MUNICIPAL YEAR 2016/2017 - REPORT NO.

ACTION TO BE TAKEN UNDER DELEGATED AUTHORITY
(delete as appropriate)

PORTFOLIO DECISION OF
Cabinet Member for Finance & Efficiency

REPORT OF:
Director of Finance Resources & Customer Services

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Agenda - Part: 1	**Item:**
Subject: Combined Liability Insurance **Wards:** All **Key Decision No:** KD 4403	
Cabinet Member consulted:	

1. EXECUTIVE SUMMARY

1.1 The Council's Combined Liability insurance, which also covers over 70 schools in the borough, is provided through a mix of internal (self-insurance) and external arrangements.

1.2 Following a procurement exercise in 2014/15, the Council entered into a contract with external insurers commencing 01 April 2015. The contract was let on the basis of a two year Long Term Agreement with the option to extend for a further two years in increments of 12 months (KD 3994).

1.3 The second year under the Long Term Agreement ends on 31 March 2017 and the Council has the option to extend the contract for a further two year period.

2. RECOMMENDATIONS

2.1 To extend the current insurance contract for a further 2 year period in line with the Long Term Agreement.

3. BACKGROUND

3.1 The insurance market is generally volatile and influenced by various factors such as expensive claims, global exposure and the economic climate. Insurers tend to mitigate their losses by imposing strict requirements and raising premiums.

3.2 With only a few dominant suppliers, the Local Authority insurance market has remained even more unstable with rate increases and Long Term Agreement breaks reported across the board.

3.3 Following a procurement exercise in 2014/15, the Council entered into a contract with external insurers (Aspen Insurance UK Ltd) commencing 01 April 2015. The contract was let on the basis of a two year Long Term Agreement with the option to extend for a further two years in increments of 12 months (KD 3994).

3.4 The contract ensured the Council benefits from fixed premium rates and Long Term Agreement premium discounts.

3.5 The second year under the Long Term Agreement ends on 31 March 2017 and the Council has the option to extend the contract for up to a further two year period.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 Re-Tendering of Current Contract

4.1.1 The Council successfully achieved competitive rates from its insurers at the last tender exercise in 2014. However, given the current state of the insurance market, there is a risk that current competitive rates and savings will not be achieved if the current contract is re-tendered now.

4.2 Joint Procurement

4.2.1 As insurance is a risk transfer mechanism, authorities procuring a joint policy must have very similar risk profiles (including claims history and management) to benefit from the collaboration.

4.2.2 In addition, the insurance arrangement / contracts for collaborating parties must have harmonised renewal dates.

4.2.3 We are unaware of any other authorities with risk profiles, insurance arrangement / contracts and harmonised renewal dates similar to Enfield Council.

5. REASONS FOR RECOMMENDATIONS

5.1 The second year under the Combined Liability Insurance Long Term Agreement ends on 31 March 2017. Extending the contract for a further 2 year period in line with the Long Term Agreement and decision under KD 3994 will aid the alignment of this contract with other corporate insurance policies to enable a joint procurement exercise to be carried out in 2018/2019.

5.2 Extending the contract will also ensure the Council continues to benefit from negotiated fixed premium rates and discounts provided under the current Long Term Agreement.

6. COMMENTS OF THE DIRECTOR OF FINANCE, RESOURCES AND CUSTOMER SERVICES AND OTHER DEPARTMENTS

6.1 Financial Implications

6.1.1 The recommended extension of the existing contract will not occur any additional costs to the authority. Therefore there are no financial implications arising from this recommendation.

6.2 Legal Implications

6.2.1 The general power of competence under s.1 (1) of the Localism Act 2011 states that a local authority has the power to do anything that individuals generally may do provided it is not prohibited by legislation and subject to Public Law principles. The extension of the insurance contract is in accordance with this power.

6.2.2 The Council's Contract Procedure Rules further provide, under that any contract which provides for (an) extension(s) may be extended in accordance with its terms subject to any necessary authorisation within the scheme of delegation.

6.3 Property Implications

There are no specific property implications arising from this report.

7. KEY RISKS

7.1 No significant risks have been identified with respect to extending the contract.

8. IMPACT ON COUNCIL PRIORITIES

8.1 Fairness for All

Having adequate external insurance in place is integral to the functioning of the Authority, enabling the Council to meet insurable financial losses that may arise from the delivery of services to all residents.

8.2 Growth and Sustainability

Having adequate external insurance in place is integral to the functioning of the Authority, enabling the Council to meet insurable financial losses that may arise from the delivery of objectives in the area of growth and sustainability.

8.3 Strong Communities

Having adequate external insurance in place is integral to the functioning of the authority, enabling the Council to meet insurable financial losses that may arise from the delivery of objectives in the area of strong communities.

9. EQUALITIES IMPACT IMPLICATIONS

It is not relevant or proportionate to undertake an equality impact assessment/analysis of the extension of current insurance contract as the items

summarised in this report only affect the Council's ability to meet financial losses arising from its insurable risks.

Where a third party suffers loss due to negligence on the part of the Council, the loss will be assessed on the basis of legal liability determined by the facts of the incident and not an individual's personal circumstances or characteristics.

10. PERFORMANCE MANAGEMENT IMPLICATIONS

There are no specific performance management implications arising from this report.

11. HEALTH AND SAFETY IMPLICATIONS

There are no specific health and safety implications arising from this report.

12. HUMAN RESOURCES IMPLICATIONS

There are no specific HR implications arising from this report.

13. PUBLIC HEALTH IMPLICATIONS

Items summarised in this report do not have a direct impact on the health and well-being of the public in Enfield.

Additional Papers

None

MUNICIPAL YEAR 2016/2017 REPORT NO. **KD 4361**

Delegated Authority Report

REPORT OF:
Ray James
Director of Health, Housing and Adult Social Care

James Rolfe
Director of Finance, Resources and Customer Services

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Agenda – Part:1	**Item: N/A**
Subject: A decision is required to authorise the increase in individual lease payments to landlords on the Private Sector Leasing Scheme (PSL) **Wards: All**	
Cabinet Members consulted: **Cllr Ahmet Oykener & Cllr Dino Lemonides**	

1. EXECUTIVE SUMMARY

1. Enfield Council uses leased accommodation to provide temporary housing for those owed a statutory housing duty; this accommodation is procured from a range of suppliers and private landlords who own or manage accommodation in the private rental market.

2. The private rental and nighty paid market both in Enfield and across the South East is experiencing increased competition for accommodation which is resulting in an increase in price. Both Enfield Council and other London boroughs are attempting to source properties for temporary accommodation against a background of increased demand across London, and increased volatility.

3. The Council has a mixed portfolio of temporary accommodation which includes a Private Leased Annexe (PLA) scheme and a Private Sector Leased (PSL) scheme, more expensive nightly paid accommodation (NPA) is also used, and is the main form of accommodation used at present due to increased demand. PSL & PLA accommodation has proved to be the best performing element of the portfolio providing good quality, stable and cost effective accommodation for those owed a statutory homelessness duty (Description/Ave costs of PLA, PSL and NPA in the Part 2 report - Appendix B).

4. However, having had relative stability in PSL accommodation for several years, the Council's leasing scheme is currently losing properties from the portfolio. Feedback from landlords indicates that this is because there are better financial returns from other boroughs, letting agents and, indeed, in the main through letting properties via nightly paid schemes in the current market. We are also challenged on a competition basis by neighbouring and other London boroughs.

5. Landlords are increasingly withdrawing properties from the PSL scheme, citing low rates as the reason. An increase in rent to landlords coupled with an advertising campaign promoting the PSL scheme would assist in stabilising and adding to the portfolio.

6. Enfield currently have 598 PSL properties, if PSL rates remain at current levels we anticipate this number reducing significantly over the next financial year as landlords take back their properties and move to an NPA or PRS, potentially for the use of other boroughs. Please see part 3.7 (table 1) evidencing 219 properties handed back to landlords since 2012. To maintain numbers within the portfolio a rise in the rent paid to landlords is recommended to the current Local Housing Allowance rate to remain competitive within the local housing market

7. The cost of the proposed increase is to be dealt with through the medium term financial plan as a budget pressure. This pressure is being funded as a spend to save initiative and is part of an action plan laid out to attract more PSL properties and in effect reduce the number of expensive NPA's currently being used. Whilst increasing current prices it should mitigate/reduce potentially significant cost increases.

   This represents a £2m saving on cost over 3 years compared to high cost nightly paid accommodation.

2. RECOMMENDATIONS

2.1 That the caps on lease payments paid to landlords on the PSL Scheme are increased up to 100% of the local housing allowance rate (LHA) to maintain the supply of accommodation for use as temporary accommodation or accommodation to prevent homelessness where this can be achieved.

2.2 Implement the suggested price increase up to 100% of the LHA to all renewals of PSL leases from January 2017 onwards. This is an invest-to-save measure.

3. BACKGROUND

3.1 Enfield Council's temporary accommodation portfolio is a mixed portfolio of provision with accommodation procured and managed in a number of ways,

- Private Leased Annexes (PLAs)
- Nightly paid accommodation (NPAs)
- Private sector leased annexes (PSLs)
- Housing Association as Landlord (HALs)

3.2 Each of these types of accommodation have different management arrangements with responsibility for repairs, rent collection and property management sitting either with the accommodation provider or the Council, the details of these arrangements are set out at Appendix A. Historically, this mixed provision has performed well for the Council, maintaining a flexible supply of accommodation.

3.3 Each type of provision has variations regarding procurement costs and expenditure. A description of each of the accommodation types and current risks and financial concerns are set out at *Appendix B* with NPA being the most expensive, consistently operating in a significant loss position.

3.4 However, financial pressures are being felt across the TA portfolio as demand for accommodation across London increases and drives up prices for rental units. This proves challenging when trying to secure both PSL and PLA portfolios.

3.5 The nighty paid market in Enfield is extremely buoyant as both Enfield and other London boroughs;

- Source emergency accommodation for increasing numbers of homeless households.
- Landlords are increasingly evicting reasonable private rented tenants in order to place their properties on a nightly paid basis for additional financial gain.

3.6 The private rental market in Enfield is also buoyant as both Enfield and other London boroughs;

- Source rented accommodation to prevent homelessness by arranging for a private sector tenancy or using the private rented sector to discharge its homeless function.
- The private sector rental market adjusts for the increased numbers of 'ordinary private renters' for households not able to purchase property due to mortgage difficulties (e.g. requirement for high deposit levels and a shortage of entry level homes as properties are purchased on 'buy to let' arrangements).
- The move of households not able to afford inner London rents due to Housing Benefit restrictions.

3.7 The PSL scheme has suffered a loss of 219 properties (see table 1) since the previous price increase of 4% in February 2012. There has been a steady trend in hand backs due to more profitable nightly paid and private rented markets. The reason this has not risen sharply is due to a gradual increase in incentives payments from £1k (3-year lease) in 2012/13, up to £5k in 2014/15 and up to £7.5k from 2016/17 to attempt to maintain the portfolio.

Table 1

Financial Year	Acquired	Handed Back
2012/13	20	60
2013/14	16	49
2014/15	21	43
2015/16	12	34
2016/17 (8 months)	5	33
Total	**74**	**219**

3.8 Discussions with PSL landlords at lease end, and an intelligence gathering exercise with other London boroughs undertaken by the Procurement Team, indicate that current rates were difficult to maintain as higher rent levels could be achieved elsewhere in the market. The findings of these exercises are set out in *Appendix C*.

4. ALTERNATIVE SCENARIO – POTENTIAL IMPACT OF NOT INCREASING PSL RENTS

4.1 Increase the use of expensive NPA accommodation (self-contained and shared). Currently we are utilising more than 1800 units of NPA which is causing a significant cost pressure on the portfolio. The increase in use of NPA properties is not sustainable in the long term due to the significant operating loss on each property.

The impact of NPA on the portfolio over a 3-year period (full turnover to NPA) will be more than £2m in additional cost to the council.

4.2 Maintaining the current rent levels paid to providers and landlords or increasing them at a level below those recommended would result in many more properties being lost from the schemes, eventually the scheme will cease to operate. Landlords have also expressed concerns in acceptance of lump sum incentives at renewal stage due to the potential of increased tax liabilities.

5 REASONS FOR RECOMMENDATIONS

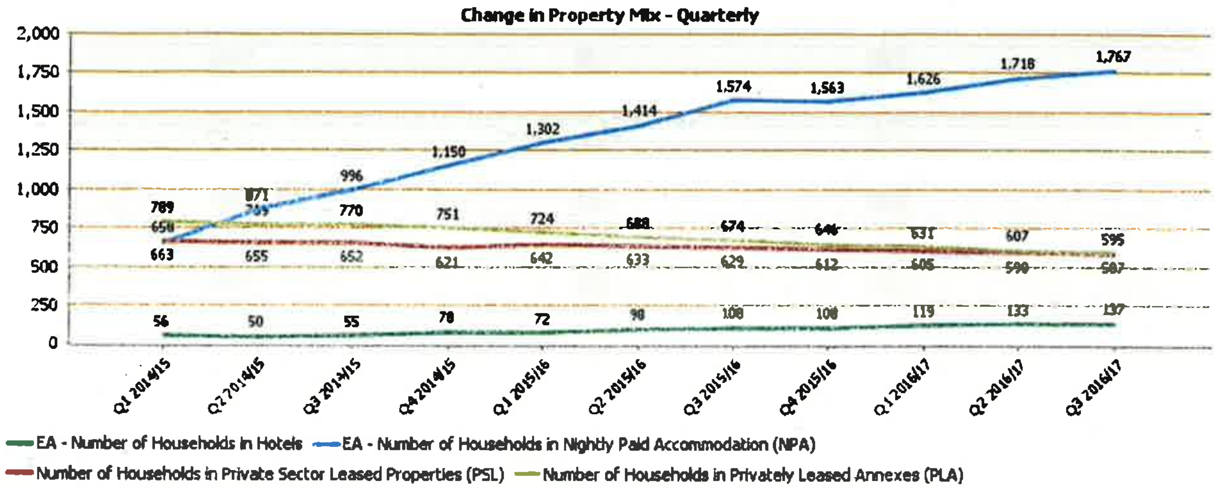
5.1 As previously advised rents for the PSL scheme were raised by 4% in February 2012 for the 759 units leased at that time. This increase has not stopped the continuing requests for properties to be returned to landlords – 161 properties in four years. From the intelligence gathered this is because landlords have the option to gain greater returns from other organisations/letting agents – particularly other London boroughs.

The recommended increase makes Enfield more competitive with agents on a guaranteed rent basis. It is envisaged that this would not only help us to secure the current portfolio, but increase it. It is our intention to go out to the market with an improved PSL offer to attempt to attract new landlords to the PSL scheme (advertising campaign). A competitive rate to landlords also limits the need to pay out incentives to top up the current low rate paid. In the last 3 years, we have paid out more than £1.7m in incentives to landlords to keep properties on scheme.

5.2 Based on three scenarios detailed in Part 2 report - Appendix C & D, if we are able to renew up to 50% of the PSL portfolio the next 3 years there is an avoidance in cost of circa £0.7m. If we were to compare this against implementing the PSL price increase to the LHA rate over the same period, there is an avoidance in cost of up to £2.0m against NPA ('Do nothing'). The increase in price is to be rolled out in conjunction with several work streams in order to reduce costs across the TA portfolio.

5.3 The PSL scheme is an efficient part of the portfolio, in terms of quality and stability. Historically, each PSL has provided the Council with a substantial monetary surplus, because the rent that we collect on them exceeds the costs of managing and leasing them. This surplus has been used to subsidise NPAs and other costs to the service.

NPAs on the other hand operate at a significant deficit to the Council. The loss of affordable PSL accommodation and the increase in the use of expensive NPAs has led to a significant budget pressure for the service. Please see graph below which shows the extent of the gradual loss of PSL's and significant increase in NPA's:



5.4 We are experiencing a high level of handback/transfer requests across all portfolios' (transfer list of 300), in one case an agent has requested more than 60 properties to be returned in the next 3 months as they wish to exit the market. An increase in PSL rates will save the loss of these properties as the agent is prepared to transfer all properties over to the PSL scheme. If the properties where to be returned there are significant resource issues, disruption to families, increased accommodation costs (NPA).

5.5 Although there is a significant loss of surplus in increasing the PSL lease rates over the next 3 years, the cost saving in years one and two will run still run in surplus as the council will not be paying lump sum incentives to secure properties at renewal stage.

6 COMMENTS OF THE DIRECTOR OF FINANCE AND CORPORATE RESOURCES AND OTHER DEPARTMENTS

6.1 Financial Implications

The rates currently paid to PSL Landlords are no longer sustainable to preserve our supply of properties. In the last 24 months we have lost 84 PSL properties which has forced the Council to use higher cost NPA accommodation instead. This has already resulted in a net loss of circa £630k which will continue to increase unless the portfolio can be stabilised.

The proposal to raise payments to PSL Landlords to LHA rate will result in a net cost to the Council of almost £2.7m over a 3-year period. This can be managed for 2017/18 and 2018/19 within existing budgetary constraints, after which time resources already identified within the MTFP will be required. This proposal forms just part of the management of demand and supply measures that the department applies to contain the pressure in TA within existing resources, which includes collaborative effort with other London boroughs in procurement of accommodation.

Should the NPA rates payable by the Council drop in future years so that they become a more attractive proposition to the Council than PSL lettings then the option is available to reduce the PSL portfolio at short notice, this will be carefully monitored and reported via the monthly budget monitoring reporting system.

6.2 Legal Implications

6.2.1 The Council has statutory homelessness duties under Housing Act 1996 which include securing that accommodation is available for occupation to persons entitled to be provided with accommodation.

6.2.2 These duties include having policies and strategies in order to anticipate future demand and ensure the Council has sufficient supply to meet anticipated demand. The recommendations contained in the report are in accordance with the Council's duties.

6.2.3 Amendments to existing contractual arrangements, (if required) should be dealt with in accordance with the contract terms and conditions and be in a form approved by the Assistant Director of Legal Services.

7 KEY RISKS

7.1 If the rents payable to landlords are not increased, there will be a further increase in the numbers of properties used on a nightly rate basis which will place considerable financial pressure on service budgets creating an over spend. This increase is likely to manifest in the increased use of high cost nightly paid units.

8 IMPACT ON COUNCIL PRIORITIES

8.1 **Fairness for All**
Black and minority ethnic communities are over represented in terms of those who are homeless, owed a statutory housing duty and living in temporary accommodation. Procurement of good quality accommodation will impact positively on these customers. The development of a range of housing options including a focus on maintaining tenancies wherever possible will also impact positively on these residents.

8.2 **Growth and Sustainability**
Understanding the local housing markets and the demand and supply issues for housing are of significant strategic importance to the Council in terms of both housing growth, sustainability in terms of energy efficiency and sustainable communities.

8.3 **Strong Communities**
This proposal supports the attainment of strong communities by promoting and enabling tenancy sustainment across tenures, preventing homelessness, removing the barriers to accessing the private rental market and offering choice of tenure in accommodation. These threads enable strong communities to develop.

9 PERFORMANCE MANAGEMENT IMPLICATIONS

9.1 Performance on the procurement and usage of accommodation is monitored closely as part of the standard operational activity in the Procurement & Commissioning Hub. An action plan to reduce the reliance on Nightly Paid Accommodation (NPA) is in development which is monitored at monthly meetings with the Director, and reported to the Departmental Management Team. The action plan enables monitoring of the accommodation portfolio and associated costs and pressures.

Appendix A

Accommodation type	Repairs included in charge by landlord / managing agent	Rental payments to landlord / managing agent due during void periods	Rent collected by Council	Contract period	Legal responsibility for eviction
Private leased annexes (PLAs) **617 units**	Yes	First 7-10-day period, thereafter no charge paid	Yes	2-5 years	Council
Nightly paid accommodation (NPAs) **1800 units**	Yes	No	Yes	Nightly	Landlord / managing agent
Housing Association as landlord (HALs) **113 units**	Yes	N/A	No – rent set & collected by RSL	2-3 years	Housing Association
Private sector leased annexes (PSLs) **598 units**	No	Yes	Yes	2-3 years	Council

Appendix B

Outcome of intelligence gathered and consultation with neighbouring London Boroughs

1.0 Overview

Consultation/Intelligence gathering was carried out with both neighbouring and inner London Local Authorities (our competition) to find an optimum rate that would enable us to increase stock across all areas in a financially sustainable way. We carried out this research by telephone, face to face meetings. Please see Appendix A in the accompanying Part 2 report for commercial data evidencing the rates that other local authorities are offering. The overriding similarity between our neighbouring boroughs is that they are in most cases paying 95% to 100% of the current LHA rate for their current PSL stock.

2.0 Market Response

Following intelligence gathering it became clear that the LHA rate is a fair representation for the rent levels within the guaranteed rent market. On discussion of rates when in the renewal process with a landlord on the PSL scheme, the LHA rate is the approximate figure they wish to achieve to stay on scheme. It is however accepted that a small amount of landlords will not want to continue to do business with us due to the fact that they can achieve higher returns in the private rented or nightly paid markets.

3.0 Pressures

Landlords are demanding more rent for their properties predominately due to 3 main reasons:

1. High returns achievable on 'agent led' guaranteed rent schemes (NPA)
2. There is strong demand for private rental properties giving a higher return (including rent insurance negating the risk)
3. Competition between boroughs to procure temporary accommodation

Rental rates paid by the Council have continued not to keep pace with the private sector or the demands of landlords; with some rates paid by the Council comparable to those paid in 2002.

Neighbouring Boroughs are paying higher rental rates, which attract providers to migrate across. This is especially evident from data provided on a sub-regional basis that shows other boroughs paying over and above the maximum nightly paid rates as set at London Councils. Appendix A (Part 2) sets out the breach rate as a percentage of lettings for Q1 2016. However, we are working closely with our neighbouring boroughs to ensure that maximum prices are adhered to wherever possible.

4.0 Risks

The main risk is that PSL's will migrate away from the scheme to seek higher rates from other Authorities or the private sector.

The Council may end up with more people being housed within the Borough from other Councils and a lack of accommodation to support Enfield's residents.
The Council will incur higher accommodation costs as they will be forced to provide more expensive accommodation as the alternative is via the more highly costed nightly paid rates.

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5.0 Issues to Consider

1. Continue to monitor the rate at which landlords withdraw from the PSL scheme, and establish a critical number (500) at which a further review should be undertaken;
2. Continue to work collaboratively with other Authorities to try and get parity of rates through the Inter Borough Accommodation Agreement/London Councils or to mitigate any migration of providers although this could mean increasing rates to the levels of other Authorities;
3. Establish a contingency measure that will allow for a potential increase in rates in the future to prevent a collapse in the Councils PSL scheme.
4. Review current management and repairs and maintenance arrangements for the PSL scheme to ensure best value for the council.