

## COUNCIL

### REPORT OF DEPUTY CHIEF EXECUTIVE (COMMUNITY DIRECTION)

#### RE: PRIVATE SECTOR LEASING SCHEME AND HOMES AND COMMUNITIES AGENCY EMPTY HOMES PHASE 2 FUNDING.



Hinckley & Bosworth  
Borough Council

*A Borough to be proud of*

### WARDS AFFECTED: ALL WARDS

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#### 1. PURPOSE OF REPORT

- 1.1 To update Council on the progress that has been made exploring the feasibility of a Private Sector Leasing scheme, to advise members of additional funding of £90,000 awarded by the Homes and Communities Agency (HCA) for bringing 6 commercial properties in the Town Centre back to use and to seek Members approval to:
- Formally adopt a Private Sector Leasing scheme as a method of bringing empty properties back into use.
  - Make use of £522,120 of funding already approved by the Homes and Communities Agency to run and sustain the scheme and to create income and expenditure budgets linked to the 2<sup>nd</sup> phase of HCA funding.
  - Use flexible, short-term tenancies for properties which form part of the Private Sector Leasing scheme and agree to the amendment of the Tenancy Policy to include this provision.

#### 2. RECOMMENDATION

- 2.1 That Council:
- 2.2 Note the objectives of the Private Sector Leasing scheme and formally approve the use of a Private Sector Leasing scheme across the borough.
- 2.3 Approve the use of flexible, fixed term tenancies for properties that form part of the Council's Private Sector Leasing Scheme.
- 2.4 Agree the addition of a clause to the Tenancy Policy to state that where a property forms part of the Private Sector Leasing scheme, lifetime tenancies cannot be granted but a tenancy will be granted for the longest term possible within the time frame of the leasing term.
- 2.5 On the basis that works will be funded by the HCA, agree delegated authority for the Deputy Chief Executive Corporate Direction to create appropriate capital and revenue budget once the nature of individual works are known up to the value of £468,900.
- 2.6 Agree a supplementary budget of £6,000 to fund the administration cost and £20,610, annually, for two years for modern apprentices. These are to be funded from either the HCA funding or rental income.
- 2.7 Agree delegated authority for the Deputy Chief Executive to create rental income budgets once the properties have been bought back into use.

With regard to the HCA Empty Homes phase 2 funding:

- 2.8 Approve an income budget of £90,000 to reflect the grant income due to be received from the Homes and Communities Agency for Empty homes phase 2.
- 2.9 Approve an income budget of £60,000 to reflect contributions from property owners to fund works on their properties
- 2.10 Approve a total expenditure budget of £210,000 for expenditure incurred on the 6 commercial properties identified
- 2.11 Approve a virement for £60,000 from the current under-spent major works grants budget to the empty homes commercial property budget to fund the Council's contributions to these works

### 3. BACKGROUND TO THE REPORT

- 3.1 The Council were informed in June 2012 that we had been successful in a bid for £522,120 from the Homes and Communities Agency (HCA) under their Affordable Housing Programme 2011-15. The funding was awarded to assist the council in bringing 40 empty properties back into use by June 2015 through a 'lease and repair scheme', commonly referred to as a 'Private Sector Leasing scheme' (PSL). Officers have considered the use of a PSL scheme for some years. In the past, the lack of pump-prime funding prevented such a scheme progressing any further. With this successful bid, now seems an appropriate time to formally consider the approval of such a scheme.
- 3.2 The contract approval with the HCA was agreed on 25 October 2012. Since this time much work has been done developing a proposed PSL. This is now ready to commence upon approval of this report.  
A second bid was also recently submitted to the HCA (March 2013) to convert empty space above shops into affordable housing. It is proposed that properties let under this scheme will be managed by the council in a similar 'lease and repair scheme'.
- 3.3 In order to introduce a PSL scheme a clause will need to be added to the Tenancy Policy which was approved by Council in January 2013. This is because under the approved Tenancy Policy the Council made a commitment to retain lifetime tenancies for its properties. As the Council would only have use of properties let under the PSL scheme for the duration of the lease, it will not be possible to offer residents of those properties a lifetime tenancy.
- 3.4 In addition to the phase 1 funding, the Council secured £90,000 in the HCA phase 2 funding bid round to bring 6 commercial back into use as affordable housing. The work will concentrate on properties with prohibition orders on them, where the owner cannot fund the cost of repair themselves.
- 3.5 The grant of £90,000 from the HCA will give up to £15,000 per property to convert the commercial properties into apartments. Property owners will be asked to match fund the council's contribution of up to £10,000 property. The properties will be managed through the Private Sector Leasing scheme at an affordable rent.

### 4. PRINCIPLES OF HOW THE PRIVATE SECTOR LEASING SCHEME WILL WORK

- 4.1 The scheme would allow owners of private empty properties to lease their properties to the local authority for an agreed period (from 5 years to a maximum of 10 years). During this period the owners of the empty properties will receive a guaranteed set rent from the Council for the duration of the agreed lease period.

- 4.2 The Council will let the property at an affordable rent (80% of the market rent value) to an individual who is on the housing register (including persons at risk of homelessness where the property and tenant is suitable).
- 4.3 The guaranteed rent payable to the owner of the property will be calculated according to the 80% market rent received by the Council (from the tenant) less the following costs:
- 4.4 The cost of any of the works that have been carried out in bringing the property up to the Decent Homes Standard – these costs will be recycled back into the sustention of the scheme.
- 4.5 A management fee of 7% which will cover the cost of insuring the property and any on-going maintenance costs during the term of the lease.
- 4.6 The golden rule of the scheme is that the rent paid by the tenant will pay for the works and management fees that are incurred over the duration of the lease period. What is left will make up the guaranteed rent that the owner of the empty property will receive. This will vary depending upon how much it costs to bring the property back into use and how long the property is leased to the Council for.
- 4.7 The £522,120 funding from the HCA is non-repayable. Therefore it is proposed that the money that the Council recoups through the rental income (i.e. reimbursement of the works to bring the property up to the Decent Homes Standard) will be ring-fenced to come back into the scheme. This will ensure that the scheme is self-financing and sufficient funding is available to sustain the scheme throughout the duration of the leases which are agreed.

## 5 PRIVATE SECTOR LEASING SCHEME PROGRESS AND OBJECTIVES

- 5.1 Since funding was secured on 25 October 2012 the development of the scheme has progressed well. We have:
  - Conducted market research which has helped identify the type, size and location of properties that are in demand and will be ideal to let under PSL.
  - Sounded out various owners of empty properties to help determine what would particularly attract them to lease their properties to the Council and for how long. This has resulted in us looking at branding the scheme 'Bespoke Property Solutions' to the public. 'Bespoke' being the key characteristic of the scheme to attract owners with empty properties because each empty property:
    - Comes with its own story as to why it has become empty
    - Varies in terms of state of repair and money needed to be invested into it
    - Can be tailored best to provide HBBC with either accommodation for families, individuals or homeless accommodation
    - Owner wants flexibility in terms of the length of lease that is to be agreed
  - Worked with the Housing Options Team to investigate the possibility of making use of some properties let under PSL for temporary homelessness accommodation thus reducing HBBCs reliance on hostel and bed and breakfast accommodation.
  - Already gained commitment and very active interest from a number of owners of long-term empty properties who want to lease their properties to the Council through PSL.

- Researched other available grant-funding streams to un-lock savings to the owners of empty properties.
- Promoted to each owner of an empty property (through the recent letters sent by Council Tax announcing changes affecting empty properties) that help including financial assistance with repairs is available from the Private Sector Housing Team to bring empty properties back into use.
- Established support from a number of other Local Authorities who have successfully developed and implemented 'Private Sector Leasing schemes'.
- Increased capacity within the Private Sector Housing Team to accommodate the increased workload so far created.

5.2 With these developments we are confident that if all elements of this report are approved by Members we will be able to commence the process of signing lease agreements on 40 empty properties. This will achieve the following objectives:

- Make safe, decent and affordable accommodation available for an estimated 50-60 households.
- Reduce the Council's re-housing and homelessness waiting lists.
- Reduce reliance on hostel and B&B accommodation.
- Bring 40 empty properties back into use and thereby also address any visual and physical detrimental impacts that these properties have on the surrounding neighbourhood.
- Bring New Homes Bonus funding to the Council for the 40 properties brought back into use.
- Make use of the money recovered through the rental income to ensure the sustainability of the scheme.
- Create two modern apprentice positions within the Council to help administer and deliver the scheme.

## 6 AMENDMENT TO THE TENANCY POLICY

6.1 To facilitate a PSL scheme and unlock the £522,120 of HCA funding to meet the objectives set out above, it is recommended that the Tenancy Policy is amended. It is proposed that lifetime tenancies will continue to be offered to tenants in Council owned properties however where properties are not in the Council's ownership but are utilised on a lease and repair basis, a flexible, fixed term tenancy will be granted. The proposed clause to be included in the Tenancy Policy reads:

**"Where the Council is leasing properties for an agreed period, a flexible tenancy will be offered to the tenant on the longest term possible commensurate with the length of lease outstanding with the property owner. Such a tenant will be explicitly informed of this prior to the commencement of their tenancy with the Council."**

## 7 FINANCIAL IMPLICATIONS [IB]

- 7.1 Overall it is expected that the scheme will be cost neutral and have no overall impact on HBBC balances. However, funding arrangements for the two modern apprentices still has to be clarified.

### HCA Funding

The HCA funding is £522,120 for 40 properties. The HCA will release the same amount of funding per property claimed for. Fifty per cent of the funds would be released up front and fifty per cent once the property has been renovated. The profiling across financial years is currently not known. The actual cost per property will vary depending on the amount of work needed.

### Rental Implications

As the agent for the property the Council will charge will charge a 7 percent management fee, which will include the cost of buildings insurance. Additionally, the original cost of the work which is funded by the HCA to bring the property back into use will also be recovered over the tenancy term.

### Worked example

If cost of works to bring the property to a decent homes standard was £10,000 and the market rental was £100 per week the financial implications would be:-

Cost of works £10,000  
HCA funding (£10,000)  
HBBC impact £0

### Weekly Rental Impact

Rental Receivable @ 80% of Market rent: £80.00

### Less – amount retained by HBBC

Management charge kept by HBBC £5.60  
Cost of works kept by HBBC (£10,000 over 5 years) £38.46  
**Amount retained by HBBC £44.06**

**Amount repaid to Homeowner £35.94**

## 7.2 Budgetary and Cashflow Implications

- The nature or the work for each property is unknown. Therefore Council will be asked to agree delegated authority for the Deputy Chief Executive Corporate Direction to set appropriate revenue or capital budgets.
- The properties that are bought back into use will attract new homes bonus.
- If the property is empty after it has been bought back into use HBBC will incur council tax costs.
- The estimated cost for running the scheme up is expected to be £6,000.
- The creation of two modern apprentices will require a supplementary budget approval. Funding arrangements for these posts need to be clarified but it is envisaged that they will be funded from either the initial grant made for the property or from the rental income. The estimated cost at £5 per hour plus on cost is £20,610 per annum plus £1,000 training costs.

- The amount of income received per property will not change, however the amount of works needed per property will vary. So properties that can be bought back into use with minimal repairs will be renovated first.

### 7.3 For the HCA phase 2 funding:

The total cost of bringing these 6 commercial properties into use as affordable housing is estimated to be £210,000. A request for a supplementary expenditure budget for this amount is therefore requested from Council in line with financial procedure rules.

The cost of these works will be financed from the following sources:

- £90,000 from the awarded grant from the Housing and Communities Agency. An income budget for this value is requested from Council.
- £60,000 from the property owners. An income budget for this income stream is requested from Council
- £60,000 by the Council. This is to be financed from the major works grants budget which is current forecast to be under-spent in excess of £60,000 at year end. A virement for this value is therefore requested from Council.

## 8 LEGAL IMPLICATIONS [PB]

Under the Housing Act 1985 all tenancies granted by a local authority will be secure tenancies. In order to avoid granting long term secure tenancies to all properties in the context of the grant of short term leases, the Council must change its policy to provide for fixed term tenancies as permitted by the Localism Act 2011 in specified circumstances. This will not change the Council's overall policy of issuing long term secure tenancies where possible.

Flexible tenancies are subject to the right to buy. A right to buy does not arise unless the Landlord can grant a lease of at least 21 years. This will not be possible as the maximum term the Council will be taking a lease for is 10 years.

## 9 CORPORATE PLAN IMPLICATIONS

**Cleaner and greener:** This scheme will reduced CO<sub>2</sub> emissions and enable tenants to save energy costs, through the installation of energy efficiency measures in the properties renovated.

**Thriving economy:** The PSL scheme will create jobs in the construction industry, as renovation works will be required to bring the properties up to standard. Two modern apprentices will also be trained by the Council as part of the project.

**Safer and healthier:** Empty properties attract attention for all the wrong reasons, usually with over grown gardens, building deficiencies and associated anti social behaviour. This scheme will turn empty properties into much needed affordable homes.

**Decent, well managed affordable housing:** This scheme will provide 40 properties available to tenants at an affordable rent (80% of the market value). They will be renovated to the decent homes standard and will be managed by the Council.

## 10 CONSULTATION

No consultation is required.

## 11 RISK IMPLICATIONS

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

<b>Management of significant (Net Red) Risks</b>		
<b>Risk Description</b>	<b>Mitigating actions</b>	<b>Owner</b>
Members do not approve Private Sector Leasing scheme as a method of bringing empty properties back into use.	None. - Unable to proceed with Scheme and Council will lose £522,120 in HCA funding.	Members
Executive Members do not approve use of flexible tenancies for Private Sector Leasing Scheme.	Council is only able to use properties under PSL for temporary homelessness purposes. Alternatively the Council may have to appoint a third party managing agent	Members / Private Sector Housing Team
Use of flexible, fixed term tenancies could lead to increased demands on the Housing Options team.	Use of flexible, fixed term tenancies will be for Private Sector Leasing properties only	Valerie Bunting
Failure to meet the required number of empty homes back into use may result in partial withdrawal of funding	Careful targeting of suitable properties to bring back into use as well as ongoing monitoring progress and reporting through IMS to HCA	Private Sector Housing Team
Not enough private landlords come forward to use the PSL scheme	Appointment of two dedicated modern apprentices and increased capacity of experienced Officer already within the Private Sector Housing Team to liaise with private landlords	Private Sector Housing Team.
Manage the cashflow of the capital funds to ensuring funds are available for new works before HCA has reimbursed the 50% from previous renovations	Monthly cashflow monitoring and appropriate profiling of works	Private Sector Housing Team/Finance

12 **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

The Private Sector Leasing scheme widens the choices and opportunities not only for people on the housing register but also those owners within the borough who have an empty property but do not have the ability to effectively bring it back into use. For those on the housing register PSL will provide a safe, decent and alternative housing option. As empty homes can exist in all areas of the Borough homes in rural areas will also be considered under the scheme.

13 **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account:

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

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Background papers: None

Contact Officer: Steven Connor x 5876  
Executive Member: Councillor Michael Mullaney