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1. Introduction

- 1.1. One of the priorities identified within the Housing & Homelessness Strategy 2012-17 is for the Housing Options Service to consider the development of a Social Lettings Service for landlords in the private rented sector.

- 1.2. This business case explains how the proposed service will contribute to the delivery of the Council's business plan and the Housing & Homelessness Strategy. It highlights our objectives, the likely benefits, critical success factors and financial implications. The business case also evaluates whether the objectives and benefits are achievable and describes other options considered.

2. Strategic fit

2.1 Supporting Council strategy

One of the Council's corporate objectives is to improve access into decent and affordable accommodation. The Council's Housing & Homelessness Strategy explores in some detail how this objective can be better realised.

2.2 Delivering community outcomes

The Social Lettings Service ('Spa Lettings') will support the following outcomes identified within the Housing and Homelessness Strategy:

2.2.1 Improving access into the private rented sector for low-income households

A key rationale for developing this Social Lettings Service is to increase access into the private rented sector for low-income households, with a particular focus on those households who are at risk of becoming homeless. These households are generally perceived to be a higher risk for private landlords, and this perception is likely to increase as the welfare reforms continue to be implemented, with the result that access into the private rented sector will become even more difficult. The consequence will be an increase in the use of temporary accommodation for homeless households and an increase in pressure on social housing stock generally.

It is therefore proposed that in order to support low-income households who are threatened with homelessness to access the private rented sector, the Housing Options Service will offer private landlords the following range of services for a one-off fee of £75 plus VAT:

- 2 months rent guarantee
- Deposit guarantee to the value of 1 month's rent
- Accompanied viewings with prospective tenants
- Full reference and financial checks on prospective tenants
- Affordability and financial capability assessments on new tenants
- Regular property inspections
- Photographic inventory
- Provision of standard tenancy agreements and Notices, where required
- A dedicated named Officer for the landlord to contact when needed
- Ongoing advice and assistance to the tenant throughout the period of the tenancy, regarding managing their financial affairs; referring into relevant support services where appropriate.

2.2.2 Reducing homelessness and unmanageable debt

One of the most cost effective mechanisms by which the Council can prevent homelessness is by assisting these households in accessing the private rented sector.

Our priority under the proposed Social Lettings Service will therefore be to focus on accommodating households who are threatened with homelessness.

A key element of the Service will be to ensure that potential tenants are suitable for the private rented sector. We will consider suitability on a case by case basis, having particular regard to previous housing history, and their ability to afford their rent and manage their financial affairs. Households requiring money advice will receive assistance from the Housing Options Service's Benefit and Money Advice Officer. Should households have additional support needs, they will be referred to an appropriate support provider.

Should any issues arise that might threaten the sustainability of a tenancy, by managing tenancies on behalf of private landlords the Housing Options Service will become aware of these issues at an earlier stage, enabling the team to liaise with the tenant and negotiate more effectively with the private landlord in preventing the tenant from becoming homeless. In the event of a tenant being given Notice, the Housing Options Service will become aware of this at the outset and can offer the tenant more timely advice and assistance on alternative housing options. The Housing Options team will also seek to continue managing the resulting vacancy on behalf of the landlord, where appropriate.

2.2.3 Improving standards of accommodation in the private rented sector

Before a household is placed in the private rented sector, the Housing Options service will ensure it has received up-to-date gas and electricity certificates. It will also ensure all properties are inspected by the Council's Private Sector Housing Enforcement Team.

The Enforcement team will carry out assessments under the Housing Health and Safety Ratings System, and will, where appropriate, advise private landlords on how they can remove any identified hazards, thereby improving the quality of their accommodation. If necessary, the team will take enforcement action to ensure any identified Category 1 Hazards are removed.

The Housing Options Team will only place households in properties that are **free** of all Category 1 Hazards.

2.3 Working with partners to meet customer needs

In addition to referral arrangements between the Housing Options Service and the Council's Private Sector Enforcement Team, the Housing Options Team will refer into and liaise with Community Based Support Services, should tenants require additional housing related support to sustain their tenancies. Partner agencies will also be able to refer into the Housing Options Service those clients who are homeless or threatened with homelessness.

2.4 National strategic drivers

- 2.4.1 The main impetus behind the development of this service is in response to the government's welfare reform. The result of these reforms is that low-income households who are homeless or threatened with homelessness have already experienced greater challenges in accessing the private rented sector.
- 2.4.2 The development of this Social Lettings Service will help to improve access into the private rented sector for households who might otherwise become homeless, by providing private landlords with some financial guarantees to mitigate against any perceived risks associated with accommodating homeless households on a low income.

2.5 Key Benefits

- 2.5.1 The Housing Options Service is currently high performing. In 2012/13, homelessness acceptances fell by 33%, from 42 to 28, reversing a previous 2 year trend of increasing homelessness, and bucking the trend against a national picture of generally increased homelessness for local authorities since the welfare reforms began to be implemented in 2010/11. Indeed homelessness acceptances in Cheltenham are currently at record lows for the Council, in that there have been only 5 homelessness acceptances in the last 9 months (to June 2013). This current performance places the Council amongst the top performing local authorities in the top quartile.
- 2.5.2 Despite this positive performance, the Housing Options Service is aware of the increased difficulty low-income households have in accessing private rented accommodation. The development of this Service will therefore help mitigate against some of the challenges these households face in accessing private rented accommodation.
- 2.5.3 To support those households who are less able to cope with managing their financial affairs, following the implementation of the Universal Credit later this year, the Social Lettings Service will also offer ongoing financial capability assessments and money advice to households, referring into relevant support services where appropriate, thereby ensuring that tenants are better able to sustain their tenancies in the future.
- 2.5.4 Properties used by the Council will be inspected and assessed under the Housing Health & Safety Ratings System, providing an opportunity for standards to be raised within the private rented sector, where prospective properties are found to contain Category 1 Health and Safety Hazards.
- 2.5.5 This Service will therefore support a range of outcomes identified within the Housing & Homelessness Strategy.

2.6 Key risks (please refer also to Appendix 1 – risk register)

If there are significant claims on the Deposit Bond Scheme and 2 months Rent Guarantee, this could exhaust available funding for this Service and/or impact upon our investment in other homelessness prevention services. This in turn could lead to

an increase in homelessness. We have sought to mitigate against these risks by committing to undertaking the following activities:

- 2.6.1 Carrying out references and financial checks on potential tenants, in addition to home visits (i.e. property inspections) on their homes they are becoming homeless from. We will not place tenants into the Service if we consider they are unlikely to succeed in the tenancy.
- 2.6.2 Carrying out affordability assessments, to ensure households can afford the rent on their properties, having regard to other outgoings. We will not place households in a property we consider they cannot afford.
- 2.6.3 Carrying out financial capability assessments to ensure that households have the skills – or can acquire these skills – to manage their financial affairs better. We will also refer them into specialist support services where appropriate. This service will be particularly important once Universal Credit is implemented in Cheltenham.
- 2.6.4 A dedicated Benefit Take-Up and Money Advice Officer will be available for ongoing advice and assistance throughout the period of the tenancy, keeping in regular contact with tenants to ensure that circumstances have not changed and they are still able to maintain their financial affairs. Tenants housed under this Service will be the main priority for this Officer.
- 2.6.5 Our Benefit Take-Up and Money Advice Officer will also consider whether any exceptions are applicable under the Universal Credit rules (when they are known) which may allow for direct payments of the rent to be made to the landlord instead of the tenant.
- 2.6.6 A dedicated Officer (i.e. the Homelessness Prevention Officer) within the Housing Options Service will also undertake regular inspections on properties we manage, identifying where there is damage, for the tenant to put it right. We will also keep in regular contact with the landlord to ensure that he/she is satisfied with our Service.
- 2.6.7 We are also considering developing a savings scheme for tenants, which they can use to save towards their own deposit. This will be with a view to eventually relinquishing the Council from its deposit bond obligations and to ensure the tenant maintains an interest in keeping the property in good order.
- 2.6.8 We will limit the Deposit Bond Guarantee to the first 12 months of the tenancy, thereby ensuring the Council's potential liability on deposit bond claims is limited at any one time.
- 2.6.9 The Housing Options Service has reserves within the CLG's Homelessness Prevention Fund from which to draw on. If claims against the Service were to increase to a level which meant the Service was no longer providing value for money, we would honour existing contracts, but would cease to provide future financial guarantees at the same level or indeed at all.

- 2.6.10 A second risk is that there may be negative publicity from Lettings Agents if it is perceived that the Council has set up a Service that is in direct competition with them. We have sought to mitigate against this risk by:
- 2.6.11 Providing different services to landlords. The Council will not be involved in providing repairs and maintenance services to landlords; nor will we offer rent guarantees for the period of the whole tenancy, which some Lettings Agents do. Landlords seeking these types of services will need to approach a Lettings Agency.
- 2.6.12 Not providing a free service for landlords. We will ensure that we charge landlords a rate which is more reasonable for the services we offer. This ensures that we are providing a service that is fairer in a highly competitive market.
- 2.6.13 Keeping our marketing of the service relatively low key and in particular, we will not actively seek to 'poach' landlords who are currently with a Lettings Agent. This is not a service which will require the Housing Options Service to have a significant number of landlords available all at the same time, because the number of homeless households requiring accommodation through this Service at any given time is likely to be relatively low, in view of other prevention options open to them. (We will be seeking 20-25 properties/year, to a potential target of 75 properties).
- 2.6.14 Building new relationships with Lettings Agents, and ensuring they too can benefit from our services by encouraging these agencies to refer into the Housing Options Service tenants who are falling into arrears (or who are at risk of falling into arrears), particularly as a result of the Government's implementation of the Universal Credit.
- 2.6.15 Focusing on low-income homeless households as potential tenants for this Service. These tenants are often precluded from accessing Lettings Agencies because of the initial set-up costs involved in starting a new tenancy. The range of advice, assistance and support that we can offer these tenants will be more extensive than those which are provided by Lettings Agents; thereby demonstrating that this Service is working in a niche market.

2.8 Market Testing/Consultation

- 2.8.1 In 2011 the Housing Options Service convened a Private Landlords' Forum to consult on our intention to provide services for private landlords, following which a scoping exercise was undertaken with a Focus Group consisting of a small number of landlords who were interested in assisting the Council in the development of this service.
- 2.8.2 Members of the Focus Group confirmed they would be prepared to pay the Council for social lettings services, and indicated a preference for services which would guarantee rents for the period of the whole tenancy. (Please see Section 3.4 below of our Options Appraisal on delivering this type of service). There was also some interest from landlords in the Council developing a Private Leasing Scheme (please see Section 3.5 below)
- 2.8.3 In 2012, the Housing & Communities Manager presented at a Private Landlords' Forum for Gloucestershire, organised by the National Landlords' Association.

Approximately 60-70 landlords attended. Again, landlords stated a preference for guaranteed rent for the period of the whole tenancy.

- 2.8.4 The initial preference for the Housing Options Team was therefore to deliver a full rent guarantee service throughout the period of the whole tenancy. However, for reasons detailed within Section 3.4 below, this is not a viable option for the Service at this present time.
- 2.8.5 We believe the 2 months rent guarantee will appeal to some landlords, but in view of the consultation we have undertaken with them, the numbers attracted to this Service are likely to be significantly less than if we had offered a rent guarantee for the full period of the whole tenancy. We have therefore taken this into consideration when setting the level of the fee that we propose to charge for our service.
- 2.8.6 In terms of the fee we propose to charge, we recognise that this Service will be unique in Cheltenham in that its aim will be to support vulnerable households, who would otherwise become homeless, to access the private rented sector. We have therefore considered it necessary to strike a balance between demonstrating to private landlords that we are providing a professional service for which they should be expected to pay, and avoiding setting a fee that is so high that it deters too many landlords from using the service, bearing in mind perceived risk levels some landlords may have over these households. The level of the fee will be reviewed, but our primary aim is for the Service to support our homelessness prevention agenda, thereby avoiding the use of costly temporary accommodation for homeless households and increasing the pressure on social housing generally.

2.9 Critical Success Factors

- 2.9.1 It will be necessary to gain sufficient interest from private landlords for this service to be reasonably effective in preventing homelessness. It is estimated that the Housing Options Service will be required to assist 20 to 25 households/year under this Service in order for it to be deemed reasonably effective in reducing the likelihood of increased statutory homelessness in Cheltenham.
- 2.9.2 It should be noted, however, that this Social Lettings Service will remain simply one option out of a range of possible prevention options that currently exist within the Housing Options Service - which includes an alternative mechanism for accessing the private rented sector through the use of the Council's Deposit Loan Scheme.

3. Options appraisal

- 3.1. Four options have been considered. Option 1 is for the Housing Options Service to deliver services for private landlords and tenants as detailed in Section 2.2 above, in return for a one-off fee from the landlord of £75 + VAT. Option 2 is to provide, in addition to the services referred to in Section 2.2 above, a rent guarantee for the full period of the whole tenancy in return for a monthly fee. Option 3 is to deliver a Private Leasing Scheme, whereby the Council leases properties from private landlords for a number of years. Option 4 is to continue with our existing level of service provision for landlords and tenants, delivering the current Deposit Bond and 2 month Rent Guarantee Scheme and to not develop the service any further.
- 3.2. It is recommended that options 2, 3 and 4 are discounted and that the Council proceeds with option 1.

Option 1 – The development of a Lettings Service, which provides a range of incentives for private landlords, backed up with ongoing advice and assistance for their tenants.

- 3.3. This option provides a range of services for private landlords for a one-off fee. We currently anticipate that once Universal Credit is implemented approximately 20-25 properties will be required each year in order to maintain or reduce current levels of statutory homelessness in Cheltenham, with an overall target of approximately 75 properties being managed at any given time. There is clearly however some uncertainty over the potential impact of Universal Credit and other welfare reforms. At present homelessness acceptances in Cheltenham have reached record lows, as a result of other highly effective homelessness prevention measures undertaken by the team. If this continues, then the proposed target will be reduced in the absence of sufficient demand from potential tenants.
- 3.4. This service can be delivered with existing staffing capacity by realigning workloads, although there is the potential to increase the number of hours of our part-time Homelessness Prevention Officer by using some of the funding from the Community and Local Government's Homelessness Prevention Fund, should additional hours be required. We will also ensure that our Benefit Take-Up and Money Advice Officer will give primary focus to advising and assisting tenants accommodated under this Service, referring into and liaising with appropriate support services where necessary.

Option 2 – The development of a Lettings Service 'Plus' (i.e. Option 1, but with a rent guarantee offer for the whole period of the tenancy, rather than for the proposed 2 month period)

- 3.5. The key difference between option 1 and this option is the provision of a rent guarantee for the period of the whole tenancy, in return for a monthly fee from landlords. Such an arrangement would involve more intensive management of the Service. We consider for the Service to be effectively managed, this would require the recruitment of a fulltime Officer. This post would have to be self-financing from

the monthly income being charged to landlords. We have estimated that the Housing Options Service would require a 98% success rate in collecting the full rent from tenants in order for the service to break even after 4 years. It is currently unclear whether this level of success would be achievable in the private sector once Universal Credit is implemented. We therefore consider this option is too high a financial risk for the Council, at the present time, given the uncertainties around Universal Credit.

Option 3 – A Private Leasing Scheme

- 3.6. This Scheme would involve leasing properties from private landlords for a number of years, guaranteeing the landlord a rent for the period of the lease, regardless of void times between the letting of properties; and returning the properties back to the landlord at the end of the lease in the same condition as it was taken on.
- 3.7. Whilst this type of Scheme would have an appeal to private landlords, it can be very expensive to run and the Housing Options Service does not have sufficient resources to run such a scheme as this. The private rented sector is a highly competitive market in Cheltenham and it is unlikely that the Housing Options Service would be able to take on sufficient number of properties if rents were set at levels which were uncompetitive. (This was echoed following feedback from private landlords attending the Focus Group (see section 2.8.1 to 2.8.2) where they consider that 10% below LHA levels was not sufficiently competitive for the local market).
- 3.8. If the Council were to set up a Private Leasing Scheme in Cheltenham, this would also be in direct competition with Chapter One, a charity which offers a Private Leasing Scheme across the county. Such an approach would be counter-productive in that both organisations are seeking to support similar clients.

Option 4 – To continue to deliver the Council’s existing service, which is limited to offering a deposit bond scheme with 2 months rent guarantee

- 3.9. This service does not currently attract sufficient private landlords for it to be an effective tool in preventing homelessness (only 14 households have been assisted in this way in last 18 months). We believe this is because it does not offer a wide enough range of services for landlords and their tenants. We therefore do not consider the current service is sufficiently effective in meeting our homelessness prevention outcomes.
- 3.10. We do not currently charge private landlords for this service, and we believe that by offering landlords this ‘free’ service, it has the potential to undermine the perceived levels of professionalism of our service and our ability to market this service effectively.
- 3.11. Despite the relatively low take-up, the current Service has experienced no claims to date from landlords on the 2 months rent guarantee, and approximately a 10% claim on the guaranteed deposits, which is significantly better than national expectations of between 15-20% for bond schemes. Our current Service has therefore been helpful in assessing our financial risks when developing Option 1, given that our preferred option will still include these guarantees.

4. Financial assessment

This section outlines the financial impacts of the project / programme.

Savings

- 4.1. No direct savings will be derived from the development of this Service. However, by reducing homelessness, this would lead to indirect savings in terms of reducing costs associated with the use of emergency and other temporary accommodation.

Increased revenue

- 4.2. The Service will charge private landlords a one-off fee of £75 plus VAT. Any income which results from this Service will be used to mitigate against costs incurred as a result of claims made by landlords under the deposit bond and 2 month rent guarantees.

Costs

- 4.3. The Housing Options Service has a part-time Homelessness Prevention Officer whose main duties involve the prevention of homeless through the provision of private rented accommodation for homeless households. The Postholder's role includes delivering on services that promote easier access into the private rented sector and being a point of contact for private landlords. These services have continued to develop and evolve over time, to a point whereby the next logical step for the Housing Options Service is to market our services to private landlords as a professional Service for which a fee should be charged. Marketing of the Service will be carried out by the Homelessness Prevention Officer
- 4.4. It is not envisaged at this stage that additional staffing hours will be required, however, up to £10,000 of funding/year can be budgeted from the CLG's Homelessness Prevention Fund to support this, should it be necessary to invest additional hours in this area for marketing and/or for managing additional tenancies. There are also additional set up costs of approximately £1,300 + VAT per year for a back of office database to ensure that we manage the properties effectively (although we are currently investigating cheaper models).
- 4.5. Other ongoing costs are likely to be in the way of claims from private landlords under the Deposit Bond Scheme and the 2 months rent guarantee scheme. Activities to mitigate the level of claims under these schemes have been referred to at Section 2.6 Key Risks.
- 4.6. We anticipate between 20 to 25 new tenancies being created each year. If we assume there are 25 new tenancies by the end of year 1, each with an average deposit bond value of £700 (usually the equivalent of the first month's rent), and if we further assume that we continue to receive a 10% claim against our deposit bonds, we can expect costs on our deposit bonds to be approximately £1,750 each year.
- 4.7. To date we have no claims on our 2 month rent guarantee scheme that we currently offer private landlords. This scheme has been running for 18 months and 14 households have been assisted under the scheme. We anticipate there may be claims once Universal Credit is implemented, and have estimated that there could be an average 10% claim for each tenancy. Assuming an average rental of £700/month, and 25 properties being taken on each year, this would equate to claims of approximately £3,500 per year. These costs could be met out of the CLG's

Homelessness Prevention Fund. Should costs increase, there is still sufficient scope to meet these from reserves within the Prevention Fund; however, any expenses would need to be reviewed on a regular basis to ensure that the Service is delivering value for money.

- 4.8. The anticipated annual costs are therefore very likely to exceed the income derived from charging landlords a fee for the services provided. However, the main rationale for delivering this service is to meet key outcomes within our Housing & Homelessness Strategy. Increasing costs to private landlords for delivering the proposed services could reduce the demand, which would in turn reduce our effectiveness in this Service delivering its desired outcomes. For these reasons we do not consider it to be in the Council's best interest at present to increase the fees to landlords to a level more in line with anticipated costs. The fee will however be reviewed on an ongoing basis, after taking in account demand from private landlords and actual costs in delivering this Service.

5. Achievability

Resources, both financial (through the CLG's Homelessness Prevention Fund) and through our staff time, are sufficient to ensure the effective running of this Service. We have modest expectations of the success of the Service, in terms of the number of new properties entering the Service each year (approximately 20 to 25 properties). However, this increase, if achieved, will help to reduce homelessness – or at least maintain it at existing levels. Assuming we do maintain a take-up of between 20-25 properties each year, we are satisfied that this can be managed with existing staff resources. Should, however, additional staffing be required, there is sufficient flexibility at the present time to increase the number of hours of a part-time member of staff through the CLG's Homelessness Prevention Fund. We would seek to limit the number of properties being managed at any given time to approximately 75 in order to ensure that these properties are managed effectively within existing resources. This target will be reviewable as the Service continues to develop.

6 The Future of Service under Cheltenham Borough Homes

- 6.1 On 18th June 2013 Cabinet approved the commissioning of the Housing Options Service to Cheltenham Borough Homes (CBH). CBH have been consulted on our business case and are supportive of the development of a social lettings approach.
- 6.2 Any future development of the social lettings service by CBH will be carried out with the agreement of the Council to ensure that proposals continue to support key outcomes detailed within the Council's Housing & Homelessness Strategy.¹