

Royal Borough of Kingston Temporary Accommodation/Private Sector Procurement Strategy

Introduction

A reassessment of Kingston's approach to temporary accommodation (TA) procurement is timely in the context of pan London pressures of increased homeless demand and continued cost inflation a diminishing supply of suitable private sector accommodation.

Background and Context

An estimated 38 new self-contained units TA units are likely to be needed during 2015/16. It is further estimated that the TA portfolio is unlikely to fall below 450 in subsequent years and that an average of 60 new units per year will have to be procured each year to maintain this stock size. Wherever possible these units will have to be accessible to households dependent on benefits. This is to ensure sustainability for the households and financial viability for Kingston.

These estimated figures may increase if homelessness demand continues at current high levels, and/or the supply of permanent social housing and private sector lets via schemes such as Tenant Finder (TFS) decline in overall terms or fail to keep up with homelessness prevention referrals.

It is believed that traditional models of TA procurement used by Kingston will increasingly fail to meet the needs of the Borough as a result of the combined effect of:

- A reducing supply of permanent social housing.
- Rising homelessness – reflected both in presentations to the Borough and acceptances
- The effects of Housing Benefit changes and the welfare benefit cap
- Additional pressures on existing TA supply

Each of these factors is examined in some detail in this strategy. Shortages of self contained temporary accommodation for the Boroughs Private Sector Leasing (PSL) scheme has led to a situation where more nightly rate 'annexe' type accommodation

is having to be spot purchased at rates which are causing significant budgetary pressures.

The task for Kingston is to source sufficient self-contained TA to meet homelessness demand, with the accommodation being affordable both for the referred households' and the Borough. The nature of the private sector rental market in which borough sources TA, currently dictates that the required numbers are only likely to be procured with the use of incentive payments to landlords, coupled with selected acquisition outside Kingston and possibly outside of Greater London.

TA used by Kingston broadly falls into two types – *first* and *second stage*.

First stage is emergency accommodation and is typically provided while a homeless application is being assessed. Rather than use bed and breakfast for this provision as is the case with some London boroughs, Kingston's preference is to use self-contained 'annexes'. Annexes, are residential properties which are rented via a number of specialist providers to boroughs on a nightly basis. They have the advantage of providing a good standard of accommodation for the households and avoid a borough having to manage bed and breakfast placements which are statutorily limited to six weeks for households with children. A significant disadvantage however are costs with each placement costing Kingston on average £170 per week more that it can recover in subsidy from the rent charged to a referred homeless household.

Second stage is self-contained accommodation provided once a statutory rehousing duty is established, and until more settled social housing is available. The majority of second stage accommodation used by Kingston is held within a Private Sector Leasing – PSL scheme. PSL's are properties which are leased from the private sector by Kingston and then sub let to a homeless household. The properties are managed directly by Kingston. The income from rents collected by Kingston are used to pay for the cost of leasing to landlords and the Boroughs management costs.

A complementary scheme to PSL is also used by Kingston. This is the Tenant Finder Scheme – TFS. TFS is a model whereby the Borough facilitates a private sector letting directly between a landlord and a household. Incentive payments and assistance with deposits are provided by Kingston, as is ongoing support to both landlords and tenants to maintain the arrangement. The tenancy is however between the private landlord and the household and the scheme is used to prevent homelessness rather than provide temporary accommodation for a household to whom a duty has been accepted. In practice some properties have moved between both schemes depending on the landlords intentions. A landlords income is higher with the TFS scheme, but there is more management and risk involved given the direct relationship with the tenant which is not the case with PSL where such work is undertaken by Kingston.

The majority of London boroughs use a similar models to assist homeless households. Generally the approach worked well while homelessness levels were relatively static or falling, while there was a good supply of permanent social housing, and while the subsidy available to both boroughs and households in the form of Housing Benefit provided sufficient 'buying power' to access the private rented market underpinning both PSL and TFS. Increasingly however, these conditions have been undermined leading to a greater reliance on nightly rate annexes. The following factors have been primarily responsible for this position.

Supply and demand for social housing

The demand for TA is rooted in broader, and particularly London specific housing problems. A decline in house building across all tenures since the 1970's coupled with a growing population, migration and an increasing rate of household formation, has led to a supply and demand imbalance for housing. This has led to significant house price inflation and affordability problems in the owner occupied and private rented sector. These pressures in turn have had an effect on the demand for permanent social housing.

The majority of London boroughs experience very high demand for social housing. This demand is driven by population growth, lack of affordable market alternatives and low turnover in the existing permanent social stock. The size of a boroughs housing register is an indication of the demand pressures for social housing. At the time of writing, Kingston's register numbered approximately 8500. While a large number of these households have a very low priority and have no realistic chance of securing social housing, the actual number of lets made will always be far lower. The 2015/16 lettings plan envisaged based on historic turnover, 68 2 bed units being available whereas the outcome for the year is likely to be in the order of 50. Any further stock losses as a result of a broadening of Right to Buy provisions – either directly via sales or indirectly via a changed relationship with the Boroughs Housing Association partners, will result in further imbalance of supply and demand.

Property price escalation in London has made owner occupation increasingly unaffordable in the past decade. This has led to a tenure shift with fewer households now owning their own homes and a private rented sector which now makes up approximately makes up 25% of the capital's housing stock. This has both increased the cost of TA as there is more competition in the private rented sector for available properties, and increased homelessness demand as more households are losing their accommodation as landlords seek higher rents. At the time of writing, October 2015, approximately 10 households with a two bed need have a homelessness duty accepted by Kingston per month with only 5 two bed units of permanent social housing becoming available. Most London boroughs are experiencing such imbalances and the consequences are increasing numbers of households in

temporary accommodation and significant cost pressures as supply is essentially fixed.

Demand for permanent social housing in Kingston is predominantly for family sized homes, while the availability in the stock is weighted towards studios and one bedroom sized property. Private rents are also expensive with a typical 2 bed unit attracting a rent in the order of £400 per week when the maximum which is able to be covered by benefits being in the order of £324 per week. New supply of social rented homes is low and if the current trends are continued, is likely to average no more than 60 units annually in the coming years. This figure is unlikely to increase given the current central government promotion of shared ownership over social renting for new developments. Additionally, the imposed social rent cut on local authorities and Housing Association has affected the business plans of developing Housing Association with less social housing new build development likely to be the result in future years.

The imbalance between supply and demand is already significant. If Kingston's current housing register were able to be closed to new entrants it would take the following number of years to make an offer of permanent social housing to households in priority Bands A, B and C

2 bed > 4 years

3 bed > 6 years

4 bed > 7 years

If homelessness demand continues to rise, these waiting times will continue to grow and extremely long placements into second stage TA can be expected, particularly for families waiting for accommodation of two bed rooms or more in size.

Welfare Reform

Concerns about the rising costs of welfare benefits have led central government to impose limits on Housing Benefit payments. Rates for the maximum amount of Housing Benefits for private sector lettings – as Kingston's TFS - are set at the 30 per centile of the rents attracted by non-Housing Benefit rentals in Broad Market Rental Areas where property types and market are similar. Two BMRA's cover Kingston, Outer South West London and Outer South. The current rates per week for these two areas are as follows:

BMRA	1 bed	2 bed	3 bed	4 bed
Outer S West	209	280	334	417

Outer South	167	210	279	344
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BMRA rates are also used to set the subsidy that a borough can receive for its TA portfolio. These rates are set at 90% of the LHA rate, plus a £40 per week management fee. The 90% rate was set on the assumption that boroughs could negotiate lower rates with landlords and the separate management fee is intended to decouple the boroughs operational costs associated with a TA portfolio from a households individual welfare benefit. In terms of negotiable rents with landlords, 90% of LHA leads to the following rates for Kingston:

BMRA	1 bed	2 bed	3 bed	4 bed
Outer S West	188	252	300	375
Outer South	150	189	251	309

The LHA are currently set at the 2011 rate and there is no indication that they will be increased for 2016/17. The intention was that by reducing the rates both households and boroughs would be disciplined in negotiating with landlords and thereby controlling inflation in this sector. This has not happened, principally because landlords have other potential customers for their property. Procurement rates of PSL have been particularly badly affected. This has led to an increase in the use of annexe/nightly rate accommodation, the subsidy regime for which is the same as for other forms of self contained TA.

At the time of writing the average weekly shortfall between the HB subsidy on one two bed annexe/nightly rate unit is TA is £160. Sustaining these losses on an average portfolio of 100 units will incur costs over subsidy of £312,000 during 2015/16.

A final factor to consider is the introduction of the Overall Benefit Cap (OBC) in 2013. This limited households with children to a maximum of £26,000 per year (£500 per week) in all benefits. The limits are scheduled to be reduced to £23,000 per year (£442 per week) from 2016 for households within London and £20,000 (£385 per week) for households in accommodation outside London.

The OBC is calculated by first aggregating all of a household's non – housing benefit entitlements, with the any amount under the OBC being the net HB entitlement. This results in any households who are capped, having the ability to pay their rent compromised, in some cases seriously so. Households occupying higher cost accommodation such as that in the private rented sector and TA are disproportionately affected by the cap.

Households who are subject to the OBC are not referred to the TFS scheme, but within the TA portfolio, 28 households are currently capped, together with a further

91 households in the private rented sector. When the OBC within London is reduced to £23,000, current estimates are that at least 500 and possibly an additional 900 households who will be subject to the cap.

There is no indication that the current TA funding model will be made more generous in the future. Indeed, the introduction of Universal Credit (UC) may compromise the collection of rent from households as the any rent element in UC will be paid to the households with reduced facility for rents to be paid directly to landlords. This may reduce the attractiveness of TFS and lower the income collection rates for TA where a borough is the landlord.

Additional pressures on current supply

Properties used by borough for TA and for TFS must be suitable, and there is a large and growing body of case law in this area. Accommodation must be affordable, be of the right size and location to take into account matters such as employment, schools, religious, social and community links. The Homelessness Code of Guidance clearly indicates that TA and other housing options should be within a boroughs own area. However as outlined previously, the availability of private sector properties to households on benefits, particularly larger units, for existing schemes is problematic.

The strength of the private rented sector across London has resulted in landlords moving into other 'non benefit' markets. Given the decline in home ownership across London and lack of social housing, the private rented sector has become the only solution for many households. The Mayor's Private Rented Sector Housing Covenant highlights how the sector is changing and is now accommodating an increasing number of households, especially in the context of a growing population and increased rates of household formation.

A final factor to consider is the supply of annexe/nightly rate accommodation. A relatively small number of specialist providers operate in this market and they work across borough boundaries offering available accommodation to multiple local authority customers. Co –operation between boroughs has led to a cap on prices and the ending of competitive bidding between boroughs for available TA. The agreed rates are however the ones which are still nevertheless the ones which are leading to the cost pressures referred to earlier and continued procurement of accommodation at these rates is not a sustainable position.

Existing Kingston policy on in borough placements into temporary accommodation

This strategy is compliant with Kingston's current *Housing In Borough Temporary Accommodation Policy* which was approved by committee in March 2013. This policy acknowledged the supply and affordability pressures on the procurement of temporary accommodation, recognised the necessity of some placements outside the borough, but with this context, recognised the need and detailed the circumstances where households would still require a placement within Kingston.

Annex 1 of this document details the respective priorities of households for placement into TA within the Borough. In summary, a household's individual circumstances will place them into one of three groups:

Group A - This group will be offered TA within Kingston, adjacent boroughs¹ and boroughs in the South West London sub-region² wherever possible. Households within this group will have one or more of the following characteristics:

- One or more children in their final year of secondary school at Key Stage 4 (generally Year 11)
- One or more children with a Statement of Special Educational Needs
- One or more children who is the subject of a Child Protection Plan
- One or more members who is receiving NHS treatment for mental health problems other than from their GP, (eg from the Community Mental Health team) and/or is on the Care Programme Approach (CPA)³
- Where a household member of the household is caring for another person in the borough who is:
 - a) Over 75 years old and living alone, or with no other member of the household under 75 years of age, OR
 - b) In receipt of a registered care package, OR
 - c) In receipt of the medium or higher rate of the care component or the higher rate of the mobility component of the Disability Living Allowance, Attendance Allowance, War Disablement pension or any equivalent replacement benefit introduced under welfare reforms.

¹ Adjacent boroughs (not in South West London sub region) are: *Borough of Elmbridge* and the *Borough of Epsom & Ewell*

² Boroughs in the South West London sub-region are: *London Borough of Sutton, London Borough of Merton, London Borough of Richmond, London Borough of Croydon, London Borough of Wandsworth, London Borough of Lambeth*

³ <http://www.nhs.uk/CarersDirect/guide/mental-health/Pages/care-programme-approach.aspx>

Group B – This group will be prioritised for TA within one hour's travelling distance by public transport from Kingston's boundary. Households within this group will have one or more of the following characteristics:

- One or more children in primary school (up to and including Year 6) within Kingston or neighbouring boroughs
- One or more children in secondary school or further education college within Kingston or neighbouring boroughs (other than those in the final year of Key Stage 4 – see Group A above.)
- One or more members in permanent and settled employment (for at least six months prior to date of homelessness application).
- One or more members receiving medical treatment that can only be provided by a specific medical facility within Kingston.
- A lone parent households with a baby under 6 months old at the time of allocation

Group C – This group will be all other households. Such households will be offered TA wherever it can be procured.

Households who are more vulnerable will be offered support and a care plan will be prepared to address identified needs. Support will be provided in relation to needs such as: accessing GPs, health visitors, education and Children Centres.

A revised approach to temporary accommodation procurement

In revising its approach to accommodation procurement, Kingston will aim to meet the following requirements:

- To increase overall supply
- To provide TA which is cost neutral to the council
- To provide a range of TA to meet different needs
- To provide sustainable accommodation in the private rented sector via TFS

The approach will complement existing work to manage homeless demand, and aim to reduce the use of nightly rate/annexe TA to no more than 30 unit by Q2 2016/17 and to reduce and maintain this figure at no more than 20 by the end of 2016/17 and into future years. These are challenging targets and will require an element of cultural and procedural change by the Borough and its stakeholders.

The existing PSL and TFS models used by Kingston are relatively simple and robust and the core of an enhanced strategy is to modify them to increase their attractiveness to landlords. The key element will be to pay enhanced levels of incentives to bridge the gap between true market rents and those able to be covered by HB. The new incentives are as follows:

TFS	1 bed	2 bed	3 bed	4 bed
One year agreement	£400	£2000	£1750	£500
Two year agreement	£800	£2700	£2000	£500
PLS	1 bed	2 bed	3 bed	4 bed
One year agreement	£1000	£1000	£550	£500
Three year agreement	£2000	£2500	£1700	£1000

These incentives are biased towards the procurement of 2 bed units which are the most required units to meet homelessness demand. The incentives also biased towards longer term leasing TFS arrangements. The former in particular is important as the current standard one year lease is often renewed which requires an investment of officer time. By moving to a three year lease as standard, officer resources could be released to focus on attracting new landlords. Longer term TFS arrangements will also reduce renewals work for officers and provide more settled accommodation for households.

Landlords who elect for a one year lease will be able to renew if a renewal is advantageous to Kingston, but a further incentive fee will not be payable for such renewals.

Incentives paid for both TFS and PSL will reduce the demand that would otherwise be the case for expensive nightly rate accommodation. As the average net cost to Kingston for nightly rate accommodation is approximately £9000 per unit per year,

the payment of incentives will reduce expenditure on a property by property basis by up to £6,300 per year.

With respect to nightly rate/annexe accommodation, Kingston will comply with the pan London agreements on standard rates which was negotiated in 2014. The characteristics of the nightly rate/annexe market are that this type of accommodation invariably has to be procured outside of the Borough.

Given the costs of nightly rate/annexe accommodation to the Borough, Kingston will continually monitor both the size of this portion of the overall TA portfolio and the costs paid for individual properties. If future circumstances dictate, consideration may be given to contracting with a limited number of providers for the provision of nightly rate/annexe accommodation. This will however only be pursued to maintain standards or if it appears to offer a price advantage over and above the pan London agreement on rates for such provision.

The core principle of Kingston's approach will be to procure TA that insofar as is practicable is affordable to residents and cost neutral to the Borough. A combination of the welfare benefit cap, frozen LHA rates and the competition for private rented sector properties within London and the South East dictates that some units will have to be sourced outside of the Borough. This necessity is reflected in the composition of the nightly rate/annexe stock which has had to be procured within the context of existing market conditions.

Kingston will insofar as is practicable aim to procure TA on a range of terms with respect to length of lease, size and location. Particular emphasis is to be given to procuring properties on longer term leases than has been established practice. Such an approach will both stabilise the Borough's TA portfolio as well as meeting the needs of households who are likely to have to wait for longer periods in TA due to the shortage of permanent social housing.

The suitability of TA is defined by legislation in terms of location, cost size and condition. Boroughs are required to offer TA in their district as 'far as reasonably practicable'. Within this context, a judgement has to be made as to where TA is likely to be affordable and sustainable. The principle which will be adopted is that households who have the greatest need to be in or close to the borough for employment, health, social and educational needs will be prioritised for TA within Kingston, an adjacent borough or one within the South West London sub region.

In assessing the allocation of TA, Kingston will consider whether households can afford the accommodation being offered without being deprived of other basic essentials such as food, clothing, heating and transport. The Housing In Borough Temporary Accommodation Policy and the Temporary Accommodation Placement and Transfer Policy detail Kingston's approach to this matter.

Kingston will also continue to explore other TA options such as Housing Association Leasing, joint procurement with other boroughs and the use of its own stock. Any such scheme however will be considered on its merits and only pursued if it offers a operational and financial advantage to existing models.

Agreement to Temporary Procurement Strategy Provided at Housing Management Team Meeting 6 December 2015

