

## **MAIDSTONE BOROUGH COUNCIL**

### **RECORD OF DECISION OF THE CABINET MEMBER FOR HOUSING AND HEALTH**

Decision Made: 24 November 2023

#### **Proposed Private Sector Leasing Scheme (PSL) and changes to the current Landlord Incentive Scheme (LIS).**

##### **Issue for Decision**

To seek approval that Maidstone Borough Council launches a Private Sector Leasing (PSL) scheme, whereby it will lease properties in the borough from landlords for a medium-term period and use these properties as Temporary Accommodation (TA) for households affected by homelessness. This would be to reduce the Council's reliance on nightly paid private owned TA, and so produce a financial saving to the Council.

Approval is further required for changes to the Council's existing Landlord Incentive scheme and to shorten the delivery programme for acquiring Council owned TA from three to two years.

##### **Decision Made**

1. That the Council launches a PSL scheme with an ambition to secure 50 homes within two years of launch.
2. That the Council recasts the capital programme to deliver the remainder of the purchased TA over 2024/25, shortening the programme from three to two years, subject to prevailing market conditions / availability of suitable stock.
3. That the Director of Finance, Resources and Business Improvement be given delegated authority, in consultation with the Cabinet Member for Housing and Health, to lease individual properties in accordance with the scheme as outlined in Recommendation 1.

##### **Reasons for Decision**

The Council currently has around 245 households in Temporary Accommodation (TA) to whom we owe a duty under Part 7 of the Housing Act 1996, of which 105 are MBC owned (plus a further 32 individuals also in Discretionary Accommodation, fully funded by the Rough Sleepers Initiative, to whom the Council does not owe a statutory accommodation duty). Therefore, the Council is currently using around 140 units of nightly paid TA. This nightly paid TA is a mixture of hotels and accommodation provided by specialist private sector providers.

The net cost to the Council of nightly paid TA is extremely burdensome, including the following:

- The LHA rents that the Council can charge households for TA.

- The typically nightly paid TA costs.
- The typical annual deficit per household in nightly paid TA.

MBC currently runs a Landlord Incentive Scheme (LIS) that is operated by three staff costing £100k per annum plus an operating budget of £85k per annum to offer landlord incentives to accept households from TA for permanent housing into the private rented sector (so that the Council's duty to those households is discharged).

However, the pool of reasonable Private Rented Sector (PRS) stock is shrinking (arguably) owing to rising landlord mortgage costs, adverse tax changes and the risk of the Renters Reform bill, which will give PRS tenants security of tenure. Furthermore, the demand for PRS housing is insatiable owing to the cost-of-living crisis, with agents reporting 20 offers per PRS unit advertised. The reality is that the incentives that MBC can offer landlords (rent and repairs guarantees and golden hellos of say one month's rent) are insufficient to secure deals, as rents are increasing strongly.

During 2022/23 the Landlord Incentive Team completed 42 transactions, 35 for new placements into the PRS, and 7 to sustain previous placements. In terms of the sustainability of these placements, around 50% reapproached MBC and required further assistance, and so the long-term benefit of this scheme is at best unproven in terms of VFM to the Council and the household placed too.

Accordingly, the LIS operating budget will be reduced from £85k to £50k per annum, and make the LIS offer more self-serve and simple, and only those households that realistically are likely to be able to sustain tenancies in the PRS will be encouraged to pursue this avenue for housing.

Furthermore, this cohort would be required to take the initiative themselves, inasmuch identify the property, agree the rent, and the Council could simply provide a capped deposit guarantee for the duration of the tenancy, and a golden hello payment equivalent to a maximum of one month's rent, upon the production of all the paperwork coupled with evidence that the household has vacated their TA. This budget reduction will in part fund an increase in the TA budget for 24/25, which will need to grow again, based on the current forecast overspend for the current financial year.

To bring down the average net cost to the Council per household in TA it is evident that MBC needs more TA under its own direct control. Over the past 5 years the Council has been purchasing its own portfolio that now stands at 105 units. The capital programme will see this figure increase by a further c60 units over 23/24, 24/25 and 25/26, and there seems to be a logic of shortening the investment period to deliver the homes over two years instead of three.

With this strategy of buying units, the business case initially was very robust, but as both the cost of borrowing and housing prices rise, the case weakens. IE a 3-bed property costing £350k would generate a rental income of £8,500, so a gross yield of c 2.5%, a likely net yield closer to 2%, which is well below our cost of funds even before the capital is repaid.

To manage their exposure (to buying stock), several Councils operate Private Sector Leasing (PSL) schemes, whereby they lease properties from landlords, to

use as TA, on broadly the following terms:

- Circa 3 to 5-year lease term.
- Rent guaranteed by the Council, at a discount to the market rent.
- Full management service by the Council.
- Minor repairs and voids work undertaken and paid for by the Council.
- Property returned at lease end in previous condition, subject to fair wear and tear.
- The landlord would be responsible for:
  - The property being in good condition at the outset.
  - Major and structural repairs still undertaken by the landlord.
  - Putting in place a gas safety maintenance contract for the lease term, and other key H&S compliance certification.
  - Insuring the property.
  - Providing their lenders approval.

Sample documents from a similar PSL scheme operated by the London Borough of Lewisham are attached to include a landlord fact sheet, sample agreement and property specification requirement.

It is proposed that MBC launches its own PSL scheme with an ambition to secure 50 homes over the next two years. If MBC had 50 such properties in a PSL scheme the annual saving would be c£300k.

The Housing, Health and Environment Policy Advisory Committee considered the matter on 14 November 2023 and were informed that a third recommendation would be included to provide for decisions on leasing individual properties to be made in consultation with the Cabinet Member for Housing and Health. The Committee recommended that the PSL scheme be subsequently approved.

### **Alternatives considered and why rejected**

Option 2 would be to launch a Maidstone Borough Council Private Sector Leasing Scheme, for an initial 50 homes, to be used as Temporary Accommodation, and leave the delivery period for the Council owned acquisition programme unchanged at three years.

Option 3 would be to just shorten the delivery period for the Council owned acquisition programme too, from three to two years, but not introduce a Private Sector Leasing Scheme.

Option 4 would be to make no changes to the current arrangements.

These options were rejected, as the option agreed would secure more properties

under the council's control as Temporary Accommodation and support more vulnerable residents.

**Background Papers**

None.

I have read and approved the above decision for the reasons (including possible alternative options rejected) as set out above.



Signed: \_\_\_\_\_

Councillor Parfitt-Reid, Cabinet Member for Housing and Health

Full details of both the report for the decision taken above and any consideration by the relevant Policy Advisory Committee can be found at the following area of the [website](#)

Call-In: Should you be concerned about this decision and wish to call it in, please submit a call-in form signed by any three Members to the Proper Officer by: **5pm Friday 1<sup>st</sup> December 2023**