determine the rental value of each property on a case-by-case basis to ensure that tenancies are affordable to households while Landlords are

achieving a rental return which is comparable to what is available elsewhere in the market. The council would closely monitor average rents for the area to ensure that the rental value of properties remain within the lower quartile of average rents for properties with a comparable specification.

30. When determining whether households are suitable a detailed affordability check will be made to ensure that the households is able to afford the tenancy and any top-up in addition to the Local Housing Allowance (LHA). Initial modelling of existing PSL scheme tenancies shows a small but largely affordable increase in the amount of top-up households would be required to pay.

	<b>Top up (in addition to LHA)</b>
<b>Private Sector Leasing Scheme (current Scheme)</b>	£19.00
<b>Property Management Service (replacement scheme)</b>	£25.00
<b>% Increase</b>	+30%

Projected on rents at set at 90% of the market average

31. The property management service would offer two core services to Landlords:
- a. Tenancy finding – The council would charge the Landlord a fee to find tenants for accommodation which is affordable to households. These households would include those who have approached the council as either homeless or at risk of homelessness through no fault of their own. The service would include reference checks and signing households up as tenants. It is not expected that the council would charge the tenant a fee for this service. This service would be either a stand-alone service or form part of a wider property management service to Landlords, as described below.
  - b. Property management – this service would be funded through charging between 8 and 10 percent of the monthly rental income. The service would include:
    - Tenancy Finding
    - Lodging tenant deposits
    - Property inventory
    - Gas Safety checks
    - Electrical Installation Condition Report
    - Tenancy liaison

- Rent collection
- Quarterly tenancy inspections
- Out of hours response to repairs complaints
- Advice through eviction processes
- Move out inspections
- Deposit returns

32. The table below shows the increased weekly rental income that the property management service will offer to Landlords compared to the existing PSL scheme.

	Landlord's average weekly income
<b>Private Sector Leasing Scheme (current)</b>	£105.00
<b>Property Management Service (replacement scheme)</b>	£114.00
<b>% difference in weekly rental income</b>	+8%

Projected on rents at set at 90% of market average

33. Although the Landlords rental income will increase by 8% it is likely that the rental income to the property owner will not be guaranteed as lease payments are under the current PSL scheme. In addition, the Landlord will be responsible for the cost of repairs which is not the case under the PSL scheme. However, the property management service will provide a rent collection service and work with tenants to manage rent payments and avoid getting into arrears. It will also provide regular property inspections to ensure that the property is being well looked after and is in a good state of repair.

#### Housing Company

34. The Housing Company (HC) – currently before Cabinet for consideration - is projected to acquire upwards of 20 properties a year from the autumn 2017. The Housing Company will require a property management service to manage the properties acquired or developed in future. Rents will be set a market rates and a monthly management cost of 8% of rent has been factored into the modelling for this initiative. The SLA is well placed to provide a property management service for the Housing Company and the revenue this could generate for the SLA has been factored into early modelling for this report.

#### Financial Evaluation

35. There are three main sources of revenue envisaged for the property management model. As has already been described: the first of these is to provide an alternative option for property owners within the current PSL scheme; the second is to charge the Housing Company for a property management service; the third, is to attract new landlords to the service.
36. An initial financial evaluation has been carried out in order to give an indication of the gross annual income that a property management scheme could generate over a 3 year period. The outcome of this initial evaluation has been summarised here:

	No. of Properties	Income (HMC)	Income (former PSL)	Income (new Landlords)	Total
<b>Year 1</b>	24	£15,300	£6,900	£6,000	<b>£28,200</b>
<b>Year 2</b>	52	£32,600	£6,000	£12,200	<b>£50,800</b>
<b>Year 3</b>	79	£50,000	£4,441	£18,400	<b>£72,800</b>

The above table assumes that rents are set at 90% of the current average market rents and that the Landlord is charged 8% of rental income as a fee for the property management service.

37. The costs associated with operating such a scheme would relate to staffing and administration. If cabinet approves the proposals within this report a fully costed business case and risk assessment will be developed and brought forward for consideration by cabinet in due course.

## Policy Implications

38. Risk Management – The risks associated with options 1 and 2 are detailed within the report. A detailed risk assessment will be submitted with the business case proposed for Cabinet consideration within option 3.
39. Economic/Financial Implications – The financial implications associated with options 1 and 2 are detailed within the report. A detailed financial assessment will be submitted with the Business Case proposed for Cabinet consideration within option 3.
40. Organisational Consequences – The organisational consequences associated with options 1 and 2 are detailed within the report as far as they relate to Council reputation and staffing structures. An assessment of the organisational consequences of option 3 will be included in the proposed business case for future Cabinet approval.

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## Wards Affected

All

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## Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No

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## Additional Information

Appendix A, below.

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## Officer to Contact

Officer Name: Joe Powell  
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## Appendix A

SLA Budget 2017/18

<b>Total number of leased units</b>	<b>49</b>
Income from HB - 10% below LHA +60	-438,900.00
<b>Costs</b>	
Salary	69,640.00
Employers NI - on cost	6,490.00
Employers pension contributions	9,640.00
Employee Allowance	1,840.00
Repairs to Premises	6,000.00
Electricity	200
Gas	200
Business Rates/Council Tax	500
Water & Sewerage Charges	200

Cleaning	3,000.00
Travel Allowances	600
Advertising	1,500.00
Legal Fees	8,000.00
Professional Services	269,800.00
Computer Supplies	2,000.00
Write Off/Revaluation	3,000.00
Housing Services	10,740.00
Total Costs	-45,550.00