

**CABINET MEMBER FOR
HOUSING AND HEALTH**

24 NOVEMBER 2023

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

Timetable	
Meeting	Date
PAC	14 th November 2023
Cabinet Member	24 th November 2023

Will this be a Key Decision?	Yes
Final Decision-Maker	Cabinet Member for Housing and Health
Lead Head of Service	William Cornall, Director of Regeneration & Place
Lead Officer and Report Author	William Cornall, Director of Regeneration & Place
Classification	Public with one (of two) private appendix. <u>Exempt Category</u> The information contained with the report has been considered exempt under the following paragraph of Part I of Schedule 12A to the Local Government Act 1972:- Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).
Wards affected	All

Executive Summary

This report proposes 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. The reason for doing so would be to reduce the Council's reliance on nightly paid private owned TA, and so produce a financial saving to the Council. The report also details some changes that are already being made to the Council's existing Landlord Incentive scheme, and also seeks approval to shorten the programme for acquiring Council owned TA too, proposing that the delivery programme be shortened from three to two years.

Purpose of Report

Decision

This report makes the following recommendations to the Cabinet Member for Housing and Health:

That:

1. The Council launches a PSL scheme with an ambition to secure 50 homes within two years of launch.
2. The Council recasts the capital programme to deliver the remainder of the purchased TA over 24/25, so shortening the programme from three to two years, subject to prevailing market conditions / availability of suitable stock.
3. 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.

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

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<p>Impact on Corporate Priorities</p>	<p>The four Strategic Plan objectives are:</p> <ul style="list-style-type: none"> • Embracing Growth and Enabling Infrastructure • Safe, Clean and Green • Homes and Communities • A Thriving Place <p>We do not expect the recommendations will by themselves materially affect achievement of corporate priorities. However, they will support the Council’s overall achievement of its aims as set out in section 3 [preferred alternative].</p>	<p>Director of Regeneration & Place</p>
<p>Cross Cutting Objectives</p>	<p>The four cross-cutting objectives are:</p> <ul style="list-style-type: none"> • Heritage is Respected • Health Inequalities are Addressed and Reduced • Deprivation and Social Mobility is Improved • Biodiversity and Environmental Sustainability is respected <p>We do not expect the recommendations will by themselves materially affect achievement of the cross cutting objectives.</p>	<p>Director of Regeneration & Place</p>
<p>Risk Management</p>	<p>See risk section in the main report.</p>	<p>Director of Regeneration & Place</p>
<p>Financial</p>	<p>The proposals set out in the recommendation will be included within the budget proposals</p>	<p>Section 151 Officer &</p>

	for 2024/25 (Revenue Budget and Capital Programme) that will be coming to PACs and Council in the new year for approval as part of the regular budget process.	Finance Team
Staffing	We will deliver the recommendations with our current staffing.	Director of Regeneration & Place
Legal	<ul style="list-style-type: none"> • Under s1 of the Localism Act 2011 the Council has a general power of competence which enables it to do anything that individuals generally may do. • Under section 111 of the Local Government Act 1972 the Council has power to do anything (whether or not involving the expenditure, borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. • The Council has the power to acquire properties by agreement under the Local Government Act 1972, section 120. • Legal advice should be sought for all transactions and all necessary Legal documentation will be approved by Mid-Kent Legal Services before completion. 	Team Leader (Contentious and Corporate Governance)
Information Governance	The recommendations do not impact personal information (as defined in UK GDPR and Data Protection Act 2018) the Council processes.	Information Governance Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer
Public Health	We recognise that the recommendations will not negatively impact on population health or that of individuals.	Director of Regeneration & Place

Crime and Disorder	There are no implications to Crime and Disorder	Director of Regeneration & Place
Procurement	On accepting the recommendations, the Council will follow procurement policy in implementing the proposals.	Head of Service & Section 151 Officer
Biodiversity and Climate Change	The implications of this report on biodiversity and climate change have been considered and the Private Sector Leasing (PSL) scheme can potentially align well with supporting residents, landlords and housing associations, for retrofitting insulation, and low carbon heating systems to decarbonising and insulating homes and buildings, specifically Action 2.2 to 'Enforce Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015' of the Biodiversity and Climate Change Action Plan.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

- 2.1 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.
- 2.2 The net cost to the Council of nightly paid TA is extremely burdensome, and **Exempt Appendix 1** sets out 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.
- 2.3 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).
- 2.4 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.

- 2.5 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.
- 2.6 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.
- 2.7 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.
- 2.8 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.
- 2.9 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.
- 2.10 Sample documents from a similar PSL scheme operated by the London Borough of Lewisham are attached as appendices to include a landlord fact sheet, sample agreement and property specification requirement.
- 2.11 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.
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3. AVAILABLE OPTIONS

- 3.1 **Option 1** would be to launch a Maidstone Borough Council Private Sector Leasing Scheme, for an initial 50 homes, to be used as Temporary Accommodation, and shorten the delivery period for the Council owned acquisition programme too, from three to two years.
- 3.2 **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.
- 3.3 **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.
- 3.4 **Option 4** would be to make no changes to the current arrangements.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is **Option 1**, to launch a Maidstone Borough Council Private Sector Leasing Scheme, for an initial 50 homes, to be used as Temporary Accommodation. This option has the potential to generate considerable annual cost savings, and so can help manage the Council's overall financial exposure of delivering temporary accommodation to households affected by homelessness.
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5. RISK

- 5.1 There are risks to operating a PSL scheme to include: -
- Excessive tenant damage to PSL units and general degradation at the lease end.

- If the demand for TA falls, the Council could be left with excess PSL stock that it would still need to pay for. In this scenario, the Council would first sell (or convert to PRS) MBC owned TA in the first instance, so it is difficult to see this risk crystallising.
- It will increase the scale and complexity of the in-house housing management function.
- Most Council's operate a similar scheme, but the landlord market is unproven. Anecdotal feedback from the LIS team is that this type of "offer" would be more appealing to landlords than the current LIS scheme. However, the scheme could be reviewed after 12-months, and if the interest isn't there, it could be discontinued, but we need to give it time to attract and then convert the local landlord interest into deals.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 The recommendations have been considered previously by the Corporate Leadership Team.
- 6.2 The Housing, Health and Environment Policy Advisory Committee considered the matter on 14 November 2023 and recommended that the recommendations be approved. The Committee were informed that a third recommendation would be included within this report, to provide for decisions on leasing individual properties to be made in consultation with the Cabinet Member.
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 7.1 Officers will work with Mid Kent Legal Services to prepare a suite of legal documents for the PSL scheme in readiness for launch, and also prepare marketing collateral to launch and publicise the scheme.
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8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix 1: Exempt Appendix.
 - Appendix 2: Sample PSL documents from the London Borough of Lewisham.
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9. BACKGROUND PAPERS

None.