

PRIVATE SECTOR LEASING SCHEME

1. INTRODUCTION

- 1.1 The purpose of this report is to obtain approval to set-up and operate a **Private Sector Leasing Scheme (PSL)**.
- 1.2 A Private Sector Leasing Scheme (PSL) is an arrangement between private owners and the Council. The owners agree to lease their property to the Council for an agreed period – usually 2-3 years. During this time the Council has sole access and nomination rights to the property and pays the owner a monthly fee for this service
- 1.3 These homes are used to prevent homelessness and to discharge duties to applicants who have been accepted under the homelessness legislation.
- 1.4 Without them the Council would be unable to meet Government targets to reduce the use of temporary accommodation for homeless families. They will also be used to improve the level of homelessness prevention in the district which will assist the Council in achieving a good performance on the new Best Value Performance Indicator on homelessness prevention.
- 1.5 The Council must have a scheme to provide temporary housing in place to prevent the use of bed and breakfast accommodation to prevent homelessness.

2. BACKGROUND

- 2.1 New Forest District Council has been operating a Housing Association Leasing Scheme (HAL) since 1995.
- 2.2 Prior to this the Council operated its own “in-house” scheme, which was ended because it was not cost effective for the Council.
- 2.3 The reason for this was that the Council was not able to claim Housing Benefit Subsidy (*) from the rent paid for these properties. Housing benefit regulations have now been changed and the Council is able to claim full subsidy on reasonable rents paid by the tenants of its own PSL scheme.

*(Housing Benefit Subsidy is “a government grant towards the cost of payment of the Housing Benefit”.)
- 2.4 The present agreements with our partners in the HAL scheme – Twynham Housing Association (THA), Hyde Housing Association and Bournemouth Churches Housing Association (BCHA) will expire in August 2006. Therefore, officers have been considering the present scheme together with our requirements for the future.

2.5 It is evident that the Council will require privately owned property for the foreseeable future. At present we have the following accommodation available in the HAL scheme:

- Hyde Housing Association – 9 properties
- Bournemouth Housing Association – 94 properties
- Twynham Housing Association – 137 properties

2.6 The Council also has other private sector accommodation available but it is not included in the HAL scheme. This accommodation will continue to be available to us whether or not the Council operates its own PSL scheme. This comprises 61 dwelling which have longer leases and were subsidised by Temporary Social Housing Grant.

3. DILAPIDATIONS

3.1 In the current HAL agreements the Associations manage the properties, collect rents and pay the owners for the use of their property. The Associations deduct management charges out of the tenants' rents. In addition, the Council reimburses the Associations for any damage caused by tenants to the leased properties by means of Dilapidations claims.

3.2 The payment of dilapidations is by far the main expense to the Council. However, a great deal of officer time is also spent investigating queries and complaints arising out of dilapidations claims.

3.3 The table below gives details of the increasing cost to the dilapidations budget.

Table 1: The Annual Cost of Dilapidations

2003/2004	2004/2005	2005/2006
£7928.65	£12,496.14	£35,400.28

3.4 The cost of dilapidations has risen significantly and demonstrates to officers that the current HAL scheme is unsatisfactory. However, the cost shown is not the full cost to the council because, where possible, officers will reclaim the cost of dilapidations from the ex-tenants.

3.5 As managers of the HAL scheme, NFDC Housing Development Team have sought to reduce the costs of dilapidations by requesting that the Associations provide the level of management to properties that is stipulated in the terms of their leases. This includes regular visits to occupied properties and liaison with NFDC when tenancies terminate to ensure that tenants are fully aware of the responsibilities to leave properties in a satisfactory condition. Unfortunately, there has been no significant improvement and the dilapidations claims are expected to rise.

4. THE OPTIONS

4.1 The present situation is as follows:

- Hyde Housing Association has considered its position and has decided that the HAL scheme no longer forms part of its business plan and will withdraw from the HAL scheme with immediate effect.
- BCHA have confirmed that they wish to continue with the HAL scheme based on mutually agreed requirements.
- THA have confirmed that they wish to continue with the HAL scheme based on mutually agreed requirements.

4.2 A further option is for the Council to bring in-house as a pilot, its own Private Sector Leasing Scheme that will be operated and managed by the Council. The Council will also continue to use an external housing association to provide a back up service.

4.3 The range of options available to the Council is summarised in the table below:

Table 2: The Options

OPTION	BENEFITS	IMPACT	FINANCIAL	COMMENT
1. Do not operate a HAL or PSL scheme	None – savings made on dilapidations claims would be lost to alternative methods to tackle homelessness.	Inability for Council to meet Statutory Duties under Homelessness Legislation. Reliance on private sector landlords with little control on management standards	Significant cost implication: - use of bed and breakfast accommodation - Legal costs if failing to perform Statutory Duty. - increased costs for tenancy deposit scheme	This option would have disastrous consequences both financially and socially.
2. Continue with existing HAL scheme	Ability to meet statutory duty to prevent homelessness Continuation of existing service to homeless families	Requirement to enter into new 3 year leases with external provider. Terms and conditions of new leases to be re-negotiated. Increase to management fees and dilapidation payments required by Associations. Service standards provided by external provider unlikely to improve.	Escalating costs for dilapidations. Projected increase during next three year period. Estimated cost of dilapidations for 2006/2007 will be £35,000 Cost of NFDC officer time is absorbed within existing activities.	Minimal risk to Council although costs to General Fund will be significant and will continue to rise. Inability for Officers to benchmark performance. Little scope to improve management standards. Inconsistent service provided to tenants and private owners.

		Unsatisfactory use of NFDC officer time to manage the scheme.		This option will have major financial consequences to the General Fund that have not been budgeted for.
3. Operate an in-house PSL Scheme and appoint an external partner to provide a back up service	<p>Ability to meet statutory duty to prevent homelessness</p> <p>Improvement to services for homeless families</p> <p>Consistent service provided to tenants and private owners</p> <p>Effective use of NFDC officer time</p> <p>Implementation of Council's housing management standards to raise standards</p> <p>Maximising resources.</p>	<p>Opportunity to negotiate a competitive and favourable lease with an external provider</p> <p>Requirement for a wide range of NFDC Services to implement PSL Scheme.</p> <p>The impact on staff time and costs.</p> <p>More influence and control on use of private sector housing.</p>	<p>Ability for Council to charge management fees to cover costs of service provision.</p> <p>The scheme must generate income sufficient to cover all costs to the Council (including rent arrears) and reduce the cost of dilapidations.</p>	<p>This option will generate an income to the Council, some of which may be used to off set the cost of dilapidations and reduce the impact on the General Fund.</p> <p>Working in partnership with an external provider will reduce the risk to the Council if there are future changes to Housing Benefit Regulations or homelessness legislation that could have a detrimental effect to the scheme.</p>

4.4 The PSL scheme will make use of existing resources and staff within NFDC. It is anticipated that the benefits of having an in-house scheme are as follows:

- It will be cost effective and efficient
- high quality management services will be provided to residents
- the scheme will be better utilised by Housing Needs providing a seamless service from temporary to permanent housing, including the ability to address tenancy problems at an early stage
- improved forward planning of allocations and lettings
- better opportunities for the Council to recharge on sundry debts
- anticipated higher level of customer satisfaction with private owners
- provide a benchmark to monitor performance of other housing association provider

5. FINANCIAL CONSIDERATION

5.1 The estimated costs of continuing the current HAL scheme and operating an in house scheme are detailed and compared in Appendix 1. The figures are based

on current rental levels and management fees charged by the Associations and proposed housing benefit ceiling rents that can be charged by the Council.

- 5.2 These figures are based on payment of rent for a 3 bedroom property. This is subject to change if rent or benefit periods are disrupted due to management issues. This may include rent arrears or court action, which the Council will bear the costs of. If management costs escalate or are not accurate, the Council will run the risk of operating the scheme with a deficit.
- 5.3 The financial appraisal makes a generous allowance for staffing costs. However, other local authorities have absorbed the service in their daily activities. There is scope to achieve savings for proposed staff costs as the new scheme compliments current activities and is not difficult to manage..
- 5.4 The set up costs of operating the PSL scheme are based on reasonable assumptions from current management costs within NFDC. Funding of £6,500 was made available from the DCLG (ODPM) to spend on homelessness prevention. It is proposed that this funding is utilised for initial costs.
- 5.5 The Council will become wholly responsible for dilapidations on private dwellings that are in the scheme (as opposed to shared responsibility detailed in section 3.2). The potential impact of this is that the Council may incur higher costs on dwellings that are left in a particularly poor state of repair. However, stringent management and early detection of potential problems should keep costs to a minimum.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 None identified.

7. CRIME AND DISORDER IMPLICATIONS

- 7.1 None identified.

8. CONSULTATIONS

- 8.1 An in-house working party involving Housing Development, Housing Needs, Housing management Finance and Housing Benefits was set up in January 2006.
- 8.2 Best practice from seven neighbouring Local Authorities in Hampshire and Dorset have been investigated. Financial costing for each scheme have been obtained and provide examples that PSL Scheme can be cost neutral to the Council. A summary of these schemes is attached at Appendix 2.

9. CONSIDERATIONS

- 9.1 The proposal to operate an in-house PSL Scheme as detailed in Option 3 will make a valuable contribution towards reducing Homelessness and meeting Government targets.

- 9.2 Given that our present HAL scheme partners have reduced, it is important to address the issue of the loss of potential properties because the remaining partner will not have the resources to effectively manage the whole portfolio.
- 9.3 If cabinet does not approve this scheme, the Council may find it necessary to re-negotiate terms in order to attract partners into the scheme. Based on the suggested requirements, these terms are costly and difficult to manage.
- 9.4 The proposed PSL scheme was developed by NFDC officers and will be managed by them. They are committed to making it work.

10. CONCLUSIONS

- 10.1 An In-house PSL scheme will provide the Council with the necessary temporary accommodation to enable it to meet its statutory housing duties. It will be cost effective, suitable for those who need it and provide good management services.

11. PORTFOLIO HOLDER COMMENTS

- 11.1 The Portfolio Holder supports the proposal.

12. RECOMMENDATIONS

- 12.1 That permission is given for officers to set up and operate a Private Leasing Scheme for a period of 3 years, and
- 12.2 to re-negotiate terms of a new HAL lease with an alternative provider (s) who will operate alongside the in-house scheme.

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Background Papers:

APPENDIX 1

Option 1 - Continuing with Current Arrangements

Option 2 - Mixed internal/external provision

	Original Budget 2006/07	Estimated Costs Year 1	Estimated Costs Year 2	Estimated Costs Year 3	Total 3 Year Period	Estimated Costs Year 1	Estimated Costs Year 2	Estimated Costs Year 3	Total 3 Year Period	Comparison Option 1 v Option 2
Number of Dwellings	15,140	240	230	210		15	45	65		
Employees										
Salaries	-	-	-	-	-	-	-	-	-	-
Other Staff Costs:	-	-	-	-	-	-	- 70,000	- 70,000	- 140,000	- 140,000
Additional Staff Costs (1)	-	-	-	-	-	-	-	-	-	-
Increased Business Unit Allocations	-	-	-	-	-	-	-	-	-	-
Total Employee Costs	-	-	-	-	-	-	- 70,000	- 70,000	- 140,000	- 140,000
Premises										
cost if staffing increases	-	-	-	-	-	-	-	-	-	-
space	-	-	-	-	-	-	-	-	-	-
support (e.g. IT)	-	-	-	-	-	-	-	-	-	-
etc.	-	-	-	-	-	-	-	-	-	-
Support Costs	-	-	-	-	-	-	-	-	-	-
Housing Benefit Overpayments not recovered	-	-	-	-	-	- 880	- 3,520	- 5,720	- 10,120	- 10,120
Rent Arrears and bad debts	-	-	-	-	-	- 9,260	- 24,694	- 40,127	- 74,081	- 74,081
Court Fees (approx. £200 each)	-	-	-	-	-	- 1,000	- 2,000	- 3,000	- 6,000	- 6,000
Dilapidation Costs (PSL)	-	-	-	-	-	-	- 6,720	- 11,200	- 17,920	- 17,920
Dilapidation Costs (HAL)	-	- 35,000	- 40,000	- 40,000	- 115,000	- 35,000	- 30,000	- 25,000	- 90,000	25,000
Total Support Costs	-	- 35,000	- 40,000	- 40,000	- 115,000	- 46,140	- 66,934	- 85,047	- 198,121	- 83,121
Set Up Costs										
Legal Costs	-	-	-	-	-	- 750	- 1,250	- 1,250	- 3,250	- 3,250
Total Set Up Costs	-	-	-	-	-	- 750	- 1,250	- 1,250	- 3,250	- 3,250
Other Costs										
Effect on other budgets	-	-	-	-	-	-	-	-	-	-
Total Other Costs	-	-	-	-	-	-	-	-	-	-
Income										
Management Fee Income	-	-	-	-	-	29,150	77,760	126,360	233,270	233,270
Rent (income)	-	-	-	-	-	132,288	352,766	573,245	1,058,299	1,058,299
Rent (payable to owners)	-	-	-	-	-	- 102,600	- 268,800	- 436,800	- 808,200	- 808,200
Rent - Bad Debts	-	-	-	-	-	- 15,264	- 45,792	- 66,144	- 127,200	- 127,200
Total Income	-	-	-	-	-	43,574	115,934	196,661	356,169	356,169
Total Expenditure	-	- 35,000	- 40,000	- 40,000	- 115,000	- 46,890	- 138,184	- 156,297	- 341,371	- 226,371
Total Income	-	-	-	-	-	43,574	115,934	196,661	356,169	356,169
Net Income (expenditure)	-	- 35,000	- 40,000	- 40,000	- 115,000	- 3,316	- 22,250	40,364	14,798	32,912

Net Cost Over 3 Years - 115,000
 Net Income Over 3 Years 32,912

Assumptions:

Notes:

- Additional Staff Costs will be incurred if the service is provided by the Council in respect of Recovering Overpayments Dealing with rent arrears Dealing with court actions Managing Dilapidations

Dilapidations = £224 per dwelling x number of lettings p.a.
 Management fee income = £162pcm per property
 Rent income based on 3BH H/B ceiling rent = £734.93pcm
 Rent payable based on 3BH = £560pcm per property
 Rent bad debts = 6 weeks void per property per annum
 H/B not recovered = 1% of rent pcm (approx £88 per unit pa)
 Rent Arrears = 7% of rental income

APPENDIX 2: LA SCHEMES	What do they do	Cost of setting up	Cost to Council to run scheme	Rents	Notes	Staff	
Poole Borough Council	In House Leasing Scheme - started 3 years ago with properties purchased by Western Challenge and leased back to Poole.	Nil - only some paperwork	100 properties managed by one officer who carries out allocations, sign ups rent arrears. Inspect properties regularly, uses Council contractors. Detailed management charges and void costs available.	Tenants have a non secure occupation agreement (on file). Rents to owners £150 p.w. guaranteed. Poole charges £20.78 management fee	Good performance management: 4 day turnaround on voids	(1 x f.t.e.) Dedicated Temp Accommodation Officer - £21-22,000 salary. Views properties & regular inspections	
Portsmouth City Council	In House leasing scheme	Nil - as above	Maximum Housing Benefit claimed and ring fenced in an account to cover any damage caused. Guaranteed rent to owners negotiated on each property. No set up costs.	Tenants have a non secure tenancy agreement. Rent £383.62 per fortnight. Paid quarterly in advance to owners	Currently have 87 properties - did have HAL scheme but costs forced them to reconsider this. Costs with outside contractor were £700 per property, however void management was brought in house and now cost £150 per average dwelling.	Environmental Health do accreditation check	
Salisbury District Council	Running 5 years, have 170 properties - in house leasing scheme		Charge 7% management on top of rent, updated each year after speaking to Benefits. Dedicated team who do visits & signups, Council management officer does neighbour nuisance. Maintenance use external and internal contractors. Void period now down to 9 days.	Owner get guaranteed rent + 6 months notice. Owner gives Council 18 months notice	Re. ODPM requirement to half number of properties - suggested one LA uses another LA as management company on paper, then have AST (at present have a licence). Housing Officer warn tenants of their responsibilities which reduces damage and rent arrears. Internal inspector and housing officer dedicated to scheme. Have a standard lease. Elect and gas checks carried out by contractors and re-charged to owners.	PSL Management and Maintenance officers + 1 person who overseas scheme HN do allocations. (All as part of present job - no extra time allowed)	Current arrears = £32,811 = 3.7% of gross income Maintenance costs 2005/06 = £72,618 on 142 units
Southampton City Council	In House pilot scheme, set up approx 1 year ago. Target 15 over first two years.	£10,000 for first year and £10,000 for second year, still have 3/4 left in bank.	House condition survey at start of lease and schedule of condition costs approx. £300. Maintenance via in house team. Can go up to £400 then refer to leasing team for advice.	Rent - owner gets 3/4 of market rent but is guaranteed. Tenants are charged full HB rent.	Standard non-secure tenancy, use standard lease through Legal section. Property visited every month by homelessness officer and a pre-tenancy inspection is carried out. Two year lease with break clause. Six months for Council, 18 months for owner.	2 staff deal with scheme but work is absorbed with other housing duties.	
OTHER SCHEMES							
Test Valley	HAL scheme with Testway Housing						
Bournemouth Borough Council	Leasing Scheme with BCHA	£75,000 to fund setting up	Nil	Tenants pay local reference rent + 25%	Having deliverability problems!		
Gosport Borough Council	RAPS (Rented Accom in the private sector) Gosport manages rent account owner carries out repairs. 180 units		Turnover approx £1.4 million, Gosport responsible for rent account. Liable for one months rent.		Many landlords say they like the scheme. Expects to have 10% of the market soon.	Housing Officer who deals with landlords, 2 admin staff, team manager, income recovery, surveyor - (part of present job - no extra time allowed)	
NFDC Proposed		Council Stock: Management £16.14 p.w Maintenance £13.30 p.w.	Grants Surveyor: estimate 3 hours @ £40 p.h. = £120 per property. Legal: £46.99 - £47.55 per hour. Housing Management absorb costs	H/Benefit ceiling rents	Management Fee of £162 per property per calender month	No additional staff but £70K per annum budgeted.	