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| Item No. 12. | Classification: Open | Date: 19 March 2013 | Meeting Name: Cabinet |
| Report title: | | Review of the Social Lettings Agency and the Creation of an In-house Private Sector Leasing Scheme. | |
| Ward(s) or groups affected: | | All | |
| Cabinet Member: | | Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management | |

FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT

In 2011, Cabinet approved the development of a Social Lettings Agency scheme, a scheme designed to help the council prevent homelessness. The scheme was designed to operate through the council acquiring flats and houses in the private sector, on a direct lease, which it would offer to households at risk of becoming homeless. The council would provide a full management service; including rent collection, void management and repairs whilst guaranteeing rent to landlords, 52 weeks a year. The scheme was designed be funded by the margin created between rents charged to tenants and the rents paid to the landlord and would be self-funding.

The scheme has, to a large degree, been a success in that it has operated well within its financial model. It is expected to make a small surplus in 2012-13 which will go towards running costs. Its key performance indicators are being met and these are highlighted in the table at paragraph 23.

Up until January 2013, 44 properties have been procured (there are a further 5 in the pipeline) and the Council has prevented homelessness for 48 households. This has saved the council considerable costs including those relating to temporary accommodation as well as allowing council tenancies to be granted to other priority households. However, the acquisition of the properties has been slower than we hoped for and has been hindered by the fact that the council cannot issue non-secure tenancies on properties for this purpose sold under Right-to-Buy where we own the freehold. The reasons for this are identified in this report.

This has meant that the council has not been able to lease properties from a large number of private sector landlords in the borough for this scheme. However, the council is able to lease properties, including properties sold to Southwark homeowners for it to use as temporary accommodation for homeless households.

Homelessness has increased by around 6% since January 2012 and this is before the impact of welfare reform has been experienced. It is expected to continue to rise and we need to be able to deal with the challenges. This means that we need to acquire more accommodation to temporarily house homeless households. The council also needs to pick up from where some other registered providers have said that they will no longer be supplying accommodation either to prevent homeless or temporarily house homeless households. We need to work well and positively with private sector landlords to ensure that we can attract as many as we can to our schemes.

This report seeks to endorse the work already carried out whilst recognising the need to maximise the amount of properties the council can attract through our schemes to ensure that we do everything we are able to do to meet the huge challenges we face.

RECOMMENDATIONS

That Cabinet;

1. Notes the progress of the council's Social Lettings Agency, established in 2011 to supply properties to house people at risk of homelessness.
2. Agrees to the acquisition on lease and the management of properties for use as temporary accommodation for homeless households in the exercise of the council's functions under Part VII of the Housing Act 1996

BACKGROUND

3. The council faces multiple challenges during 2013 with the introduction of caps to welfare benefits and Universal Credit as outlined in recent reports. The caps on benefits will create affordability issues for private sector tenants especially those with larger families, which will inevitably lead to evictions and increased approaches to our services for assistance.
4. The rental element of universal credit payments will be made to tenants so there will be a general increase in risk of bad debt. Universal Credit will start to be rolled out from October 2013. This will reduce confidence with landlords to supply accommodation to those on benefits.
5. Crucially, one provider of temporary accommodation (TA) has stated that due to the impact of welfare reforms, they will no longer be able to continue to supply and manage leased accommodation for the council unless the council gives them £60pw per property towards management costs. A second provider has also expressed some serious doubts about their ability to continue arrangements. Given the clear inability of suppliers to procure and provide temporary accommodation, it is imperative that the council provides and manages that accommodation alongside, less Bed & Breakfast (B&B) numbers and costs increase.
6. The first three quarters of 2012-13 have witnessed a falling level of private sector properties for our direct-let schemes, with an average of 10 properties a month being procured, compared to 15 in the last quarter of 2011-12. This represents a fall of a third.
7. Whilst the council will continue work to attract landlords to direct-let schemes such as the Finder's Fee scheme, we recognise the need to attract as much supply, through as many schemes as possible. We therefore need to offer a wider range of options for landlords, including schemes that take away the bad debt risk from them, which is increasingly becoming a concern for them.
8. This report outlines our strategy to increase the types of leasing options available to landlords. This would include increasing the supply of available temporary accommodation.

9. An increase in the supply of temporary accommodation is required as given the economic climate and changes in benefit provision, homelessness is expected to rise.
10. By increasing the supply of temporary accommodation, the authority will be able to relieve B&B cost pressures as more households, to whom the council has accepted a housing duty, can be moved from unsuitable and expensive bed and breakfast accommodation. We remain proud of our record of having no families in B&B for over 6 weeks, a position which we are determined to maintain.
11. With both the existing and proposed leasing schemes, the council carries the risk of bad debt. When considering this risk we have to take into account supply issues, as if we fail to supply self contained private sector properties the alternative will be an increase in the use of Bed and Breakfast which would be more costly. All of the schemes outlined below have comprehensive risk assessments. The risk assessments are included in Appendix 1.
12. The immediate supply action plan includes proposals to expand the council's offer to our landlords. As well as offering our Social Lettings Agency and Finders Fee schemes, we will also offer an in-house private sector leasing scheme (PSL) to supply more temporary accommodation. This is outlined in paragraphs 25 to 36 but in short, aims to attract landlords who have bought their property under right-to-buy legislation who are excluded from leasing their property back to the council through the Social Lettings Agency.
13. In addition, we are working on proposals to offer landlords a further range of products whereby they establish an assured short hold tenancy with a tenant but engage the council as a managing agent to collect the rent, or other landlord functions, for a fee. This is designed to attract landlords who are particularly worried about welfare reform proposals and tenants' ability to pay.
14. Across London, the trends are: homelessness is increasing, the private rented sector supply for local authorities is dwindling and some of our traditional registered provider (RP) partners are not in a position to respond to the challenges. We are in exploratory discussions with another borough, who are experiencing these problems, with a view to Southwark possibly managing part of their TA. These discussions are at an extremely early stage but have the potential to create economies of scale across a new shared service.

KEY ISSUES FOR CONSIDERATION

Review of Social Lettings Agency

15. Cabinet authorised officers to create a Social Lettings Agency in March 2011, and the scheme commenced in May 2011. The Cabinet asked for a report on the scheme's progress after its first 12 months.
16. With this scheme the council leases flats and houses in the private rented sector and offers the properties to those at risk of homelessness or those who have expressed an interest in settled accommodation in the private sector, thus not requiring them to make a homeless application.
17. By the end of the first year there were 17 properties in management. This figure was lower than anticipated and reflects the difficulty that the council faces in competing in a very buoyant housing market. Supply has improved since April

2012, and a further 27 properties have been procured. There are now 44 properties in management.

18. Whilst the target for new supply has not been met, the scheme has supplied more leased properties to prevent homelessness than all our Registered Provider partners.
19. Rents that the council can offer landlords are tied to Local Housing Allowance (LHA) levels which fell in April 2011 when the Government reduced it to include the bottom 30th percentile of rents in the area from the 50th percentile. This caused a 7% drop in LHA rents at a time when rent levels in the private rented sector have rapidly increased.
20. This resulted in more landlords letting their properties to working professionals, who are not in a position to purchase a property. This situation continues.
21. In spite of its initial slow progress, the Social Lettings Agency has been successful in that in 2011-12 it prevented homelessness for 19 households, with an additional 29 homelessness preventions in the during 2012-13.
22. The performance of the scheme 2011-12 is summarised below:

| | |
|---|-------------------|
| Number of properties acquired | 17 |
| Number of homeless preventions achieved | 19 |
| Void properties in period | 2 |
| Void to let turnaround | 14 days |
| Customer satisfaction | 89% |
| Occupancy checks | 11 (64%) |
| Rent collection | 99% |
| Income received | £134,290 |
| Rents paid to landlord | £112,894 |
| Repairs costs | £846 |
| Void rent loss | £1,861.48 |
| Dilapidations | £980 |
| Net surplus (towards staffing) | £18,688.52 |

23. The performance of the scheme for April to December 2012-13 is summarised below:

| | |
|---|----------------|
| Number of properties acquired | 27 |
| Number of homeless preventions achieved | 29 |
| Void properties in period | 2 |
| Void to let turnaround | 1.5 days |
| Customer satisfaction | 66% |
| Occupancy checks | 31 (70%) |
| Rent collection | 98.19%* |
| Income received | £325,761 |
| Rents paid to landlord | £252,215 |
| Repairs costs | £8,806 |
| Void rent loss | £879 |
| Dilapidations | Nil |
| Net surplus (towards staffing) | £63,861 |

24. In summary the scheme has operated within its financial model, but supply has proved slow mainly because of competition in the private market. The likelihood is that leasing options featuring guaranteed rents will become more attractive to landlords as we approach the caps in welfare benefit next April, and the rental element of Universal Credit is paid direct to tenant from next October.

Establishment of a Private Sector Leasing Scheme for statutorily homeless households

25. This report seeks authority to establish an in-house Private Sector Leasing scheme, whereby the council will acquire properties on lease which it can use as temporary accommodation for homeless households in the exercise of its functions under Part VII of the Housing Act 1996.
26. This scheme offers longer term self contained leased accommodation for households who approach the council in housing need as an alternative to bed and breakfast.
27. It continues to utilise the private rented sector (PRS), which is critical in terms of the borough in procuring properties for either temporary accommodation or for homelessness prevention. With the difficult market conditions, it has been increasingly difficult to procure properties in the private sector for the purpose of leasing. New supply has slowed and our registered provider partners managed to supply only 41 additional units for both temporary accommodation and prevention during 2011/12. It is therefore necessary to exploit every opportunity to maximise potential supply.
28. Further, at least one of our existing suppliers will be exiting from arrangements with another likely to follow. This will mean that if we do not act, we will lose half of our private sector supply which is used for either temporary accommodation or homelessness prevention. It is therefore imperative that we seek to acquire those leases directly.
29. Although the number of households in temporary accommodation is currently stable, an increase in the supply of temporary accommodation is required as given the economic climate and changes in benefit provision, homelessness is expected to rise.
30. By increasing the supply of second stage temporary accommodation, the authority will be able to relieve B&B cost pressures as more households, to whom the council has accepted a housing duty, can be moved from expensive and unsuitable B&B accommodation.
31. The difference between this scheme and the Social Lettings Agency is that the Social Lettings Agency targets those households who are at risk of homelessness, whilst this scheme targets those whom we have accepted a homelessness duty.
32. Whilst the council can accept LBS freeholders' properties for the in-house Social Lettings Agency scheme for homelessness prevention, the council can't accept LBS leasehold properties for the scheme. This is because the council's interest in the property falls foul of one of the conditions in the relevant exemption paragraph in Schedule 1 of the Housing Act 1985 necessary to exempt the council's agreement with the occupier from secure tenancy status.

33. The council has 14,500 leasehold properties, of which 4,500 are already rented out. This is a valuable potential source of supply and of a volume that compares favourably with the private rented sector. In total there are 5,000 housing benefit claims in the whole of the private rented sector within Southwark, so opening up the supply of leasehold properties will be key to improving overall supply of leased accommodation.
34. All leaseholders who want to lease their property through a managed scheme are currently referred to one of our managing agents. However, there is a low level of conversions from landlord referrals, to properties let.
35. Following a mail-shot to LBS homeowners in November 2011 and July 2012, the number of landlord enquiries doubled. Indications from Southwark home-owners suggest that they tend to be more comfortable with the council acting as managing agent, rather than a registered provider or private company.
36. The risks associated with the scheme are the same as with the Social Lettings Agency, so all of the issues in the above risk assessment apply to this scheme.

Community impact statement

37. In line with the council's Fairer Future promises, as outlined in the council plan adopted on 6 July 2011, the proposal will provide improved value for money.
38. It will further work with our partners in the voluntary sector to develop a stronger, sustainable service.
39. The scheme further contributes to the council's Sustainable Community Strategy, which has 3 objectives,
 - Improving individual life chances.
 - Making the borough a better place for people.
 - Delivering quality public services
40. This scheme will address all of these policy objectives by;
 - Offering quality temporary accommodation fully managed by the council, to households who are homeless or are at risk of homelessness. The quality of the hostel and contract management will not only improve the quality of life of those licensees placed in these properties but also contribute toward improving the fabric of the wider area.
 - It will reduce the number of families we have to place in unsuitable Bed & Breakfast accommodation and provide them with a greater level of support.
 - There will be a benefit to the council's general fund by placing fewer households in bed and breakfast accommodation.
41. In terms of the Housing Department mission and objectives, the acquisition will add to the key objectives by:
 - Ensuring warm, dry and safe temporary housing. This will be achieved by ensuring the units are of a lettable standard for all residents.
 - Improved repairs service. We will ensure contract meetings include these hostels and use contract enforcement methods where required.
 - Improve customer service. We will carry out regular occupancy checks and inspections and obtain customer feedback and act upon concerns.
 - Improve value for money. The scheme could save the council in B&B costs which can help bridge costs of homelessness provision elsewhere.

- Use stock effectively and minimise temporary accommodation. By leasing hostels, this will minimise the use of bed and breakfast, which is the most inappropriate and expensive form of temporary accommodation. Further, regular occupancy checks will be undertaken to ensure that the property is occupied by the non-secure tenants and action will be taken against any breach of tenancy.
- Involve residents in the improvement of services. Temporary Accommodation Services will continue to conduct regular customer satisfaction surveys.

Resource implications

42. The council operates the social lettings agency as a managing agent in procuring properties for use in preventing homelessness. Properties continue to be sourced from local private landlords and individual lease agreements are held between the council as an agent and landlords providing the accommodation. Demand for properties still continues and supply from new schemes needed. Housing benefit is received by the council on behalf of tenants for schemes and is based on local housing allowance and landlord rates set out in the table below.
43. Individual property leases operate between three and five years. A signed lease is used to record the agreement. Availability of accommodation up to December 2012 has been slower than expected due to the housing market being limited and the establishment in the financial model has been adjusted downwards to reflect this reduction and continues to show a breakeven position. The profile below shows the expected stock profile outlined in the previous cabinet report. Also the actual numbers to date and the revised supply levels expected by March 2014 for the social lettings agency scheme.

| Bed size | Local housing allowance | Landlord fees | Expected stock as cabinet report | Actual stock to December 2012 | Expected year end march 2013 | Expected in financial year 2013-14 |
|-----------|-------------------------|---------------|----------------------------------|-------------------------------|------------------------------|------------------------------------|
| Studio | 211.34 | 161.54 | | 11 | 11 | 15 |
| One bed | 211.34 | 165.00 | 20 | 12 | 13 | 15 |
| Two bed | 268.34 | 210.00 | 65 | 15 | 20 | 25 |
| Three bed | 310.00 | 240.00 | 15 | 4 | 4 | 10 |
| Four bed | 400.00 | 340.00 | | 2 | 2 | 10 |
| Total | | | 100 | 44 | 50 | 75 |

44. The key financial implications for this scheme are identified below:
45. In summary, the performance of the scheme to date in 2012/13 reflects rent collected at £326,000, void loss of £1,000 net income £325,000. Costs paid to landlords are at £252,000 to date, repairs and legal fees amount to £20,000 and staffing costs to date at £33,000, total cost to date at £305,000. At year end a neutral position is expected for this budget, income at £370,000 and total costs including staff at £370,000 at year end.
46. Rent collection is undertaken by officers at Bournemouth Road and budgeted at 95% presently collection at week 39 is achieved at 98.19% and higher than expected. The scheme operates on a margin between the rent received and net cost after landlord fees and repair costs.
47. Voids properties are presently lower than budget and should be continually monitored for cost of repairs and any lost rent. Day to day small repairs is the

responsibility of the council and built in to the financial model at £500 per unit and is sufficient. This allows for small repairs at the change of tenancy date. Plumbing and heating costs remain with the landlord and form part of the lease.

48. Hand backs and dilapidation of properties in year one was £980 in total and funded within the overall financial model. In the current year no hand backs or dilapidation costs have been incurred, however funds are still budgeted at £11,000. This allows for costs in the last quarter of this year. Any under spends at year end will be returned to the general fund at year end.
49. Legal costs of the preparation and set up of each lease are factored in to the financial model at £250 per lease and budgeted in 2012/13 to cover these costs.
50. The table above at paragraph 23 outlines the current performance and the marginal cost of the scheme. Annual staff costs for managing the service are factored in to the budget and so the scheme will breakeven.
51. This report requests the establishment of the in-house scheme outlined at paragraph 25 and this scheme operates on the same principals as the social lettings agency and the profile for financial year 2013/14 is detailed in the table below.
52. In summary, the in- house scheme in 2013/14 is budgeted at gross rent of £672k, void loss of £41,000 and non collection provision of £19,000 resulting in net income £612,000. Costs paid to landlords at £518k, repairs and legal fees amount to £94,000 per year so resulting in total cost of £612,000 and expected neutral position for the budget.

| Bed size | Local housing allowance | Landlord fees | Expected in financial year 2013-14 |
|-----------|-------------------------|---------------|------------------------------------|
| Studio | 211.34 | 161.54 | 5 |
| One bed | 211.34 | 165.00 | 15 |
| Two bed | 268.34 | 210.00 | 20 |
| Three bed | 310.00 | 240.00 | 10 |
| Four bed | 400.00 | 340.00 | 10 |
| Total | | | 60 |

53. The council has a statutory duty to provide temporary accommodation to homeless applicants under part VII of the Housing act 1996 and a variety of accommodation is used to discharge these duties including estate voids and hostels in the HRA. When other schemes are not available expensive bed and breakfast accommodation is used and this will place pressure on the council's resources.
54. Risks associated with both schemes are when, the condition of the handed back property in future years. Landlords are not likely to supply properties with leases shorter than 5 years. At hand back stage landlords may pursue claims for repairs/ dilapidation costs where the tenants have left the property in worse condition than fair wear and tear outlined in the lease. This could be pursued through breach of tenancy agreement and cost the council. At this stage is negligible but should be continually monitored.
55. Council officers are advised to continually review and monitor schemes and financial model for variances. Tenants are mainly on housing benefit for both schemes. This rate is agreed by government and outlined in local housing

allowance for the London sector, broad rental market area (BRMA). Guidelines on the local housing allowance (LHA) direct website. The forthcoming changes to universal credit are not expected to impact on tenants in temporary accommodation at this time as there are no cases within universal credit at this time. However, this will be continually be monitored

56. Outlined in the table below is the supply side in the current year and supply budgets planned for in financial year 2013/14. Units are based on the expected changes and knowledge of services both historically and planned for. There is forthcoming pressure due from bed and breakfast need in 2013/14 due to hand back on estate properties and private leased accommodation from market changes and further use of nomination agreements and discharge to the private sector. Bed and breakfast placement currently stands at 104 and a third is family placements. Increase in this area is expected in 2013/14 and commitments budgets for increased accommodation costs fall to temporary accommodation on the housing general fund to assist the expected shortfall in next year. There are historic problems in sourcing suitable properties at reasonable rates to cover the bed and breakfast need and this will assessed and monitored to direct to other accommodation agreements a ease pressure on temporary accommodation budgets in 2013/14.

| Supply side | Units 2012-13 | Units 2013-14 |
|------------------------|--------------------------|--------------------------|
| General Hostels | 282 | 264 |
| Private sector leasing | 339 | 221 |
| Estate properties | 385 | 338 |
| Special needs hostels | 55 | 55 |
| Total units | 1061 | 878 |

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

57. At recommendation 1 cabinet are asked to note the progress of the council's social lettings agency scheme established in 2011. The report indicates that following a campaign aimed at securing a supply of private sector property for use in the scheme, interest was expressed by council long leaseholders. Unfortunately, as noted at paragraph 31 in the report, the council is unable to use council leasehold properties as a source of supply in the social lettings scheme. However the council will be able to use such property in the exercise of its homelessness functions. This is because of the provisions under the Housing Act 1985 that relate to secure tenancy exceptions. Under the Act, tenants of residential accommodation let by the council will generally be secure tenants unless one of the exception categories set out in paragraphs in Schedule 1 of Act apply. The relevant exception applicable to the Social Lettings Agency Scheme is in paragraph 6 (short term arrangements) of the Schedule. To rely on this exception, a number of conditions must be met that includes the requirement that the council has no interest in the leased property. Where, however, the council provides accommodation in the exercise of its homelessness functions, it may rely on an alternative exemption in paragraph 4 of the Schedule that imposes no conditions and simply states that a tenancy granted in pursuance of any function under Part VII of the Housing Act 1996 is not a secure tenancy unless the council notifies the tenant that it is to be regarded as one.

58. Under Part VII of the Housing Act 1996, the council has duties and powers to provide accommodation to homeless persons or those threatened with homelessness in certain circumstances. The council may acquire residential accommodation for Part VII purposes by entering into leases as proposed in recommendation 2. This is authorised by Section 120 (1) (a) of the Local Government Act 1972 which enables the council to acquire any land by agreement for the purposes of any of its statutory functions.
59. Decisions relating to the acquisition of land and property outside any scheme already agreed by members, where the market value is more than £100,000 are reserved to full cabinet for approval. As the number of properties to be acquired under recommendation 2 is such that the value will exceed this amount, this is a decision to be taken at cabinet level.

Strategic Director of Finance and Corporate Services (FC13/015)

60. This report considers the progress made by the social lettings agency since the previous cabinet report in 2011 and introduces the in-house pilot scheme for placing tenants with a homeless duty without permanent or settled accommodation.
61. The Strategic Director of Finance and Corporate Services notes the progress made on the scheme to date and recognises that this approach offers better value for money than Bed & Breakfast accommodation. Full financial implications are outlined in paragraphs 42-56 and continued monitoring will need to take place to ensure the scheme remains within budget.

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|--|--|---------------------------------|
| Cabinet report - 22 March 2011. The document is available on this web page (item 20): http://moderngov.southwark.gov.uk/ielistDocuments.aspx?CId=302&MId=3339&Ver=4 | Council offices, 160 Tooley Street, London SE1 2QH | Paula Thornton 020 7525 4395 |

APPENDICES

| No. | Title |
|------------|------------------|
| Appendix 1 | Risk Assessments |

AUDIT TRAIL

| | | |
|---|---|--------------------------|
| Cabinet Member | Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management | |
| Lead Officer | Martin Green, Head of Specialist Housing Services | |
| Report Author | Leigh Richman, Business Unit Manager (Temporary Accommodation Services) | |
| Version | Final | |
| Dated | 8 March 2013 | |
| Key Decision? | Yes | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER | | |
| Officer Title | Comments Sought | Comments Included |
| Director of Legal Services | Yes | Yes |
| Strategic Director of Finance and Corporate Services | Yes | Yes |
| Cabinet Member | Yes | Yes |
| Date final report sent to Constitutional Team | 8 March 2013 | |