

## **Council**

**24 January 2024**

### **Temporary Accommodation Options – Addition to the Capital Programme**

Portfolio Holder: Councillor Naushabah Khan, Portfolio Holder for Housing and Property

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#### **Summary**

Increased demand and cost for providing homeless households with temporary accommodation has led to budget pressure. There is a clear need to address the financial pressures faced by the housing service and implement new initiatives that will relieve/reduce the pressure on the budget.

The report sets out three initiatives - to purchase further units of temporary accommodation, to take on leases for the use of temporary accommodation and the setting up of a lettings department with a view to managing and generating business and ensure certainty around availability of units of accommodation.

The report was due to be considered by the Cabinet on 16 January 2024. The recommendations to the Cabinet are set out in section 6 of the report.

#### **1. Recommendation**

1.1 The Council is requested to agree to add £41,925,000 to the Capital Programme (funded by prudential borrowing) for the purchasing of approximately 150 further homes.

#### **2. Budget and policy framework**

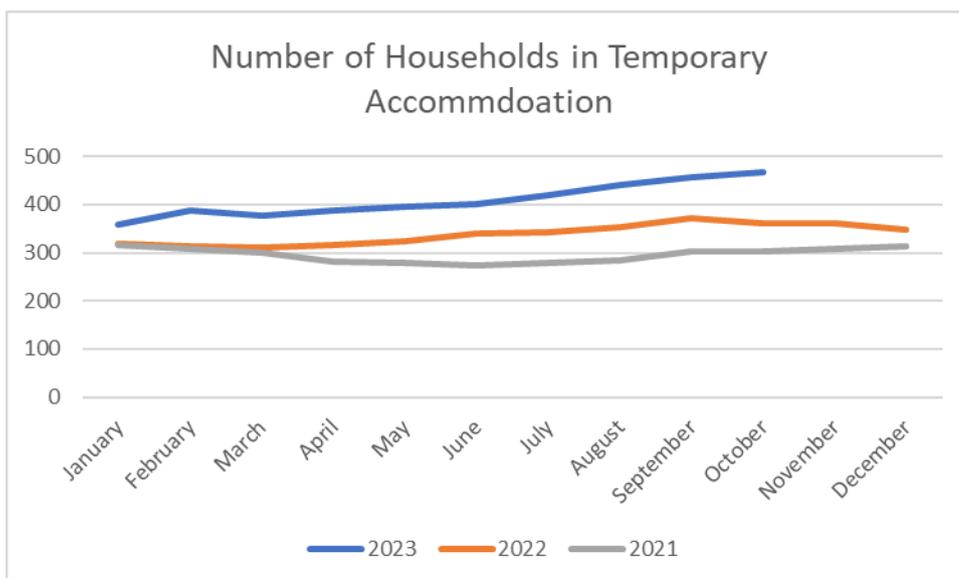
2.1 There is a statutory duty to rehouse homeless households found to be in priority need in line with part 7 of the Housing Act 1996 (as amended).

2.2 The decision to take up the options in the report is a matter for Full Council.

2.3 The current demand for temporary accommodation without intervention is likely to cause an additional budget pressure of £2.5m. Therefore, it is important that alternative options are explored that will relieve or reduce this pressure.

### 3. Background

- 3.1 The Council is facing unprecedented homelessness pressure with the cost-of-living crisis, the increase in mortgage rates, changes in the mortgage tax relief, and the possible implementation of the Tenancy reform: Renters Bill, all making for a challenging private sector market. This has led to an increase in rental costs, landlords exiting the market and has led to increased homelessness and issues with availability and affordability of temporary accommodation units.
- 3.2 This has impacted the Council's ability to prevent homelessness through discharging its duty into accommodation in the private sector and to source temporary accommodation, which is usually supplied through nightly accommodation in the private sector. It has also led to increased costs for procurement of these temporary units.
- 3.3 The service is facing a significant and sustained increase in demand from households seeking homelessness assistance. 2022/23 saw a total of 3,828 approaches for homelessness assistance, up 17% on 2021/22 and 42% on 2020/21. Going forwards into 2023/24, the trajectory for demand for the homeless service continues to be steeply upwards and sustained. If continued at the current pace the service will see a possible 5,000 plus in presentations, equating to over a 100% increase in service demand since 2018/19.
- 3.4 The high levels of demand have inevitably led to an increase in those households meeting the statutory threshold for the provision of temporary accommodation. At the end of October 2023, there were 468 households in temporary accommodation, compared to 362 the year prior.
- 3.5 The below graph shows the number of households for this year and the two years prior, showing the increased demand. If demand increases as it has over the last four months (June-October) it is likely that there will be an additional 68 households in temporary accommodation by the end of the financial year and at the same trajectory there could be 700 households by the end of 2024/25.



3.6 In 2022/23 there was a net spend of £4,622,326 on private units of temporary accommodation. In 2023/24 without further interventions this is likely to be in excess of £6.5m spend.

3.7 Most of the units provided for temporary accommodation are via nightly paid private accommodation. Medway’s rates are very competitive with other councils, including Kent and London and also with other services such as the Home Office and The National Probation service.

3.8 The target nightly rent rates set by the Council for 2023/24 are:

Shared	£25
1 bed	£31 to £38
2 bed	£35 to £42
3 bed	£37 to £44

3.9 In comparison to our target rents, the current market requests for nightly paid are:

Shared	£25 to £30
1 bed	£40 to £45
2 bed	£45 to £65
3 bed	£48 to £69

3.10 Given the substantial number of placements into Medway by other boroughs and services (531 homeless declared placements since January 2023) it is a very competitive market and landlords have no real challenge in Medway holding firm on pricing.

## 4. Options

4.1 The options available to the Cabinet were as follows:

4.2 Option 1 – continue using nightly paid accommodation.

- 4.2.1 Nightly paid accommodation is procured through private landlords, which includes some management services.
- 4.2.2 The agreed nightly rate covers associated costs such as repairs and there is no void cost whilst the property is empty.
- 4.2.3 Most units of temporary accommodation are provided through this arrangement.
- 4.3 Option 2 – purchase further units of temporary accommodation.
  - 4.3.1 Build on the pilot programme of purchasing units of temporary accommodation agreed at Full Council on 19 January 2023, allowing for an increase in spending for further units.
  - 4.3.2 Properties would be purchased on the open market to increase the owned stock and provide a long-term option to house temporary accommodation households.
  - 4.3.3 As a service there is a responsibility to maintain the homes, so there will be additional costs for repairs and void works, along with property compliance and a requirement for capital works.
  - 4.3.4 If properties are empty there will be no rent recovered for the property, so no income will be received during this period.
  - 4.3.5 The properties will be an asset owned by the Council and may benefit from capital growth, although not always guaranteed. It will however generate income in the long term through reduced outgoing costs.
- 4.4 Option 3 – take on leased properties for the use of temporary accommodation.
  - 4.4.1 Leases would be taken on through private landlords at a reduced market cost, to be provided as temporary accommodation.
  - 4.4.2 Minor repairs, maintenance, property compliance and associated void costs for the property will be the responsibility of the council, depending on the lease issued. Major works, such as roof and structural repairs will still be the responsibility of the property owner.
  - 4.4.3 If properties are empty there will be no rent recovered for the property, so no income will be received during this period.
- 4.5 Option 4 – set up a Medway Council letting agency.
  - 4.5.1 Properties from the private sector would be signed up to the agency for property management and let to households as a prevention of homelessness to avoid households coming through for temporary accommodation and the additional pressures this causes.

- 4.5.2 It would be the responsibility of the service to manage the property, including collecting rent for the property owner, carrying out property inspections and ensuring property compliance.
- 4.5.3 Property owners can sign up for a repairs and maintenance contract but costs for repairs and maintenance of the homes remains the financial responsibility of the property owner.
- 4.5.4 A charge is made to the property owner for the management of their property but when the property is void no rent will be recovered, so any associated costs will fall to the Council.

## 5. Advice and analysis

- 5.1 Over the next 30 years there is likely to be in excess of £200m gross spend on private units of temporary accommodation, all of this funding will leave the Council with no legacy or longer lasting benefit to the Council or its residents.
- 5.2 With the increasing need for temporary accommodation, it is predicted that by the end of 2023/24 there will be a need for over 500 units of private accommodation (currently 435, 19/11/23). It is therefore suggested that a combination of several options is considered. The recommendation is to provide 320 (20 already/in process of being purchased) of these units through options 2 and 3 and to prevent households coming through as homeless through option 4.
- 5.3 Option 1 – continue using privately rented accommodation.
  - 5.3.1 With the increasing demand on homelessness and the cost of temporary accommodation, continuing with this option will see an increase in costs for the service, causing the Council additional budget pressures. It is therefore not the recommended option.
  - 5.3.2 Nightly paid does however have limited overheads, no responsibility for repairs, voids or cleaning costs and there will still be a need for some spot purchasing of units on a nightly rate, so this will still be used as an option for temporary accommodation, but the plan is to reduce the need for this type of usage and for it not to be the primary usage.
- 5.4 Option 2 – Purchasing
  - 5.4.1 In January 2023 it was agreed through full Council to pilot the purchase of 20 units of temporary accommodation, with an estimated cost of £5,590,000. These funds have already been allocated to properties that have either already been purchased, are in the process of being purchased or are being considered for purchasing and as such further funding is required.
  - 5.4.2 Purchasing properties unlike nightly paid will require additional costs to be covered, such as repairs, asset replacement, servicing and

cleaning. There are also purchase costs such as stamp duty (at a penalty rate), legal and surveyor's fees and works.

5.4.3 Broadly, the cost of purchasing accommodation, repairing and managing it are more costly than commissioning from the private sector. However, the Council can generate more income from an owned property as there is no loss in subsidy. this would increase if the charging policy was updated to reflect higher costs of securing property.

5.4.4 The below table demonstrates the net costs for both privately renting and purchasing units of accommodation for 150 two bedroom properties for a year. As there is a recharge for Housing Benefit for private nightly paid it is not possible to recover all the costs charged, which is why the income received is lower. However, as properties that are owned by Medway Council are not subject to the recharge, full costs can be recovered.

<b>Type of property</b>	<b>Cost</b>	<b>Rent Charged</b>	<b>Income Received</b>	<b>Total cost</b>
Private nightly paid	£2,682,750 (£49 PN average)	£1,431,924 (£183.58 PW)	£963,924 (£123.58 PW)	£1,718,826
Purchased property (borrowing over 30 years)	£2,983,000	£1,431,924	£1,431,924	£1,551,076
Purchased property (borrowing over 50 years)	£2,476,000	£1,431,924	£1,431,924	£1,044,076

5.4.5 Owning properties means that an increase to rents charged will allow for more income to be received. Currently any increases for private accommodation would not affect the income received due to recharges for Housing Benefit and for those on full Housing Benefit, they will continue to have their rent covered. There have been no increases to the Housing Benefit Subsidy since 2011 and officers are not aware of any plans to increase these, therefore, it is unlikely in the near future that additional income would be received for private units.

5.4.6 If rents were to be increase by 5% the figures would change to the below. As you can see the overall costs is decreased for owned units and this will continue to be the case for owned units, whereas private units will continue to increase in costs as providers increase their charges.

Type of property	Cost	Rent Charged	Income Received	Total cost
Private nightly paid	£2,682,750 (£49 PN average)	£1,503,450 (£192.75 PW)	£963,924	£1,718,826
Purchased property (borrowing over 30 years)	£2,983,000	£1,503,450	£1,503,450	£1,479,550
Purchased property (borrowing over 50 years)	£2,476,000	£1,503,450	£1,503,450	£972,550

As you can see from the above table, with a slight rent increase, there is a potential saving of £746,276 per annum for 150 units.

5.4.7 Investment into property will also allow for the council to have an owned outright asset at the end of the borrowing period, whereas currently the spend of over £200m in the next 30 years will not yield any return.

5.4.8 Financial appraisals would be undertaken on a property by property basis prior to the purchase of individual properties to take account of market conditions at the time of purchase to provide assurance around financial viability of proposed purchases.

5.4.9 If agreed, as per the pilot, properties will be purchased on the open market and purchased in tranches to avoid overheating the local market. The purchasing of properties that the council do not own the freehold for will be avoided.

5.4.10 The Council needs to be mindful that properties are not lost to the Right to Buy. Therefore, properties need to be managed with tenancies that cannot be considered secure tenancies.

## 5.5 Option 3 – Leasing properties

5.5.1 Medway Council officers (with relevant delegated authority) currently have authority to grant, enter into, or vary the terms of leases or sub leases, where the consideration does not exceed £10,000 per annum on any single transaction or £20,000 after consultation with the relevant Portfolio Holders. This report requests that the limit delegated to officers be increased to considerations not exceeding £15,000 per annum.

5.5.2 The current cost of procuring a two bedroom property through nightly paid is approximately £16,790 pa. The aim will be to take the property on lease at a reduced rate. The rate however will be dependent on the

type of lease negotiated and if there is an expectation for repairs to be made to the property.

- 5.5.3 It is anticipated that for a two-bedroom leases will cost approximately between £8,000 and £15,000 per annum and that approval is given for up to 150 units for the use of temporary accommodation.
  - 5.5.4 Taking the properties on full lease will mean a responsibility for repairs and maintenance of the properties. It will also mean that whilst the property is void no income will be received for the property.
  - 5.5.5 It is proposed that authorisation for these leases is delegated to the Assistant Director, Culture and Community, in consultation with the Portfolio Holder for Housing and Property.
  - 5.5.6 Taking on leases allows for properties to be secured on a longer term basis, provides some certainty on costs and allows for planned use of properties as there will be consistency with availability.
- 5.6 Option 4 – Setting up a letting agency.
- 5.6.1 Prevention of homelessness is a lot cheaper than processing customers through the homeless route and into temporary accommodation, it is also a better outcome for the customer. It is estimated for the average two bedroom household going into temporary accommodation the housing costs alone are around £10,317 PA without staffing and additional costs.
  - 5.6.2 Setting up a letting agency would involve managing properties for property owners. The contract will be between the customer and the property owner, but the management responsibility will be that of the Council. A customer will be allocated to the property, and this will allow for a discharge of homeless duty, alleviating the need to go into temporary accommodation.
  - 5.6.3 There are already successful models for letting services from other local boroughs that could be mirrored to ensure success. The schemes allow for the property to be rented by the customer at LHA rates. 5 or 10% of this cost is taken as a management fee and the additional funds are topped up to market rate through prevention fund as a one of payment to the landlord. Below shows the recoverable costs at 5% from the landlords calculated per annum.

LHA Medway PCM		5%
1 bed	£593.36	£29.67
2 bed	£747.93	£37.40

3 bed	£847.69	£42.38
4 bed	£1,196.69	£59.83
2 bed PCM	X20	£748.00
3 bed PCM	X30	£1,271.40
TOTAL PCM		£2,019.40
TOTAL PA		£24,232,80

5.6.4 It is estimated that to set up the lettings service in year one the costs will be £153,000 and for year two and ongoing £137,000pa. The approximate costs are made up of the following, based on similar models from Ashford Borough Council (ABC) and Gravesham Borough Council (GBC):

- 1 FTE Range 5 post and oncosts, to manage the team (£50,000)
- 2 FTE Range 4 posts ad oncosts to property manage (40 to 60 properties each) (£84,000)
- £2,000 pa for advertisement
- £1,000 pa for landlord forum
- ICT equipment for start up (£6,000)
- Computer system set up costs (£10,000)

Other costs to consider that will need further exploration will be insurances, costs for setting up leases and ICT support.

5.6.5 Further investment in staffing may be required as the letting agency takes on properties.

5.6.6 One allocated officer will be able to manage between 40 and 60 properties, preventing the need for these household to go into temporary accommodation. This will provide an accommodation saving of approximately £515,850 PA for 50 households.

5.7 Pursuing a combination of options will ensure that there is availability of accommodation and that costs for accommodation do not escalate further. The only option not to be taken forward is option one.

## 6. Cabinet recommendations

6.1 The Cabinet was due to consider the report at its meeting on 16 January 2024. The recommendations to Cabinet were as set out below.

6.2 The Cabinet is requested to recommend Council to agree to add £41,925,000 to the Capital Programme (funded by prudential borrowing) for the purchasing of approximately 150 further homes.

- 6.3 The Cabinet is requested to agree to take on up to 150 leases of properties in the private sector for use as temporary accommodation and to agree to delegate authority to the Director of Place, in consultation with the Portfolio Holder for Housing and Property to facilitate this.
- 6.4 The Cabinet is requested to delegate authority to the Director of Place to grant, enter into, or vary the terms of leases or sub leases for the provision of temporary accommodation, where the consideration does not exceed £15,000 per annum.
- 6.5 The Cabinet is requested to agree to the setup of an internal lettings department to take on properties to prevent homelessness and the associated costs in doing so, noting that this would include set up costs of approximately £153,000 and £137,100 ongoing annual costs.

## 7. Risk management

- 7.1 Associated risks and risk mitigation are detailed below.

Risk	Description	Action to avoid or mitigate risk	Risk rating
Change in demand	Properties are taken on lease or purchased and there is no longer a need for the use of homeless prevention or temporary accommodation.	Purchased units could be disposed of or used as a private let. Leases could be terminated or let to households on the open market.	DIII
Void costs	There could be associated long term void costs, which would mean there is no income for properties.	Properties will be inspected prior to purchase/leasing. Purchased units could be disposed of if the void works are unviable and leases could be terminated.	DIII
Maintenance	Not able to maintain properties through a maintenance contract.	Maintenance contract can be acquired through the current HRA provision.	DII

For risk rating, please refer to the following table:

Likelihood	Impact:
A Very likely	I Catastrophic
B Likely	II Major
C Unlikely	III Moderate
D Rare	IV Minor

## 8. Consultation

- 8.1 No formal consultation is required.

## 9. Climate change implications

- 9.1 Any properties procured through the private sector will need to meet the minimum energy efficiency standards. Work can take place with landlords to apply for any available grants to increase energy efficiency.
- 9.2 Purchased units could be improved through planned works and targeted initiatives to improve energy efficiency. Associated costs for maintenance and refurbishments have been included in the purchase costs.

## 10. Financial Implications

- 10.1 The purchase of approximately 150 two-bedroom properties is estimated to cost £41,925,000. (Average cost £279,500 each property, allowing for purchase cost at £250,000 plus stamp duty, refurbishment and other fees).
- 10.2 The scheme would be added to the Capital Programme (funded by prudential borrowing). Based on current rates the estimated cost of the borrowing would be around £2.758million per annum over a period of 30 years or around £2.251million over a period of 50 years.
- 10.3 If interest rates were to increase by 1% then the estimated cost of the borrowing would be around £3.078million per annum over a period of 30 years or around £2.612million over a period of 50 years.
- 10.4 Financial appraisals would be undertaken on a property by property basis prior to the purchase of individual properties to take account of market conditions at the time of purchase to provide assurance around financial viability of proposed purchases.
- 10.5 Property purchasing will be staggered but when the full purchasing of the 150 units takes place there is a potential saving of £746,276 per annum if the 5% rent increase was to be applied.
- 10.6 The establishment of an internal lettings department to take on properties to prevent homelessness is estimated to cost approximately £153,000, with £137,100 ongoing annual costs. This will be funded from cost savings through preventing households from coming through the homeless route into temporary accommodation.
- 10.7 Once the full 100 units of private accommodation is reached there is a potential for savings of £1,031,700 per annum.

## 11. Legal Implications

- 11.1 The Council has a duty to provide temporary accommodation to homeless applicants under S188 of the Housing Act 1996. That accommodation must be suitable for the applicants and there are a number of criteria that the accommodation must meet in order to be suitable for example if that accommodation is provided in a B&B or HMO property it can only be occupied for a maximum of 6 weeks if the applicant household includes children.

- 11.2 There is no requirement for this accommodation to be provided within properties owned by the Council and the use of privately owned accommodation has been the model which has traditionally been used.
- 11.3 Most tenancies granted under the Homelessness provisions are non-secure tenancies and therefore do not attract the Right to Buy but the Council will need to ensure that this is kept under review as the applicants move through the various duties to avoid the risk of losing any properties bought to the Right to Buy. The time an applicant is accommodated in temporary accommodation may count towards the qualifying period for the Right to Buy.
- 11.4 The lettings department will be set up in house involving an agreement between the service and the property owner, all legal documentation will gain the appropriate legal sign off before being implemented.
- 11.5 Any additions to the Council's budget are a matter for Full Council but the decision whether to continue to provide accommodation through the use of the private sector or to purchase accommodation to satisfy this duty is one for Cabinet subject to the budget amendments being agreed.

#### Lead officer contact

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#### Appendices

None

#### Background papers

[Temporary Accommodation Purchasing \(19 January 2023\)](#)