

In-house Report 147

A SINGLE HOUSING BENEFIT CONTROL FOR TEMPORARY ACCOMMODATION



SOCIALPOLICYANALYSISRESEARCHKNOWLEDGE

A Single Housing Benefit Control for Temporary Accommodation

A Report for the Department for Work and Pension

By

Michael Wagstaff

July 2004

© Crown copyright 2003. Published with permission of the Department for Work and Pensions on behalf of the Controller of Her Majesty's Stationary Office.

The text in this report (excluding the Royal Arms and Departmental logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the report specified. The DWP would appreciate receiving copies of any publication that includes material taken from this report.

Any queries relating to the content of this report and copies of publications that include material from this report should be sent to: Paul Noakes, Social Research Division, Room 4-26 Adelphi, 1-11 John Adam Street, London WC2N 6HT

For information about Crown copyright you should visit the Her Majesty's Stationery Office (HMSO) website at: www.hmso.gov.uk
First Published 2003

ISBN 1 84388 301 5
ISSN 1 368 244X

Contents

Summary	4
1 Introduction	11
1.1 Leasing from the private sector	11
1.2 The DWP objectives	14
1.3 Research method	15
1.4 Structure of the report.....	15
2 The current system	17
2.1 How does the use of PSL and HAL accommodation fit in with homelessness strategies?	17
2.2 The leasing market	18
2.3 Planning for the use of leased accommodation.....	19
2.4 The operation of HAL schemes	21
2.5 The sharing of risk.....	24
2.6 The case for change.....	24
3 How could a new control work.....	26
3.1 The role of the Rent Officer	26
3.2 Valuation of rent	29
3.3 The geographical area.....	31
3.4 Duration of the assessment.....	32
3.5 A future role for rent officers?	33

4	The management fee	34
	Introduction.....	34
4.1	Managing the risk	34
4.2	How much is the management fee?	36
4.3	Deriving the fee	37
4.4	How should the fee be incorporated ?	40
5	The strategic policy setting.....	42
	Introduction.....	42
5.1	Homeless policy	42
5.2	Planning temporary accommodation provision.....	43
5.3	Welfare to work and the poverty trap.....	45
5.4	A temporary accommodation block grant.....	47
6	Conclusion and recommendations.....	49
6.1	Concluding points.....	49
6.2	Recommendations.....	51

Housing Benefit controls on temporary accommodation

Research Summary

The research was commissioned by the Department for Work and Pensions to review the current Housing Benefit arrangements for temporary accommodation. Temporary accommodation is defined as accommodation which is leased on a short-term basis by the local authority or housing association from a private landlord, licensed accommodation (although these are rare) and bed and breakfast accommodation.

Currently there are two separate types of Housing Benefit control where the property is leased or licensed from the private rented sector. For local authority leases and licenses there is a system of thresholds and caps that determine how much Housing Benefit subsidy can be claimed. Housing Association Leasing Schemes (HALs) are governed by the same rules that apply to Housing Associations in general, that is referral to the rent officer if the local authority considers the rent to be unreasonably high or the claimant over-accommodated.

The DWP is looking at having one system that applies to both local authority and housing association leasing schemes. The starting point for this research is to consider how the Rent Service could be involved in determining what levels of benefit should be paid for temporary accommodation. This research looks at the possibility of basing this assessment upon local market rents but with adjustments to take into account discounts that leasing schemes often attract. These adjustments are due to the fact that the private landlord does not have to include an element within the rent for management and maintenance.

Once the rental element has been assessed an allowance for the extra management and maintenance that temporary accommodation attracts would be added to it to form the total rent assessed for Housing Benefit purposes.

Through a series of stakeholder and case study interviews with local authorities, housing associations, rent officers and others in eight local authority areas in England, Scotland and Wales the research assessed the feasibility of this option and discussed how it might operate.

Key findings and recommendations

- There is an acceptance by local authorities of the need to move towards a single system but this is primarily because presentationally it would be better to have one. The current two tier system is not viewed as particularly complex or an administrative burden and has grown into a workable system.
- Local authorities and housing associations argued strongly that any new system should give certainty from the start of the process. It was argued that they need to know exactly how much they can offer landlords before they start negotiations.
- There is concern, particularly among local authorities and housing associations in London and the South East over the potential role of the Rent Officer. The perception is that the Rent Officer is seen as a tool for rent restriction and will hold up the process or lead to unrealistic rent determinations.
- London local authorities and housing associations would prefer a system of a rental grid that gives maximum rents payable to a landlord through Housing Benefit by postcode and number of bedrooms. Valuation on a property specific, local authority or locality basis is not favoured.
- Local authorities and housing associations do not want the new system to be applied retrospectively to stock already leased. It is believed that this might jeopardise relationships with landlords especially if the rent was to be reassessed by a Rent Officer.
- Housing associations seem to have more of a grasp on what it costs to manage leased or licensed properties than local authorities. This is probably a reflection of their longer involvement in the field. When working out management costs housing associations take into account the number of visits to the property they are required to make, the likely level of void periods, turnover, repairs and the need to 'make good' properties at the end of the lease.
- Management fee levels do not vary to any large extent by size of property. Instead the most significant factors are arrears, void levels and the time taken by local authorities to pay benefit claims. Where local authorities fast track benefit

claims fee levels are lower. A typical fee for a housing association ranges from £70 to £80 per week. One local authority calculated that it costs them £47 per week to manage their leased stock but they were not responsible for repairs.

- There was strong concern that the very high rents charged on leased properties represented a disincentive to work and consigned homeless households to benefit dependency.
- It was believed by most interviewed that the HB subsidy arrangements for Bed and Breakfast should be kept out of any proposed new system. To integrate it might give out the wrong signal and have the effect of formalising it as an alternative option to leasing.

Recommendations

- The report recommends that a new system could be based upon a grid with Rent Officers determining the maximum rent levels by number of bedrooms for each local authority area for a small number of sub markets within the local authority. The precise number of sub markets would be determined by the Rent Service based upon their knowledge of the area. These areas would differ from the Local Housing Allowance broad rental market areas. The grid should be updated on an annual basis with the updated values applying to new leases only. To do this properly Rent Officers would need to have an understanding of how the 'homelessness market' works.
- Inflation related increases should be built into the lease with review periods built in to longer leases. So for example a five year lease would have a review after three years.
- The management costs should not be calculated as a proportion of the rent paid to the landlord. Instead the management fee should be decided on an individual local authority basis taking into account the turnover of tenants, the number of times scheduled visits are to take place and the socio-economic fabric of the area (which impacts upon the resources needed to manage properties). A national average fee of £70 per week, to be determined by the Government

should be sufficient to meet the costs of managing accommodation and encourage competition among providers.

- The new system should not apply retrospectively to existing leased or licensed accommodation.

The role of The Rent Service

Views among stakeholders varied on the role the rent officer would play in the new system. Among local authorities in London, the overriding attitude towards the involvement of the Rent Service was not very positive. It was perceived the Rent Service is a mechanism for keeping rents down, irrespective of what the market place reality may be. This in turn impacts on the property which the local authority or housing association is able to procure, potentially limiting their choice, and therefore their options for temporarily housing homeless households.

There was an element of doubt among some stakeholders as to whether rent officers actually had the capacity to be proactive and collect all the evidence needed to make a fair assessment of the market rent.

Some representatives of the Rent Service however felt that the proposed changes did not represent a great departure from their existing role, although they would clearly require them to collect different information. It was added that the new system would alter the relationship between the Rent Service and the Local Authority by bringing them closer together.

Valuing the rent

Valuation on a property specific basis was seen by many organisations in London as a cumbersome and unrealistic process. The worry was that it would slow the process down and add a layer of uncertainty because once a rent had been agreed with the landlord it then had to be valued by the Rent Officer. It was a strong belief, particularly among London housing associations and local authorities, that they would be forced to go back to the landlord and renegotiate the agreed rent.

The geographical area to which the Rent Service should refer when making an assessment was also an issue of contention within the case study areas. Current Rent Service localities are based on broad housing markets, vary considerably in size and do not follow local authority boundaries. It was thought overall that four or five sub market areas (perhaps relating to postcode sector level) would be more sensitive to intra-borough market variations than the current use of locality when determining local reference rents. Rent officers, using their local knowledge and after consulting with the local authority would be able to identify the precise number of sub market areas.

Most providers of leased accommodation argued against the rent being assessed annually or with each new tenancy. The argument was that providers needed certainty on what it was they can offer landlords throughout the period of the lease. Additionally, housing associations believed it was essential that they knew what their income was likely to be over the course of the lease. A strong message from London based housing associations was that any uncertainty over income would add to their risk and might make leasing not viable for them.

It was, however, suggested by rent officers that a re-assessment of rent may be required on each letting, depending on the type of household moving into the accommodation, and the risk they posed in terms of management and maintenance.

Some local authorities were concerned that changing the rules and applying the new scheme retrospectively to existing leases would impact negatively on the good relationships they had built up with the landlords who had opted into an existing scheme.

Management costs

There are a number of factors that govern the costs of managing leased or licensed accommodation. These were identified as, the cost of procuring properties, the number of times a property comes up for letting during a year, the likely number of weeks the property will be void, a provision for bad debt, how quickly local authorities can pay Housing Benefit and the number of visits the housing provider is likely to have to make to the property – this in turn is determined to some extent by the nature of the client group, the more vulnerable the clients the more frequent are visits to the property.

Financial information obtained from local authorities and housing associations on the cost of managing accommodation shows that there is very little variation in management costs according to the number of bedrooms in a property. While property size is the single most important determinant of rent level it is almost negligible in its impact upon management fees. This is important because it means that factoring in a management fee as a proportion of the rent would not be meaningful.

Data obtained from housing associations suggests that the average weekly cost of managing a leased property is between £70 and £85 per week. A local authority supplying data returned a management cost of £47 per week but this excluded repairs and maintenance which was not part of the contract with the landlord.

Wider policy context

Reaction to the proposal to introduce a single Housing Benefit control for temporary accommodation among local authorities, housing associations, stakeholder groups and local government organisations focused primarily on the concern that the new Housing Benefit control would continue to fail to address the problems of dependency on benefit and worklessness among homeless households.

Many of those consulted throughout the course of the research struggled to grasp what real impact the proposed changes would have on the day to day administration of temporary accommodation or how it may impact on the planning and provision of temporary accommodation in the longer term. Only London boroughs felt that the proposed changes had the potential to improve the process of planning for and acquiring temporary accommodation. Outside of London, there was a prevailing view among the case studies that the issue of temporary accommodation leased from the private sector (an indirectly therefore these proposals) were somewhat London-centric and that there were other pressures on temporary accommodation (such as moving people on to affordable housing) that needed addressing in order to effectively deliver in this area.

Some stakeholder groups and local government organisations raised the case for a grants based system for temporary accommodation as an alternative to the current reliance upon Housing Benefit funding. They took the view that the provision of a central

government grant would allow for affordable rents to be charged to tenants with a corresponding positive impact on work incentives. Advocates of such a scheme have argued that it would be cost-neutral to central Government but would allow local authorities to meet their targets better through leasing quality temporary accommodation on a stable, long-term basis while also reducing the rents faced by tenants.

1 Introduction

This research is concerned with assessing the feasibility of a single Housing Benefit control for properties leased or licensed from the private sector and bed and breakfast accommodation. Currently there are separate Housing Benefit controls relating to Local Authority leased schemes, housing association leases and bed and breakfast accommodation. The DWP are considering options for reform, for example, whether it would be feasible to have one control that relates to all three types of provision. In addition, the research has considered whether the Rent Service could play and if so how the reasonable rents of temporary accommodation might be determined.

At the end of the 4th quarter 2003 nearly half (49.7%) of all homeless households in temporary accommodation were housed in homes leased, licensed or rented direct from the private sector. This is the highest proportion of all of the types of temporary accommodation used by local authorities (see chart 1).

1.1 Leasing from the private sector

Leasing or licensing homes to be used as temporary accommodation is not a new activity. During the 1980s many local authorities introduced private sector leasing schemes (PSL). This involved the local authority renting properties from landlords often on very favourable financial terms to the landlord. Although the leases were held by the local authority often a housing association would be involved in the acquisition and management of PSL stock. In a development of PSL, housing associations began leasing privately owned stock, known as Housing Association Leasing Schemes (HALs). The introduction in the 1990s of new Government restrictions and regulations limited Housing Benefit subsidies and restricted lease lengths for local authority PSL schemes. This had the effect of making PSL no longer financially viable for local authorities. HAL schemes were not affected and so continued.

The Housing Corporation reinforced the role of housing associations in private sector leasing in 1991 with the introduction of the Housing Association as Managing Agents (HAMA) funding programme. The housing association would act as managing agent and

seek financial support from local authorities with regard to nomination fees, contribution towards management fees and underwriting void periods.

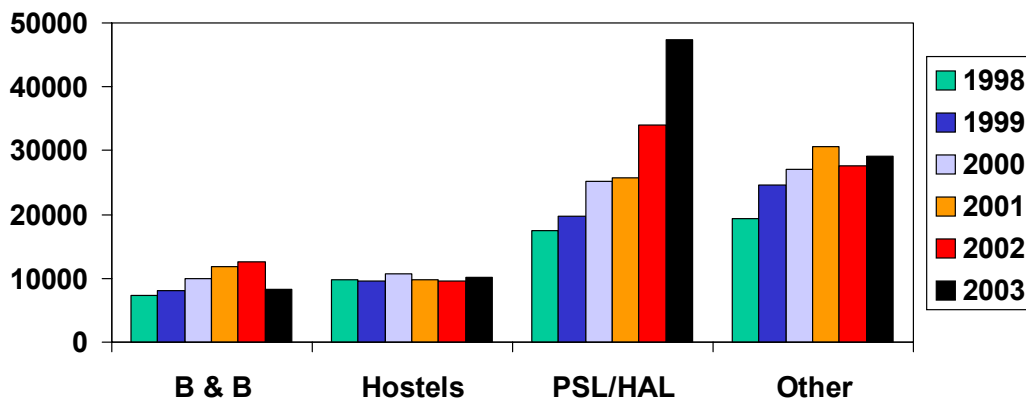
However, shortly after HAMA was launched, a decline in the levels of homeless households led to a reduction in the number of households living in temporary accommodation and many housing associations withdrew their support for HAMA.

With an increase in the number of households placed in bed and breakfast accommodation, the government set a target that bed and breakfast should be eliminated as temporary accommodation for homeless families by March 2004 (except in very limited circumstances). The government set aside special funding to encourage greater use of private sector accommodation and made favourable changes to the Housing Benefit subsidy rules for local authorities. Before 2002 local authorities had to operate within a threshold and cap system for temporary accommodation. Local authorities were able to claim 95% of the rent threshold (set for each local authority) for the property and 12.5 per cent for rents between the threshold and the cap. Changes in 2002 saw thresholds raised and enabled local authorities to claim 95% of the rents between the threshold and the cap on private sector leased or licensed schemes but only 12.5 per cent on bed and breakfast schemes. There was a reduction in the upper subsidy level to 10% for Bed and Breakfast properties from April 2003.

The rules for housing association leased or licensed schemes are different in that no cap and threshold exists. Here, such property is subject to the rules regarding rent allowances. In summary the rule is that if a housing association rent is considered by the local authority to be unreasonably high or the person over-accommodated, it has a mandatory duty to refer it to the rent officer who will assess its reasonableness. In practice, as this research has found, very few HAL rents are referred. Chapter 2 discusses how local authorities and associations work together to avoid the need to refer HALs to the rent officer.

Leased or licensed accommodation has grown in use by local authorities over the past few years as the chart illustrates.

Figure 1 Households in temporary accommodation by type of property, 1998-2003, 4th quarter

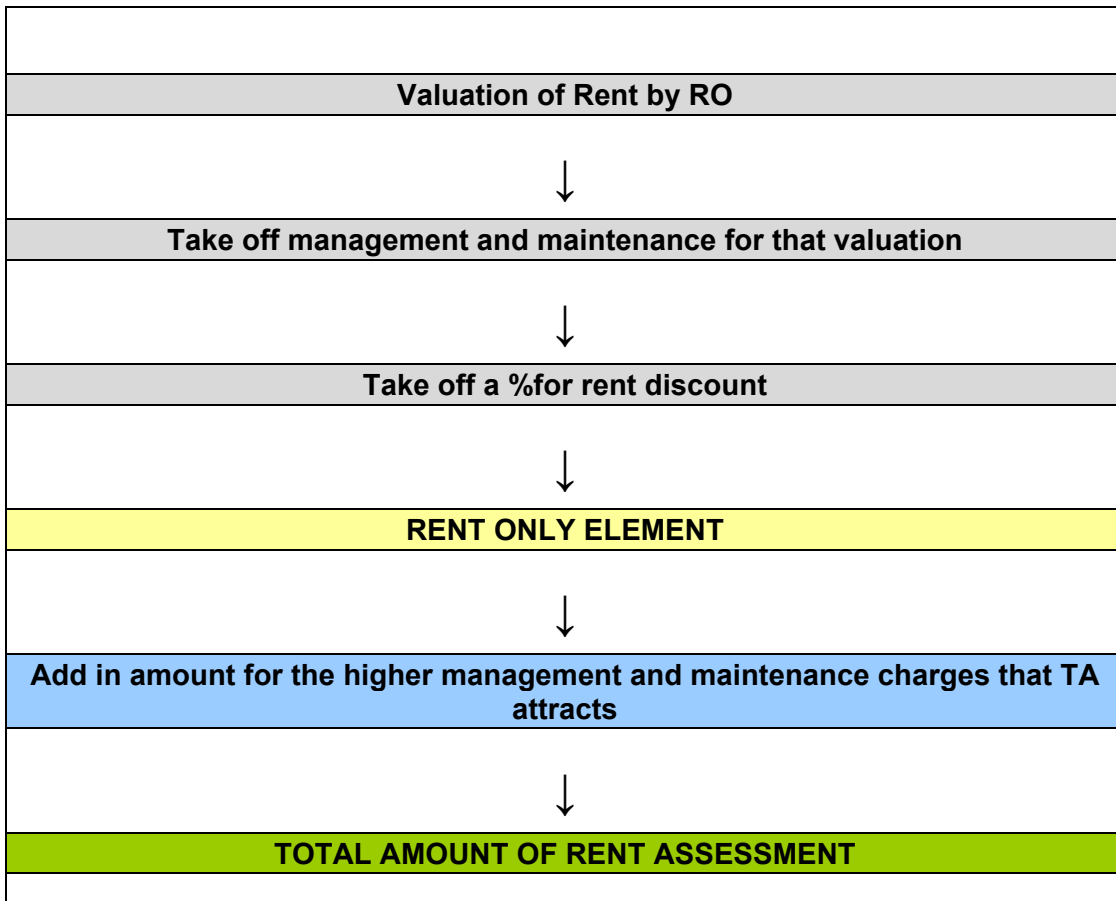


The chart shows that since 1998 the use of leased accommodation has more than doubled. At the end of the 4th quarter 2003, 47,290 households in England and Wales were in PSL or HAL accommodation. This compares with 17,400 at the end of the 4th quarter 1998. Since 2002 PSL or HAL (in other words short-term leased) accommodation has been the single most important type of temporary accommodation outstripping placements in ‘other’ accommodation which includes the local authority’s own stock. Between 1998 and 2002 there was a rise in the number of households placed in bed and breakfast accommodation. This rise was reversed in 2003 as the Government’s funding for reducing the reliance on bed and breakfast took hold. Although the use of hostels is not covered by the proposed DWP changes it is included in the chart for comparison purposes.

1.2 The DWP objectives

The DWP is interested in options for reform that would provide more consistency, help support the Government's wider objectives of tackling homelessness and reducing barriers to work, as well as ensuring costs are reasonable. One option is to consider an assessment of the rent by a rent officer, which takes account of the extra management and maintenance costs that temporary accommodation attracts. The basis upon which this is undertaken could be on a property specific basis, area basis or property type. It could be related to the Local Reference Rent (LRR) or the significantly high rent or some other measure. After taking into account that the landlord would not have any management and maintenance costs (because the local authority or housing association would have these) and discounting the rent because the landlord's income is guaranteed by the local authority or association, the rental only element is derived. The chart below show how such a system might work.

Figure 2 Overview of how a new control might work.



Once the rental element has been derived an allowance would be added in to cover management and maintenance costs associated with this type of accommodation. Again this could be derived in a number of ways. There could be a property specific allowance or one that is related to the region, local authority or broad rental market area. This allowance would be added to the rent element to form the total amount of rent assessed. It is this figure that would be used for Housing Benefit purposes.

The purpose of the research was to obtain views on the operational feasibility of the proposed changes.

1.3 Research method

The research consisted of three main elements. These were:

1. Interviews with key stakeholders such as officials from DWP, Office of the Deputy Prime Minister, National Assembly of Wales, Scottish Executive representative bodies of local authorities, housing associations and landlords, the Rent Service and organisations with a strong interest in the sector
2. Case studies of eight local authority areas, three in London, one each in South East England, South West England, North of England, Wales and Scotland. Case studies involved depth interviews with housing managers, Housing Benefit managers, local rent officers and housing associations.
3. Financial questionnaire sent to all case study local authorities and housing associations that lease property from the private sector. The questionnaire aimed to obtain details of the number of properties leased, the rent paid to the landlord and the cost of managing and maintaining the property.

1.4 Structure of the report

The report is divided into five thematic chapters. After this introductory chapter the current system is detailed. From this local authority and housing association key requirements for any new system are identified. Chapter three discusses stakeholder and case study participants views on how reasonable rents could be assessed. Chapter

four discusses views on management costs and analyses the questionnaire returns. Chapter five discusses the wider policy agenda. The final chapter draws out the conclusions and makes recommendations for the implementation of the proposed changes.

2 The current system

In this chapter the mechanics of the current system for procuring and funding PSL and HAL properties from the private sector is discussed. This discussion is important because it identifies how the current system has evolved to suit the requirements of local authorities, housing associations and landlords. One of the key findings from the case study and stakeholder interviews was that any new model for funding this sort of temporary accommodation should retain those elements of the current system that are viewed as working well.

2.1 How does the use of PSL and HAL accommodation fit in with homelessness strategies?

It is important to differentiate between housing markets when discussing the role that leased or licensed accommodation plays in providing accommodation for homeless households. PSL or HALs are used more frequently in areas of high housing demand. In London and the South East of England this type of accommodation is used far more frequently than in the South West of England and Wales (where there is a greater reliance upon hostels and temporary housing provided by housing associations and charities) and Scotland (where there is greater supply of the authority's own stock). In London and the South East the use of leased accommodation is an essential part of the local authority's portfolio. In the other areas it is one option from a menu of alternatives available. Where leased accommodation is used outside of London and the South East of England, tenants tend to stay in there for a shorter period of time – perhaps just a few weeks while their application for being accepted as homeless is being processed. It is then usually possible to make an offer of permanent housing and move the tenant out of the leased accommodation. In high demand housing areas this sort of movement out of temporary accommodation is not possible because there is a lack of permanent social housing for the tenant to move into and access into the private rented sector is difficult (either because of shortage of supply or affordability).

This distinction is important because outside of London and the South East any changes (with one or two 'hot spot' exceptions) are not considered as 'big a deal' as they are within it. A small illustration of this is in the fact that a number of local authorities and

housing associations working (primarily) in London asked to take part in the research even though they were not chosen as case studies. It was also clear from the stakeholder interviews that the Welsh and Scottish representative bodies for local authorities and housing associations had no strong views on the subject one way or the other. To a large extent the issue of leased accommodation is seen as London and the South East-centric. That is not to say that organisations outside of this area believed it to be not important (some said that they might use leased accommodation more in the future). What is important though is that the views of those that have most to lose or gain from any changes should be taken into account, but without ignoring the needs of other areas.

Most of the case study areas in London and the South East had a long history of involvement with leasing schemes often dating back to the mid to late 1980s when local authority PSL schemes were prevalent. A change in subsidy regulations made PSL schemes financially unfavourable for local authorities leading to an increase in HAL and HAMA (Housing Associations as Managing Agents) schemes. This means that in many areas leased or licensed property has had a long tradition as an avenue for housing homeless households rather than being something that has been established more recently as a response to the need to meet ODPM targets to remove families out of bed and breakfast hotels.

The announcement of the ODPM targets together with a raising of the thresholds governing how much local authorities can claim back in Housing Benefit subsidy has meant that since April 2002 PSL has become viable again for many local authorities.

2.2 The leasing market

There is a firmly held view among housing associations and local authorities that the leased market is very specialised in nature and as such requires a more sophisticated level of knowledge. It is a view that the market is actually a sub-market operating beneath the existing private rented sector. The characteristics of this sub-market are that it is not geographically contiguous in that there are not whole streets or parts of streets containing this type of accommodation. Instead, properties are dotted around. The other key characteristic is that they are properties whose landlords would not normally let to homeless people. This is important because it means that for this market to be

sustainable the package that the local authority or housing association puts in place has to be attractive to landlords, in effect there has to be an incentive for them. In relation to the proposed changes the implication is clear that any benefit control must reflect the nature of the client group and how this impacts upon a landlord's willingness to rent out the property.

In some local authority areas the landlords tend to be big portfolio holders rather than individuals with one or two properties to rent out. There is also evidence that some landlords buy properties specifically with the intention of leasing them to a local authority or housing association. This is an indication of the attractiveness of the scheme to landlords.

2.3 Planning for the use of leased accommodation

The big users of leased accommodation considered that planning for the number of properties that needed to be procured from the private sector and the relative number of bedrooms was not an exact science but was reasonably accurate. There are a number of factors that local authorities take into account when deciding upon the number of properties they need. These are:

- The number, size and location of properties being handed back to the landlord at the end of the lease (that is they are not being renewed by the landlord).
- The number of households presenting as homeless in the previous year and their bedroom requirements based upon what Housing Benefit allows.
- Factors that might lead to an increase or decrease in the need for temporary accommodation – this could be changes in government policy over bed and breakfast hotels, asylum policy or new social housing units provided by housing associations coming on stream.

One of the most significant problems faced currently when placing households in leased accommodation is matching the size of the home with the size of the homeless family so that there is no under-occupation and resultant restriction in benefit.

Say we have a single mum and her child come to us but we only have a three bed [property] available. Now we can't under-occupy it because it costs us if we under-occupy them. Where can we put her? In B&B but the government says we can't do that. In some grotty bedsit? But then she is overcrowded. Its not just the financial cost here. It is the social cost. We could have put her in a decent property near the school but instead we have to put her the other side of the borough and all for 30 quid a week.

London local authority

In this example the housing officer believed that there should be greater flexibility in the proposed benefit rules relating to claimants under-occupying property. This was an issue that a number of local authorities and housing associations expressed concern with. It was believed that for this sort of temporary accommodation the benefit regulations should be relaxed on the basis that there would be a greater social cost in not placing a homeless household in the property but also a leased property might have to remain vacant until a suitable household became available. This in turn would lead to a financial loss for the local authority.

The significant planning issue relates to location. Under the present system of thresholds and caps some local authorities found it difficult to procure properties in more expensive parts of the borough because their threshold was below the average rent in the more expensive part of the borough. These authorities are faced with two choices, either acquire a cheaper but poorer quality property in the expensive area or acquire a property within the threshold but in a different part of the borough. One of the key issues for these authorities is that any new model should take into account that there are different markets within a local authority area. Local authorities and housing associations, particularly in the South East, were opposed to the idea of applying local reference rents based upon current localities to leased accommodation (this is discussed in detail in the next section).

At this point it is important to discuss how local authorities operate HAL schemes because it is this mode of operation that case study organisations within London and the South East favour as it is seen to deliver benefits to all parties.

2.4 The operation of HAL schemes

It has already been discussed how the operation of leasing schemes has evolved over the last few years. It is important at this stage to discuss the operational detail. One of the things that characterises HAL schemes in London and the South East is the rental grid.

The rental grid

The rental grid is in widespread use to guide housing associations on what they can offer landlords and charge the tenants and still be classified as a reasonable rent for Housing Benefit purposes. The following is a notional grid based upon ones used by local authorities.

Number of bedrooms	Castle Hill	Moor Green	Forest Row	Langton Green	Rusthall
1	200	250	195	255	195
2	215	275	210	290	210
3	245	325	240	330	240
4	300	350	280	375	280

The grid shows five different market areas and the maximum weekly rent payable to the landlord (that is the rent before a management fee is added). The grid shows that there is variation in market rents according to the sub-area. A housing association procuring properties in Rusthall knows that it can offer landlords up to £210 per week for a two bed property but can offer £290 for a similar sized property in Moor Green. The management fee that an association requires would be paid on top of the rent.

A variation of the rental grid is to quote a maximum rent chargeable to the tenant for Housing Benefit purposes by area and size of property which includes an element for managing the property. This variation is less common than the one illustrated above.

A leading provider of HAL accommodation in London indicated that the rental grid operates in 13 of the 14 boroughs they work in.

The values in the grid are determined by the local authority assessing the market. This is done by collecting evidence from lettings agents, newspapers and from landlords on what they have obtained in rent from letting properties. This collection of market evidence is done by local authority staff or, sometimes, through outside consultants. Sometimes but not in all cases the rent officer is consulted. However, there is strong evidence that local authorities, especially if they run PSL schemes, prefer to collect the data themselves as this exchange indicates.:

LA : We have a team of negotiators that are out procuring properties day in day out. They know their markets.

INT : The Rent Service collects market evidence, do you use their data?

LA : No. They don't know this market at all and their data is usually right out of date.

London LA

Although the rent service might not be involved in collecting locally based market evidence, organisations believed that there could be a role for them in so doing if they were able to move away from broad localities and concentrate on a more local level. They would also need to respond quickly. This is discussed further in the next chapter.

One of the most important people in deriving the rental grid is the Housing Benefit manager. The benefits manager gives advice on how much can be charged to Housing Benefit without the need to refer the rent to the rent officer on the basis that it is unreasonable. What seems to happen is that once the Housing Benefit manager has agreed the rental grid values Housing Benefit is paid without referring to the Rent Service for a determination.

The research found that very few HALs are referred to the rent officer for a determination primarily because of the rental grid but also because it is not thought to be in the best interests of the local authority to do so. In two of the London case studies the Benefit Fraud Inspectorate had commented that more HALs rents should be referred and subsequently a very small number of rents that fell outside the rental grid had been so.

In one London borough that was not a case study HAL rents are referred if they are deemed to be unreasonably high. That borough (which does not operate the rental grid) estimates that fewer than one in 10 are referred.

Housing associations see many benefits in the use of the rental grid. The chief reason is that they know how much they can offer landlords at the start of the procurement process. The need for certainty in this matter was stressed highly by a number of organisations interviewed.

Competitive tender and paying the fee

Once the rental grid has been established the procurement and management of the accommodation is put out to competitive tender with associations asked to quote a weekly management fee per unit. The management fee is based upon a number of factors and these are discussed in Chapter 4. Two significant cost elements are the number of times the housing association is expected to visit the property (once a month, once a quarter) and how often new tenants will be housed in a property (referred to as turnover). The tendering local authority will usually stipulate how many visits it requires and will give an indication of turnover.

The association that meets quality thresholds and offers the best value for money fee is awarded the contract. Fees can be paid to the housing association in one of three ways:

1. Rolled into the rent charged to the tenant and covered by Housing Benefit
2. Paid directly by the local authority through the General Fund
3. Paid partly through Housing Benefit partly through the General Fund.

Of the three methods of payment the first was the most common but the third was the most preferred by housing associations. The reason for this was that they believed it reduced their risk because their income was not subject to delays caused by processing Housing Benefit. One of the largest providers of HALs in London told us:

If the local authority pays us directly we will charge them a lower fee. In some local authorities we have to wait 12 weeks for the first [Housing Benefit] cheque. We have to take the hit on our cash flow.

London housing association

The issue of Housing Benefit and fee levels is returned to in Chapter 4.

2.5 The sharing of risk

There are a number of examples in the case studies of local authorities and housing associations sharing the risk in what is considered by associations to be a high risk activity. Providers pointed to the failure of West Hampstead Housing Association in the late 1990s as an indication of what could happen to an association that was 'overexposed' to leasing. It is this failure and the deficit experienced by another leading HALs provider interviewed for this research that has encouraged greater sharing of risk between LA and HA.

A number of case study local authorities had agreed to fast track Housing Benefit payments on HAL properties. Others had placed their benefits staff within the association in order to make sure benefit claims were complete when passed over to the local authority. A housing association in London had agreed to fund a post within a local authority to work exclusively on benefit claims relating to leased properties. The key point here is that there is a belief that risks have to be shared not only to keep management fees down but also to make leasing viable.

2.6 The case for change

It was clear from the interviews with stakeholders and case study organisations that many are not yet convinced that there is a particularly strong case for changing the current arrangements. While there was an acknowledgement that having two systems for leasing was not right, much of the arguments concerned how 'presentationally' it looked wrong to have two systems. Many Housing Benefit managers interviewed had no real views one way or the other on whether a new control would ease the administrative burden of Housing Benefit – in most local authorities leasing is a small proportion of the Housing Benefit caseload.

Neither was there a particularly strong case for saying that a new control would make the costs of managing temporary accommodation more transparent. Local authorities and housing associations believed strongly that the competitive tender process meant

that fee levels were honestly constructed and consistent with achieving best value. The use of the rental grid convinced local authorities that rent levels payable to the landlord were also reasonable. It should be stated that few were inclined to share the actual rent levels with the research team.

There were some concerns voiced about any changes that might be applied retrospectively to the existing portfolio. Organisations expressed concerns for the relationship they had built with the private sector landlords from whom they had leased properties, and the impact that this could have on maintaining current and acquiring future stock. Linked to this was a view that while a single control would be accepted now, organisations would not want the system to change again when local housing allowances are rolled out.

Some organisations could see the benefits of a single control. A major representative body believed that if the control formalised current arrangements it could have the effect of putting leasing on a more stable footing and attract new entrants to the market. However, the arrangements would have to be such that organisations knew what their income was likely to be.

Local authorities that fund housing association management fees (either fully or partly) from the General Fund also welcomed the proposal to cover all the fee through Housing Benefit because it meant they did not have to. There is an obvious issue here that the proposed changes could actually lead to increased costs to the DWP because fees paid through the General Fund would be switched to Housing Benefit. Stipulating that the local authority has to make a contribution towards fee levels (allied to competitive tendering to housing associations) could help to reduce the overall DWP exposure. However, it does seem inevitable that the proposed scheme will increase the benefit bill.

In relation to bed and breakfast there was a strong view that it should not be included in the model. While some local authorities wished to retain selective use of bed and breakfast for short periods of time the view was that including it in the single control might legitimise it as an option. It was felt strongly that including bed and breakfast would send out the wrong signals. This was aside from doubts about whether it would be operationally feasible for it to be included.

3 How could a new control work

Introduction

This section will cover the assessment of rent on temporary accommodation for Housing Benefit purposes. The case studies' perceptions of the role of the rent officer will be discussed, and the rent valuation, in terms of specifics and frequency, will be examined.

3.1 The role of the Rent Officer

One of the roles of the Rent Service currently is to carry out rental valuations to determine whether or not Housing Benefit claimants are being asked to pay more rent than their landlords might reasonably be expected to obtain in open market conditions. Claims received from people in the private rented sector will generally be referred to the local rent officer by the local authority for a rental valuation to determine the HB claim. The rent officer will look at the levels of rents within the neighbourhood as well as in the wider locality. Housing Benefit may be subject to restrictions where the claimant lives in a property that is considered to be too large or too expensive. Rents are referred at approximately yearly intervals, although they can be re-referred in certain circumstances for example, certain changes in family composition. A brief overview of determinations made by the rent officer is carried at appendix one.

It is important to remember (as was discussed earlier) that the temporary accommodation market differs vastly from the open market, not least because those households accessing temporary accommodation are doing so because, for many reasons, they have been classified as homeless and cannot access the open market. Reasons may include emotional, financial or physiological vulnerability, or a combination of these factors. The Government is keen, where possible, to help people access mainstream accommodation.

The involvement of the Rent Service in the assessment of rents on temporary accommodation leased from the private sector would impact on local authorities and housing associations, as well as on the Rent Service itself. Views among the various stakeholders varied as to the role the rent officer would play. Among local authorities in

London, the overriding attitude towards the potential involvement of the Rent Service was one of concern. It was felt that the Rent Service system of rental valuation was outmoded.

It was perceived from a local authority and housing association perspective that the Rent Service is a mechanism for keeping rents down, irrespective of what the market place reality may be. Therefore, any involvement of the Rent Service would impact on the property which the association or local authority is able to procure, potentially limiting their choice, and therefore their options for temporarily housing homeless households. A number of local authorities that had been successful in leasing private sector accommodation felt that the flexibility that they have to be able to directly negotiate the property that they want would be removed.

It was a real drag on the system and having that removed and having the flexibility to be able to directly negotiate the product that we want within the flexibility that we wanted, it is obviously much easier for us.

Despite assurances that any change was not about rent restrictions, the perception remained, particularly among local authorities that the involvement of the rent officer would inevitably lead to that outcome.

Some local authorities were concerned that changing the rules and altering the rent on a private sector property which had already been leased would impact negatively on the good relationships they had built up with the landlords who had opted into the scheme (although this is unlikely to be something that DWP would consider). To continue to encourage landlords to opt into their PSL schemes, rent levels need to be competitive and determined very quickly. A delay in the process could impact on the number of landlords who show an interest in the scheme. This was very much the view in London, where there are a high number of PSL schemes, in comparison with other parts of the country.

It was repeated among local authorities and housing associations across the country that existing leases should be preserved as they are should the single system be introduced.

I think what you need to do is you need to recognise what has already been done ... and honour the leases that have already been entered into.

In a small number of areas consulted, relations between the LA and the Rent Service had been amicable, and there were no anticipated problems. Rent officers in Wales, for example, felt that they had fostered good relationships with the local authorities and housing associations that had temporary accommodation stock. Rent assessments that they had carried out on this type of accommodation had in the main been well received. There was an emphasis on open working practices.

I think generally South Wales has always had a very good working relationship with Housing Benefits... They had no problem in contacting us to say, well, what's the problem here, we'll go out and we discuss it. I think that's the important thing that you can actually get everybody round the table, sort it out right in the beginning, this is what you can get, this is what you're likely to get, and this is what's involved.

There was an element of doubt among some stakeholders as to whether rent officers would have the time to be proactive and collect all the evidence needed to make a fair assessment of the market rent. Additionally, a London HA felt that the Rent Service would not have the time or resources to carry out that number of assessments, especially if rents were to be re-assessed upon each letting:

They're not resourced to do it, are they? I very much doubt they are anyway. How many rent officers are there in any given borough?

The Rent Service overall seemed confident that its staff have the skills and experience to make rent determinations for Housing Benefit purposes on temporary accommodation, taking into account management and maintenance costs, although that they currently lacked knowledge of the Supporting People Programme, and the additional costs associated with those households who have been excluded from the mainstream market in the first place. Nevertheless, the Scottish Rent Service demonstrated a good understanding of the impact of homelessness on peoples' lives:

...you're investing in a very poor outlook and future if you don't do the best to house these families with children in the best possible circumstances when the children are young...

Current Rent Service experience included making rent determinations on supported housing units, women's refuges and B&B for young homeless people. Representatives noted the proposed changes would impact on them in terms of time and resources. They felt that significant further training would be required of the staff to fully understand the issues faced by homeless households, including drug and alcohol issues, or other support needs, and local authority strategic use of temporary accommodation.

From the point of view of valuation, we are experts in that field. Rent officers are trained and have the skills to deal with it and I can't think of any agency that would have the same skills that we would have to be able to deal with it. There are certain areas of it that we would definitely need some training, we would need guidance... as to the type of risk that the landlord is going to incur to start with so you will probably have to categorise the risks, categorise the type of tenants, to nominate them the risk that the landlord is going to have to accept..

Some representatives of the Rent Service however felt that the proposed changes did not represent a great departure from their existing role:

"I can't see any problem whatsoever in doing that because it's a normal function that we would do anyway, valuing the cost of maintenance and so on, which we're looking at in general terms anyway when we're dealing with fair rent cases."

It was added that the new system would alter the relationship between the Rent Service and the local authority:

"It will bring us slightly closer to local authorities. We would have to have a much closer working relationship ... with whoever is going to administer this within the local authority... to get a better understanding of what they're doing and where we're going, and also to understand the difficulties of the system."

3.2 Valuation of rent

The starting point for the valuation was discussed with all those stakeholders interviewed. One of the options in the proposed model for change was a property specific starting point. There were mixed views as to whether or not a rental valuation for temporary accommodation should be property specific.

One local authority in the South West of England felt that the current arrangements were too simplistic, as they did not take into account the different types of property required to meet the council's temporary accommodation need:

At the moment, you could argue the system's too simple because it doesn't pay much attention to the different types of accommodation.... In some ways it's too simplistic.

Valuation on a property specific basis however was seen by a housing association leasing accommodation from the private sector as a cumbersome and unrealistic process:

It's going to inevitably slow down the whole process at every step. The first step is, go and find a property and agree some sort of rent level with the landlords. Then the rent officer comes in and says the rent that you can claim on that is X so therefore you can't pay Y, so you have to go back and renegotiate.

It was nevertheless the view of the Scottish Rent Service that the market rent was a good starting point:

I'm a believer that all rents, no matter what they are, should start from the basis of the marketplace. You can adjust them up, adjust them down, for social aspects, on costs, but if you start with the market rent in any particular locality in the country you at least [have] something constant.

When a rent determination is made on an unusually large house, with eight or nine bedrooms suitable for very large homeless families, problems can arise because there may be very few comparatives in the area. More often than not, large houses are converted into bedsits. In some areas, a straightforward cap on temporary accommodation can impact on these larger properties, rendering them too expensive. Yet these are often required by the numbers of large and deprived homeless black and minority ethnic families which are disproportionately represented within temporary accommodation. These households may include extended multi-generational families. In one London borough, higher charges were placed on smaller properties by local authorities, to compensate for the reduced Housing Benefit allowances on the larger properties.

“And that’s what we balance out with the smaller properties. So, we charge, you know, for a smaller property that’s a bit less, we charge a bit more and that can help compensate for the larger properties.”

Determinations need to be able to take account of the large range of properties which are needed to house homeless people. This could include large family groups, through to single pregnant teenage mothers, who may be vulnerable and not suited to self-contained accommodation.

Currently the valuation, which is specific to the local reference rent, is then linked to the quality of the property, rather than management costs, which will be discussed in more detail in the following section.

The system most favoured by housing associations and local authorities taking part in this research was the rental grid (see previous chapter). Negotiators from the housing association have a maximum rental figure they can work to which is determined by the council. On a case by case basis they will offer up to the maximum or less than the maximum, depending on their view of the property’s rental worth. There is no deduction or disregard depending on the age or standard of the property, so the housing association will only include property in its temporary accommodation portfolio that meets their standards.

“We have quite high property standards because we want to make sure we’re bringing in good products, it’s easier then for us to maintain it at that level.”

3.3 The geographical area

The geographical area which the Rent Service refers to when making a determination was also an issue of contention within the case study areas. It was thought overall that postcode areas were more relevant than the current “locality” system used for local reference rents. Local reference rents were thought to cause problems when used at a borough wide level, particularly in boroughs of diverse socio-economic variance. A rigid local reference rent may not take account of a diverse housing market within a small area. This restricts some local authorities in terms of what they can afford within a locality which encompasses different levels of affluence and deprivation within a relatively small geographic area.

There was a broad consensus that the system of determining rent for Housing Benefit purposes should be flexible enough to allow a local authority to procure a range of different properties with a variety of bedrooms, taking into account the socio-economic variability of and contrasts within different market sectors, that meets the temporary accommodation needs of the local area. Local authorities and housing associations were strong in their view that the new control should allow differences within a local authority area in the price of accommodation to be catered for. Again, this meant formalising the rental grid by postcode model that is currently in operation for HALs.

3.4 Duration of the assessment

A range of views was expressed concerning the frequency of the determination. Most housing associations were of the opinion that once every three years was sufficient. This was a view shared by a number of local authorities, particularly if a five year lease was being entered into. Another view was that a five year lease gives landlords security, and encourages them to opt into the scheme. Where a lease is entered into for a three or five year period, rents are set with the landlord for that period, unless a clause in the lease mentions an annual rent review.

Housing associations and local authorities were against more frequent reviews of the rent on each tenancy for example or annually. The Rent Service representatives at local level actually favoured more frequent reviews.

It was suggested by the Rent Service that a re-assessment of rent may be required on each letting, depending on the type of household moving into the accommodation, and the risk they posed in terms of management and maintenance:

“If it was done on an annual basis, however, a change in circumstances could be reflected in the change of risk. For instance, if you are categorising risks A to Z, if you’ve got four categories of risk, then if the case came in on category A but the next tenants going in are category D then that could be looked at as a change in circumstances and so the valuation could be given because there may be a difference.”

An alternative proposal to tying in the rent assessment with the beginning and the renewal of a lease, is to add a clause to the lease which requires a re-assessment on an annual basis.

“I can’t imagine many landlords would be prepared to rent on a five year period or even a three year period without some sort of review in it because the market is so unknown anyway so probably the answer there is that there would probably have to be a review clause in it at some point in the tenancy or some points in the tenancy.”(Rent Officer, SW England)

The problem with this alternative is that it would not give local authorities and housing associations the certainty over rent and income that they say they need. Reassessment was also suggested if the composition of the household changes, although again, given the nature of temporary accommodation, this could be a lot of extra work.

This same point was stressed in Scotland by the Rent Service. Reassessment could depend on who is moving out and in, and the costs associated with that type of household.

3.5 A future role for rent officers?

Given the level of suspicion over the Rent Service voiced by many local authority and housing association representatives it might appear that no role for rent officers is envisaged by these organisations. However, this is not the case. Local authorities and housing associations believed that the Rent Service could have a significant role if the rental grid model was introduced. Under this system the rent officer could identify how many sub market areas existed in the local authority and then assess market rent levels for each of the different sub market areas, working in conjunction with the local authority. The grid values could be updated annually by the rent officer with the updated values applying only to new leases coming on stream.

Representatives were clear that such a role would require rent officers to do valuations in a different way and to understand the temporary accommodation sub market more. Rent officers themselves believed that a programme of training would need to be implemented to help them with this role.

4 The management fee

Introduction

In this chapter of the report the issues relating to the management fee are discussed along with an analysis of the questionnaires on the costs of managing and maintaining temporary accommodation.

4.1 Managing the risk

Housing associations that took part in the research were keen to make the point that HAL schemes represent a risky business. Their experience was that relatively minor changes in management requirements can lead to significant cashflow problems:

This is a very risky business for us and we have to make sure we are charging for it properly. You can change one tiny element of the business in terms of cash collection or in terms of maintenance or service expectations and the business can go quickly into deficit. Our management charge is set up to cover the risks.

London HA

In a similar vein another London based housing association stated:

There are so many pressures on this business, it's not just Housing Benefit, there are so many other risks and fluctuations in the market that happen that it comes to a point that if we're taking risk in such a large way it does threaten the whole viability of temporary housing as a viable business.

What then are the risks that housing associations face in running HAL schemes? One of the key issues for associations is cash flow. If they are guaranteeing the landlord a rent every week for the duration of the lease (which could be three, five or ten years) associations deem it of the utmost importance to have their income coming in from the local authority as soon as possible. The two things that affect their cashflow are bad debts (arrears) and delays in paying Housing Benefit. When calculating management fees housing associations assume that a certain proportion of the annual rent due will be

lost in arrears. The Housing Corporation suggests that associations generally make a provision in their business plans for four per cent bad debt provision.

Two London based housing associations in the case studies that undertake leasing schemes in a number of boroughs complained that some local authorities took up to 12 weeks to process Housing Benefit claims. This meant that they had to cover the delay out of their own reserves which then also meant that they lost interest on their reserves. As one said:

Housing Benefit is one of the key things that is a risk to us and actually I think we've managed it very well but we still have losses through Housing Benefit.

Housing associations also had to factor in to their costs void times. Having the property empty means that they have to pay the landlord out of their own reserves. Some local authorities specify in their tender documents how often the property is likely to become available for letting so that associations can factor this into their costs.

In similar fashion some local authorities stipulate how many visits to the property the association needs to make as part of its normal management function. Visits can be once a quarter, once a month or more frequent. The more frequent the visit the more it costs to manage the property:

If they [the borough] require us to visit the properties every month then we cost in for that. If they require us to visit the properties every quarter then obviously there is a reduced cost there

Other factors that associations take into account include an element for furnishing the property, the cost of acquiring the property and associated legal work in relation to the lease and the costs of repairs and handing the property back to the landlord in good order.

It is evident from discussions with local authorities and housing associations that management fees do not vary by size of property or rent level (there might be slight variations because of higher furniture costs in bigger property). As is discussed later housing associations (in particular) work out their fee in relation to management tasks and bad debt provision rather than as a percentage of the rent charged.

4.2 How much is the management fee?

Housing associations taking part in the research were reluctant to provide precise details of their management charges. The reason for this was that to give a fee level without explaining how many visits they make, assumptions about bad debts and handing back the property would mean that figures were given out of context. However, some ball park figures were discussed and are presented below for illustration:

1. Housing association in London, works in 14 London boroughs, fee ranges from £50 per week to £85 depending upon local authority performance on Housing Benefit processing, number of visits and assumptions on voids and turnover.
2. Housing association providing HAL schemes in one of the case study areas, fee of £70 per week for a one and two bedroom property, £75 for a three bed, £82 for a four bedroom property and £86 for a five bedroom.
3. Local authority (not a case study) whose PSL stock is managed by a lettings company pays a flat rate fee of £45. Local authority responsible for visiting stock and guarantees payments to the managing agents during benefit delays.

In order to obtain a more detailed breakdown of how management costs are derived a questionnaire was sent out to all eight local authorities taking part in the study. Of these two authorities had no PSL schemes so six were eligible to return a questionnaire but only two actually did so. A questionnaire was also sent to housing associations operating in each of the case studies. Five associations were identified but only two responded. However one that did respond is a significant provider of HAL accommodation in England.

The response was very disappointing. One housing association said that they would not respond due to commercial confidentiality. Local authorities that did not respond pointed to over work and under resourcing as a reason. The analysis that follows is therefore presented for illustration only but provides useful evidence on how fees are structured.

4.3 Deriving the fee

The table below shows the stock leased by each of the respondents to the questionnaire and the length of the lease.

Table 1 Number of properties by length of lease

Length of lease (years)	HA1	HA2	LA1	LA2
1 year	0%	0%	75%	67%
2 years	0%	100%	0%	0%
3 years	41%	0%	9%	0%
4 years	0%	0%	0%	0%
5 years	51%	0%	12%	17%
10 years	5%	0%	4%	17%
More than 10 years	2%	0%	0%	0%
Total units	1,488	39	403	6

The table shows that the main provider (HA1, London based) has properties on either a three year or five year lease while HA2 (based in the North West of England) has all of its properties on a two year lease. LA1 (based in London) has three quarters of its properties on a one year licence.

Respondents were asked to give details of the costs of various activities connected with procuring and managing temporary accommodation. Respondents were asked to detail the number of staff taking part in each activity, how much of their job was taken up with the activity, what their salary was and what was the central overhead charge for that activity (IT support, Human Resources).

Unit costs vary significantly as the table shows. In relation to procurement the largest provider has the lowest unit costs. This organisation has a team of negotiators that procure property across 14 London boroughs so there are obvious economies of scale involved.

Table 2 Cost per unit of key management and procurement tasks

Activity	HA1	HA2	LA1	LA2
Procuring	161	Not given	184	418
Legal	13	250	105	194
Dealing with lettings	430	287	144	465
Managing	378	1,638	147	1,100
Units	1,488	39	404	6
Lettings per year	605	90	Not given	6
Visits	Quarterly	Weekly	Quarterly	Not given

Management costs vary significantly but this is related to the frequency of turnover. HA2 has 90 lettings per year from its 39 units of stock. This means that each unit is let over two times per year. For HA1 the turnover rate is 40 per cent and the management costs are therefore lower.

Table 3 Void rates, arrears, furniture allowance, repairs and handbacks

	HA1	HA2	LA1	LA2
Voids weeks	6	3	2	8
Average rent arrears per unit (weeks)	2	12	3	0

Weeks taken for LA to pay benefit	8	12	-	-
Furniture allowance per unit	285	2500	N/a	324
Repairs per unit per year (£)	208	500	N/a	167
Making good on handback per unit (£)	585	100	1500	0

The table shows the range of arrears that organisations plan for when deciding their fee. HA1 assumes two weeks (equivalent to four per cent bad debt provision) but HA2 assumes 12 weeks which seems to be based entirely on how long it takes the local authority to pay benefit claims from the time the completed application is received. Given that each unit is let twice per year this is perhaps understandable.

The two local authorities do not factor in an element for on going repairs to the property or for financial losses caused by delays in processing Housing Benefit.

By adding together the unit costs of managing and procuring properties with the costs relating to void times, arrears, repairs and making good on handback, it is possible to derive an overall unit costs for the management and maintenance of properties per week. This is shown in the table below.

Table 4 weekly unit cost of management and maintenance

	HA1	HA2	LA2	LA2
Total management and maintenance costs	3538	8025	2425	4005
Number of units	1488	39	404	6
Unit cost per week	68	154	47	77

The table shows that weekly unit costs vary from £47 per week for a local authority to £154 for the housing association. The figure for this association is so high primarily

because of the high turnover of tenants. The housing association that provides the largest number of HALs in England has a derived weekly unit cost of £68. This is consistent with the £70 fee shown in the third example of fee levels in section 4.2. There is, therefore, a strong argument to say that the national management and maintenance fee for leased schemes should be set at an average of £70.

4.4 How should the fee be incorporated?

There were a number of options discussed on how the management fee could be incorporated into the model. There were three options identified:

1. Have the fee as a percentage of the rent
2. Have the fee determined by the rent officer as part of their assessment of the rental element
3. Have a fee structure that relates to local authority area

Of these options the third was the most popular choice of those who expressed an opinion. The argument was summed up by a housing association interviewed but that did not return a questionnaire:

The management element has to be done on a local authority by local authority basis. There is so much variation in their performance [on Housing Benefit processing] and in how often they want you to visit [the property]. Also the tenants are different. Tenants in Tower Hamlets require a lot more management than those in Hillingdon.

The option of having the management fee derived as being a fixed percentage of the rent – 20 per cent for example, received little support. The argument was that managing a property where the rent was £200 per week required the same resources as one at £400 per week yet the fees would be widely different. While some organisations conceded that an association or local authority might lose out on the cheaper rent properties it would win on the higher rented ones. The other side of this argument was that the mix of properties procured has to respond to the needs of homeless households in the area not the need to balance the books.

There was no support for the rent officer to derive the fee. This relates back to views discussed earlier of the rent officer being a tool to reduce costs.

5 The strategic policy setting

Introduction

In this chapter the wider policy setting of the use of leased properties to house homeless households is discussed. The chapter concentrates primarily on the welfare to work agenda and the tensions caused in this policy by the high rents often found on leased properties.

5.1 Homeless policy

In recent years, the landscape of homelessness has changed. The efforts of local authorities, voluntary sector agencies and other organisations that have worked with central Government have been credited with providing the appropriate accommodation and support to enable people to move off the streets with the effect of the number of homeless people sleeping rough on the streets falling significantly.

While rough street sleeping has been falling, there has been a steady increase in the number of people that councils have been assisting because they have become homeless. At present, these increases are likely to continue to increase, or at the very least, plateau, as the Government has extended the categories of people whom councils and local authorities must ensure have accommodation if they become homeless.

The extension of homelessness legislation coincided in March 2002, with the implementation of a new Government agenda on homelessness '*More than a roof*'. A new Homelessness Directorate was established in the Office for the Deputy Prime Minister, to move this agenda forward and its approach has been to focus as much on people and the problems that they face, as on the places that they live. To date, the Directorate has sought to take three key areas forward:

- A targeted approach to reduce the most severe manifestations of homelessness – i) rough sleeping and ii) the use of B&B hotels for homeless families with children; and
- wider approaches to tackle and prevent all forms of homelessness more effectively.

The Homelessness Act 2002 included a new requirement for all councils in England and Wales to have in place by July 2003, a homelessness strategy based on a review of all forms of homelessness in their district. These strategies must aim to prevent homelessness and ensure that accommodation and support are available for people who become homeless or are at risk of doing so. Implementation of Homelessness Strategies has come alongside the introduction in April 2003, of the Supporting People programmes, which aim to deliver significant resources for housing related support to help vulnerable people sustain independent living.

In Scotland, the impact of legislation under devolved government has meant that the situation differs. The Housing (Scotland) Act 2001 gave new groups of homeless people the right to temporary housing from local authorities. Prior to the introduction of the Act and its implementation by 30th September 2002, 'non priority' homeless people were only entitled to advice and assistance from the local authority. This new duty now means that homeless people, who are regarded as 'non-priority' (mostly single people or others without children) are now entitled to stay in temporary accommodation. These changes to law have not specified any limitations on the length of time for which a non-priority person is to be housed. Some Scottish local authorities provide temporary accommodation for 28 days, a smaller number provide accommodation for 8-12 weeks, and a couple were flexible enough to allow the length of stay in temporary accommodation to be for as long as was necessary.

It is important that the findings of this study are contextualised within and applied to the Government's current agenda on homelessness and housing within the strategic framework with far broader welfare to work and poverty amelioration objectives and assessed in conjunction with legislation and homelessness initiatives of the devolved nations.

5.2 Planning temporary accommodation provision

Reaction to the idea of introducing a single Housing Benefit control for temporary accommodation among local authorities, housing associations, stakeholder groups and local government organisations focused primarily on the concern that a Housing Benefit control continued to fail to address the problems of dependency on benefit and worklessness among homeless households. Many of those consulted throughout the

course of the research struggled to grasp what real impact the changes could have on the day to day administration of temporary accommodation or how it may impact on the planning and provision of temporary accommodation in the longer term. Only London boroughs felt that the proposed changes had the potential to improve the process of planning for and acquiring temporary accommodation.

Outside of London, there was a prevailing view that the proposals were somewhat London centric and that there were other pressures on temporary accommodation that needed addressing in order to effectively deliver in the area of temporary accommodation. In particular, in some areas

- local authorities, and in particular rural local authorities, need more money to provide affordable housing and related support services.
- existing staff are under pressure and there is considerable difficulty in recruiting and retaining new staff
- there are difficulties in predicting future demand on services
- there is difficulty identifying temporary accommodation.

Where resources and stock are pressured, there appears to be a correlation between the length of time that households are dependent on and stay in temporary accommodation and the ease or difficulty with which they can move to more permanent housing. Statutory agencies are aware that homeless households are likely to present again, if the period of time spent in temporary accommodation is too short to allow the household a genuine chance to secure accommodation. Equally, some local authorities have experienced considerable difficulty estimating the potential increase in temporary accommodation service demand. The majority of local authorities do not feel that they have enough appropriate temporary accommodation to meet their obligations fully. Consequently, there is a great deal of concern about the ability of some local authorities to not only meet the demand for temporary accommodation but concern that significant amounts of money are being spent on short term solutions that will pay little in the way of long term dividends. There is a fear that continuing shortfalls in temporary accommodation will lead to:

- increased use of bed and breakfast type accommodation

- lack of choice for those requiring temporary accommodation
- longer stays in emergency and temporary accommodation
- a fall in the number of properties available for more permanent lets, as a consequence of households getting 'trapped' in temporary accommodation.

In many areas, the issue is not just about enough accommodation, but enough of the right types of accommodation, especially supported and intensively managed accommodation. Many local authorities highlighted the need for, but difficulty in being able to plan for long-term for the provision of temporary accommodation within homelessness services. Local authorities remain concerned that in the absence of enough temporary accommodation or permanent housing, that they will be left with few options other than to continue using inappropriate housing. Bed and Breakfast will continue to be used alongside those properties in 'low demand' and while local authorities feel that this situation is far from ideal, an attitude remains that homeless households will continue to accept such accommodation because they are in 'genuine need' and that it is on a 'temporary basis'.

Statutorily homeless households often have a variety of other needs besides their requirement for housing. A successful transition from temporary accommodation to more permanent housing is often only successful when housing is part of a package that addresses the households health, social care and employment needs.

5.3 Welfare to work and the poverty trap

Those consulted who held more strategic positions within local authorities, stakeholder groups, statutory agencies and housing associations were more concerned with and held a view that should a single Housing Benefit control for temporary accommodation be introduced, homeless households in temporary accommodation would continue to be trapped in a situation of worklessness and poverty – much of which was a consequence of high rents in their temporary accommodation. Many held concerns that extraordinarily high rents coupled with Housing Benefit tapers, resulted in homeless households being financially no better off in work than out of work. Factoring in work related costs such as transport and childcare, often resulted in many households housed in temporary

accommodation being worse off in low paid employment than what they were in receipt of benefit.

Presently, homeless households have no choice about where they live. Households are allocated accommodation that is considered suitable for their needs. The vast majority of households are not working and are trapped in a perpetual cycle of worklessness poverty as a consequence of high rents in temporary accommodation.

More broadly, concern was expressed that the proposal did little to address work incentives for homeless households. Particular concern was expressed by some local authorities and key stakeholders of the plight of homeless children living in temporary accommodation, noting that they were some of the most disadvantaged children, with many missing out on schooling, play and opportunities to develop and grow in a healthy living environment. Where services for some homeless adults are currently picked up by funding from the Supporting People programme, services to support the children of families in temporary accommodation are not. In some areas funding had been secured from the Children's Fund to support these services, but there was significant concern expressed that with the long term future of the Children's Fund looking uncertain, that these children specific homeless support services would struggle to continue.

Concern was also raised about the lack of funding in Sure Start programmes to ensure that the needs of homeless families in the area could also be met, particularly if their temporary accommodation placement moved the family out of the Sure Start catchment area.

Local authorities, housing associations and stakeholder groups are all concerned that homeless people should be housed in good quality temporary accommodation while they wait for an offer of permanent accommodation. However, temporary accommodation by its very nature is typically not secure, or affordable and often not suitable for homeless people. The acute shortage of permanent housing means that local authorities, particularly in London, the South East and other parts of the country where there is significant pressure on housing, sometimes place homeless households in temporary accommodation for months or years before they are able to offer them permanent housing. There was significant concern that homeless households are viewed as being a homogenous group and that government policy initiatives do not allow

differences in circumstances and needs to be addressed and accommodated for while temporary accommodation is required.

Although progress has been made in reducing the use of bed and breakfast accommodation for homeless families with children, local authorities, housing associations and stakeholder groups generally view the continuing growth in the wider use of temporary accommodation as being a significant concern as much of it is provided at high rents, creating poverty traps for people housed in it and relying on Housing Benefit to meet the cost.

5.4 A temporary accommodation block grant

Some stakeholder groups and local government organisations raised the case for a grants based system for temporary accommodation as an alternative to the current system that is reliant on Housing Benefit funding. Advocates of such a scheme have argued that it would be cost-neutral to central Government but would allow greater flexibility and enable local authorities to meet their targets better through leasing quality temporary accommodation on a stable, long-term basis while also reducing the rents faced by tenants. Stakeholder groups and local government organisations believed strongly that a shift away from dependency on Housing Benefit needed to be seen as the most viable and sensible option.

While the move to introduce a single Housing Benefit control for temporary accommodation was not unwelcome – many agreed that it would clarify some of the current ‘grey areas’ and make the present system a little more transparent, there was significant concern that this was “more tinkering at the edges”. Local authorities and their organisation, stakeholder groups and housing associations were adamant that the difficulties with the present system needed to be examined in a broader framework. The following recommendations as to what would make a difference were consistently put forward as suggestions for consideration.

- The establishment of a fund to provide support services for all homeless households to ease their stay in temporary accommodation and link into other services to meet their health, social care and employment needs. It was suggested that funds should

be directed through the Homelessness and Housing Support Directorate of ODPM via a mechanism not dissimilar to the current Supporting People programme.

- The introduction of measures to improve affordability for homeless households in temporary accommodation by changing the financial framework for temporary accommodation and moving to a grants based system that was less reliant on Housing Benefit subsidy. Those in favour argued that this would significantly improve work incentives for homeless households while its implementation would be relatively cost neutral.
- A fund for homeless households in employment to provide top-up payments to enable them to pay the equivalent of a council rent. This is the current practice of one inner London local authority however those consulted stressed that local authorities could not be expected to bear the cost through their General Fund if the initiative allowed large numbers of homeless households to move into work.

6 Conclusion and recommendations

The research has been concerned with testing the feasibility of a common Housing Benefit control to apply to temporary accommodation that is leased or licensed from the private sector, which may, or may not apply to bed and breakfast properties. There are a number of points that come out of the research that are important in deciding the way forward.

6.1 Concluding points

The first point is that the case for change is not yet convincing to all. There is an acceptance by participants of the need to move towards a single system but this is primarily because presentationally it would be better to have one. The current system is not viewed as particularly complex or an administrative burden and has grown into a workable system that suits the needs of local authorities, housing associations and landlords. Schemes are attractive and there is good evidence of landlords operating exclusively in this market (or more correctly sub-market). Points of argument with the current system relate more to the seemingly arbitrary nature of local authority thresholds for PSL (broadly based upon a multiplier of average council rents).

Following on from this is the query that organisations have about where the proposed change fits in with the local housing allowance. There was concern that another new system might have to be implemented once local housing allowances were rolled out (although there are no current plans to include temporary accommodation as part of the LHA scheme). Clarification on how the two models relate was called for.

While not arguing against a new system for temporary accommodation local authorities and housing associations argued strongly that any new system should have key characteristics designed to ensure that supply did not dry up. First, and probably the most important one was that any new arrangements should give certainty from the start of the process. It was argued that they need to know exactly how much they can offer landlords before they start negotiations. Housing associations in particular were also keen that any new system meant that they could have certainty over their income (the

management fee). Associations were keen to get the point across that the temporary accommodation market was risky and not profitable and that any proposal that might see the management fee reduced or exposed to renegotiation could force them out of the market.

It was also clear from the research that there was concern, particularly among local authorities and housing associations in London and the South East, over the role of the Rent Officer. The perception was that the Rent Officer is seen as a tool for rent restriction and the need for referrals could hold up the process or lead to unrealistic rent determinations. However, local authorities and housing associations believed the Rent Service could have a role to play if they took a different approach to valuing property used for temporary accommodation. This would mean understanding the homelessness market more and being aware of the need for such schemes to be attractive to landlords in order to keep up the supply of properties.

London local authorities and housing associations would prefer a system that is based upon the current practice used by many local authorities of devising a rental grid that gives maximum rents payable to a landlord through Housing Benefit by sub market areas and number of bedrooms. Valuation on a property specific, local authority or locality basis is not favoured.

Local authorities and housing associations do not want the new system to be applied retrospectively to stock already leased. It is believed that this might jeopardise relationships with landlords especially if the rent was to be reassessed by a Rent Officer.

Housing associations seem to have more of a grasp on what it costs to manage leased or licensed properties than local authorities. This is probably a reflection of their longer involvement in the field. When working out management costs housing associations take into account the number of visits to the property they are required to make, the likely level of void periods, turnover, repairs and the need to make good properties.

Management costs (as reflected in housing association fee levels) do not vary to any large extent by size of property. Instead the most significant factors are arrears, void levels and the time taken by local authorities to pay benefit claims. Where local authorities fast track benefit claims fee levels are lower. A typical fee for a housing association ranges from £70 per week to £85. One local authority calculated that it costs

them £47 per week to manage their leased stock but they were not responsible for repairs.

There was strong concern that the very high rents charged on leased properties represented a disincentive to work and consigned homeless households to benefit dependency.

It was believed by most interviewed that bed and breakfast funding should be kept out of any proposed new system. To integrate it might give out the wrong signal and have the effect of formalising it as an alternative option to leasing.

6.2 Recommendations

The report recommends that the new system is based upon a rental grid with Rent Officers determining the maximum rent levels by sub market areas and number of bedrooms for each local authority area. The rental grid would show the maximum rent to be paid to the landlord with a further allowance for management and maintenance added later. The grid should be updated on an annual basis with the updated values applying to new leases only. To do this properly Rent Officers would need to understand the 'homelessness market'.

Inflation related increases should be built into the lease with review periods built in to longer leases. So for example a five year lease would have a review after three years.

The management costs should not be calculated as a proportion of the rent paid to the landlord. Instead the management fee should be decided on an individual local authority basis taking into account performance on Housing Benefit and the deprivation experienced in the area. A national average fee of £70 per week should be sufficient to meet the costs of managing accommodation and encourage competition among providers.

The new system should not apply retrospectively to existing leased or licensed accommodation.

The benefit regulations should allow greater flexibility in the size of household put into leased schemes. It is often difficult to match household size with the number of bedrooms. Benefit claimants have their benefit restricted if under occupying a property

which might mean that they cannot afford to meet their part of the rent. Allowing for some underoccupation in temporary accommodation would assist local authorities and associations in the effective delivery of temporary accommodation for homeless people.

Appendix 1 : Rent Officer determinations

The Rent Officer may make one or more determinations on the same case if they apply to a particular property. These determinations are:-

- **Local Reference Rent and Single Room Rent:** rent officers have to determine, using their own expertise and judgement, the locality in which the relevant dwelling is situated. Having established the locality, they then eliminate, any rents that are unrepresentatively high or low for a similar property size. The Local Reference Rent (or Single Room Rent) is then calculated by taking the mid-point of the remaining rents.
- **Size-related rent:** this applies only where a dwelling exceeds the defined size criteria for the household in occupation. The rent officer must determine a rent for a similar tenancy of the appropriate size for that household in the vicinity
- **Significantly high rent:** this applies only where the rent officer considers that the tenant's rent is significantly higher than the rent which the landlord might reasonably have been expected to obtain under the tenancy at the time. The rent officer determines an appropriate rent for the property that is based on his knowledge of the local market – and in doing so, looks at similar tenancies in the same vicinity.
- **Exceptionally high rent:** this applies only where the rent officer considers that the rent is exceptionally higher than that which could be expected for the dwelling concerned. The rent officer has to determine the highest rent (which is not exceptionally high) which the landlord might reasonably be expected to obtain for a similar tenancy in the same neighbourhood. In considering whether the rent is exceptionally high in the first place, the rent officer must have regard to rents for similar size dwellings in the same neighbourhood.

The rent officer will inform the local authority of a maximum of three determinations as follows:-

- **Claim-related rent (CRR):** -this is the lowest of either the actual rent, the significantly high rent, the exceptionally high rent or the size-related rent;
- **Local Reference Rent (LRR):** if it is lower than the CRR;
- **Single Room Rent (SRR):** if the claimant is an individual under 25.

The local authority assesses the Housing Benefit claim based on the lowest of these figures.

Referred rents are determined by evidence of rental values, neighbourhood property values, property type, local amenities, transport facilities and tenancy types. This evidence is collected by the Rent Service from private landlords, estate agents, properties to let and from capital values.