

# Private Sector Leasing Study 2002 Report

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## **1. INTRODUCTION**

- 1.1** HACAS Chapman Hendy (HCH) was commissioned by the Housing Corporation to carry out a study of the Private Sector Leasing (PSL) activities of registered social landlords, referred to in this report as housing associations (HA). This follows on from an earlier review of PSL for the Housing Corporation carried out in March 2001.
- 1.2** For the purposes of simplicity the term PSL is used in this report to include Private Sector Leasing, HALS (housing association leasing schemes) and HAMA (Housing association as managing agent). The majority of schemes managed by the HAs in this study were HALS schemes.
- 1.3** Following the failure of one particular housing association to manage the risks entailed, the Housing Corporation wishes to ensure that housing associations respond as positively as possible to the challenge of homelessness. Specifically the Corporation wants to support and enable associations to provide more temporary housing in partnership with local authorities.
- 1.4** The leasing of private homes by associations to provide temporary housing is a business activity with special characteristics and risks. The Housing Corporation hopes that this study will indicate to associations some of the factors to be considered when evaluating PSL.
- 1.5** The study was also designed to identify any specific concerns that associations had with current practices in the sector, which might inhibit their involvement with the sector and thus limit their assistance to local authorities when reducing their reliance on bed and breakfast accommodation.
- 1.6** The methodology for the study was based on questionnaires that HCH sent to twenty-one associations and follow-up interviews with seven of these. Interviews were also held with two local authorities to validate some of the issues raised by the associations and to understand the issues from the local authority perspective.
- 1.7** Some of the questions requesting financial information were either answered in part or not answered at all. Most associations were unwilling to disclose data that they deemed commercially sensitive. As a result we were unable to compile statistical data on average rent levels, management costs, etc.

## **2. EXECUTIVE SUMMARY**

- 2.1** Successful associations invest in the organisational infrastructure of their PSL operation by engaging high calibre staff, designing bespoke systems and adopting tight control procedures. Other associations perceive that the investment and the risks are too high.
- 2.2** Agreements with local authorities should be carefully negotiated and standard leases designed to afford adequate protection to the associations while still remaining attractive to the landlord. Many associations do not pay enough attention to this.
- 2.3** Recent guidance issued by the Department for Work and Pensions will help to streamline the contractual relationship between local authorities and associations and reduce the potential for delays in approving for Housing Benefit purposes many of the higher rents demanded by PSL accommodation.
- 2.4** Local authorities are committed to PSL and have a good understanding of the associations' perspective but are suspicious that some are inflating their costs without proper justification. Some other associations experience real difficulties with keeping their costs within income.
- 2.5** To deal with some of the perceived problems and to increase trust, both parties would welcome guidelines to establish best practice as regards staffing levels and acceptable monitoring and performance standards.
- 2.6** To reduce the risk factor associated with Housing Benefit payments benefits should be paid on the first three months of the PSL tenancy regardless of eligibility and the normal verification rules should be applied thereafter.
- 2.7** To avoid difficulties for both parties when rent officers have capped the level of rent payable, it is suggested that PSL agreements be structured so as to allow benefits departments not to refer rents to the rent officer if rents comply with the terms of the PSL contract. This is possible under current regulations.
- 2.8** Local authorities should provide more support to vulnerable tenants in PSL properties so as to reduce the numbers who fail to sustain their tenancy thereby reducing voids, bad debts and further homelessness.
- 2.9** More radical solutions are needed to increase PSL accommodation. These could include: open market purchases by associations let at near market rent; establishing larger areas of contiguous boroughs; consortium arrangements between local authorities and housing associations to form property companies to purchase properties on the open market.

## 3. ISSUES RAISED BY HOUSING ASSOCIATIONS

### 3.1 Summary of findings from survey and interviews

#### 3.1.1 Main risk factors

Item	Ranking*
Housing benefit (HB) administration	1
Turnover of tenants	2
Bad debts	3
Void management	4
Delays in nominations	5
Maintenance obligations at end of lease	6
Gas certificates	7
Level of support required by tenants	8
Maintenance obligations during lease	9
Rent officer approval of rent levels	10
Recovery of costs from landlords	11
Receipt of management fees from local authority	12
Lease terms	13
Language skills	14

\* 1 = highest risk

Each of these items is examined in depth in the following sections.

#### 3.1.2 Housing association relationship with local authorities

##### ○ Understand the priorities of the local authority

It is important that the association understands the priority that the local authority attaches to the various elements of the relationship. Some authorities may place a much greater priority on increasing the number of PSL units, whereas others may regard the control of the cost of each unit or the level of service to clients to be more important.

##### ○ Manage the void/nominations process

Some of the largest financial losses to associations result from poor management of void properties and delays in allocating tenants to properties. HAs should ensure that they have robust policies and procedures in place to minimise the void turnaround period. They also need to ensure that there are clear lines of communication with the local authority for the notification of voids and the dates on which voids are available for letting. If possible, the local authority should be given advance notice of when void works are scheduled to be completed so that the allocations process can be started at the earliest possible date.

Associations should also ensure that the agreement with the local authority clearly identifies timescales for nominations and penalties for failure to comply with these timescales. Associations need to have systems in place to monitor these arrangements and be in a position to provide documentary evidence in cases of dispute.

- **Manage the relationship with the HB department**  
Delays in payment of HB have been identified as the highest risk factor for associations engaged in PSL. It is imperative that associations have systems and procedures in place to:
  - Identify arrears cases
  - Track actions taken
  - Provide reports on arrears on a borough by borough basis
  - Make full use of the HB liaison service offered by (most) local authorities
  - Make full use of liaison meetings with the commissioning department.
- **Match nominees to properties**  
The local authority should ensure that the nominations process is able to match client requirements as closely as possible with the property. Some nominations have been made where the property does not meet the client requirements, e.g. property too small, properties do not have disabled access, etc.
- **Provide relevant data on tenants**  
Local authorities should ensure that associations are provided with any particular client data, e.g. language, rights to benefits, vulnerability, support needs, etc. This will enable the association to have arrangements in place to meet these specific requirements.
- **Associations need to be made aware of offers of permanent accommodation**  
When PSL tenants are offered permanent accommodation, the association should be informed. This would enable them to ensure that they can attempt to reduce/eliminate any tenant arrears and have an early indication of void works.

### 3.1.3 The main obstacles to increasing PSL units

- **PSL schemes should operate within a safe financial framework**  
One of the main obstacles to increasing the number of units in PSL is the perception that this is a high-risk business. Many of the risks can be reduced by ensuring that associations have good systems in place to monitor the key risk factors, have comprehensive agreements with local authorities that specify penalties for failure to nominate tenants to properties, and regular formal liaison meetings to resolve problems with the operation of the schemes.  
  
Some of the risks are not within the control of the association or the local authority. Changes to HB regulations, changes to other legislation (stamp duty on tenancy agreements) and the capping of rent levels by rent officers, are issues over which the parties to the agreement have no control.  
  
In many instances, legislative changes have been made to remedy specific problems but have caused problems in other areas. This can only be addressed by better liaison between government departments and stakeholders.
- **Availability of properties**  
PSL properties are acquired on the open market and as such are subject to market conditions. Higher rent levels will also increase the number of families presenting as homeless as some people will be unable to afford high rent levels in the private rental sector. Thus the demand for PSL increases when the housing market is strong.  
  
During periods when the housing market is strong, rent levels increase. This results in higher costs to the association in acquiring new properties.

- **Levels of rent/management fees**  
Most PSL agreements will set a maximum rent charge to tenants. Any excess caused by payment of high lease charges to landlords must be met by management or nomination fees. Obviously local authorities wish to keep these top-up fees to a minimum and may even set maximum fees per unit. This can severely limit the ability of associations to acquire additional properties.
- **Recruitment of staff**  
The skills required by association staff to manage the PSL stock differ from the skills required for general needs housing management: a far more commercial focus is required. It is difficult to recruit staff with these skills from within the social housing sector and to entice staff from the commercial sector.
- **Costs associated with setting up new departments and rapid growth**  
Any association wishing to enter the PSL market will need to set up new departments to deal with this new business activity. Those already involved in the sector wishing to increase its level of activity will also incur additional costs such as:
  - Retaining/recruiting high calibre staff
  - Staff training
  - New/additional business premises
  - New IT systems or amendments to existing systems
  - Working capital
- **Inability to reach acceptable agreements with local authorities**  
Some associations have been unable to reach satisfactory agreements with local authorities and have then decided not to pursue opportunities to develop or increase PSL in specific boroughs. The reasons cited are:
  - Lack of understanding by the local authority of the financial risks involved for the association
  - Lack of risk sharing agreements
  - Refusal by the local authority to provide performance guarantees
  - Local authority track record in processing HB claims
- **PSL proportion of total turnover**  
Because of the perceived level of risk attached to PSL most associations are unwilling to increase their involvement in PSL beyond a certain level of activity. The maximum for most associations seems to be about 25% of total turnover, but this does not apply to all associations.

### **3.1.4 Changes that associations would like to see to current practices in the PSL sector**

The changes that associations would like to see to the current practices obviously reflect issues mentioned in previous sections. These are listed here in bullet point format. All the issues are dealt with in detail in preceding sections.

- Benefit departments should have dedicated HB officers to deal with benefit claims on PSL properties.
- The amount of the nomination/management fee should be increased and the level of rent charged to the tenant should be reduced.
- The local authority should fund the full rental loss on void properties, from the date that the property becomes available to let.

- Local authorities should not refer PSL rents to the rent officer.
- Regular liaison meetings should be held with the local authority.
- Associations should be allowed to share risks across all schemes and authorities.
- “Unfair” competition from in-house PSL providers should be prevented.
- Incentives for private landlords to lease properties to associations should be increased.
- A resolution to HB issues on ‘out of borough’ schemes should be sought.
- Homelessness should have a higher profile in all government departments.

## 3.2 Housing benefit

### 3.2.1 Delays in payment of housing benefit

Rent levels on PSL properties are considerably higher than in general needs housing. Therefore delay in payment of HB has a greater effect (per unit) on cash flow for this sector.

In addition, lease terms with private sector landlords specify the dates on which rent must be paid. This rent is payable regardless of whether the association has received its rental income or not. As a result, any delays in payment of HB have a major impact on the cash flow of PSL departments.

### 3.2.2 Extent of problem

Data from our survey placed delays in payment of HB as the highest risk factor for associations operating PSL schemes.

In November 2000, housing benefit amounting to £11,777,713 was owed to nine housing associations for 10,392 homes, an average of £1,133 per unit.

*Source: National Housing Federation “Of No Benefit”.*

Obviously this average hides large variations between individual claims and the performance of individual local authorities.

Evidence from our survey suggests that one of the key factors that associations review when evaluating new schemes / new opportunities is the performance of the local authority in processing HB claims. If performance standards are not acceptable then associations will not proceed with the new scheme. In fact, some associations stated that they would not operate PSL schemes within some London boroughs because of their track record in processing benefit claims.

### 3.2.3 Nature of the problem

- **Determination of claim**  
Most of the concern with regard to HB claims centres on the amount of time taken between submission of the claim and determining the final amount of the entitlement. During this period the association has no way of knowing whether the claim is valid, or even if the tenant has provided all of the information required to establish the validity of the claim.

As the turnover of tenants in PSL properties is higher than in general needs accommodation, there is a very high risk that tenants may leave the property before a final determination has been made. This can result in large bad debt write offs for the association.

- **Payment cycle**

HB is paid four weekly, in arrears. Due to the high rent levels this means that PSL activities have a large working capital requirement per unit of accommodation, even when there are no delays with the processing of HB claims.

### 3.2.4 Causes of problem

There are a number of causes for the delays experienced by associations with the payment of HB.

- **Poor performance by local authority**

While it is possible to lay the blame for this problem at the door of local authorities, this is not entirely reasonable. What is evident however is that some local authorities are far slower at processing claims than others.

The Audit Commission report for year ended March 2001 gives details of the average number of days taken by local authorities to process new Housing Benefit claims. The data in respect of London boroughs is:

Average	79.09 days
75th Percentile	112.35 days
Median Percentile	61.14 days
25th Percentile	53.29 days

The target for this indicator is 36 days. Only two boroughs achieved this target in 2000-01.

This poor level of performance is a major contributory factor in making HB payment the highest risk factor for associations engaged in the PSL sector. In addition to long delays in processing claims, associations claim that local authorities experiencing these difficulties are also very poor at identifying inadequate information from tenants that would cause delays with determining the claim, and frequently lose documentary evidence provided by claimants. Administrative delays also lead to major frustration and stress to tenants.

Many homeless families can find it difficult to sustain a tenancy and live successfully in the community. Failure to determine HB within a reasonable timescale will exacerbate the difficulties of homeless families that have just been re-housed.

Housing associations sometimes issue Notice of Seeking Possession (NOSP) to tenants whose rent accounts are in arrears. This tactic is sometimes used to pressurise the local authority into processing claims and thus alleviate the difficulties faced by associations with high rent arrears. The effect on tenants, especially homeless families who have recently been re-housed and who may be unfamiliar with such tactics, should be given greater consideration. Other routes to solving these HB issues should be sought before using the option of issuing NOSPs.

- **Complexity of system**

The HB system has evolved over a considerable length of time and is now very complex. It is difficult for local authorities to recruit and train and even more difficult to retain staff if they are constantly working under pressure and dealing with a backlog of cases. In some local authorities it is a vicious circle where once problems start in the HB team, trained staff will leave unless the problems are resolved quickly. As more staff leave, the problems get worse.

- **Legislative changes**

The HB system has been subject to many legislative changes in recent years. The Government has introduced more complex rules in an effort to reduce fraud. As a result, Benefits staff are put under increasing pressure to keep abreast of the changes and to comply with the increasingly complex system.

Where legislative changes have required changes to computer systems, or indeed required implementation of new systems, the disruption has been substantial.

- **Not joined-up government**

Persons who claim to be homeless and wish to be registered for housing under the homelessness legislation are subject to assessment by local authorities. If they qualify for housing under this legislation, they may then be offered a property that is leased under a PSL scheme by an association.

The person must then lodge a claim for HB with the same local authority and go through an additional assessment process.

### 3.2.5 Possible solutions to the problems

- **Why housing benefit?**

In the course of our research many associations suggested that the HB system is not necessarily the most appropriate method of paying for the provision of housing to homeless families.

PSL stock is used exclusively for the provision of housing to homeless families. An agreed fee in respect of rent and management costs could be paid to each association for each unit made available to the local authority. Fees would be payable to the association to timescales agreed in the contract.

This would reduce the risk to associations and also reduce the pressure on local authorities in processing, chasing and monitoring HB claims. It would also reduce the stress on homeless families, as they would be relieved of the pressure of completing and chasing HB claims.

An alternative would be to charge rent to the tenants at the target rent level as calculated under the rent restructuring guidelines. This rent would be subject to payment under HB, and the local authority would pay the top-up required to meet the full charges under PSL as a management fee.

- **Delays in assessing initial HB claim**

Local authorities should have (be allowed to have) a more holistic approach to housing homeless families. If a family qualifies as homeless under the Homeless Act then it should be possible to ensure convergence of the homelessness criteria with those of HB. Alternatively, as part of the assessment under the homelessness legislation assessment under the HB legislation should be combined to ensure that families are “pre-assessed” when offered a PSL property.

Under-performing local authorities that take a long time to process HB claims should be monitored closely. Penalties could be levied on such local authorities, either payable to central government or to the landlords as compensation for late payment.

○ **Payment cycle**

Amend the payment cycle for payment of rent on PSL properties from four weekly in arrears to either two weeks in advance / two weeks in arrears, or four weekly in advance.

This would be a very easy legislative change to make and implement.

○ **Liaison between associations and benefits departments**

To minimise delays in payment of HB claims associations currently try to establish close working relations with the benefits section of the local authority. Some local authorities assist in this process by appointing one person in the benefits section to liaise with the association(s).

Other local authorities also establish a second level of liaison between the association and benefits. The commissioning department for PSL schemes will review outstanding HB claims with the association on a regular basis and then pursue them with the benefits section. This liaison is recognition that a problem exists with the system but introduces an extra layer of bureaucracy.

○ **Legislative changes**

Every effort should be made to ensure that legislative changes are kept to a minimum but when changes are required these should be coordinated to cause the least amount of disruption to Benefits staff and systems.

○ **Recent developments**

The Department of Work and Pensions (DWP) recently announced that additional funding is available to local authorities to assist with improving performance in processing accurate claims and move closer to performance standards. Projects for which funding is available are:

- To recruit and train new staff
- To improve retention of staff
- Major capital projects, e.g. new computer systems.

The amounts on offer from DWP are:

2002-2003	£40 million
2003-2004	£40 million
2004-2005	£70 million

Under the current system local authorities have been obliged to refer schemes to the Rent Officer where relatively high PSL rents meant that HB claims were excessive. The new DWP guidance stresses that referrals are needed only in exceptional cases where proposed rents are 'unreasonably high' for the type of accommodation. The guidance also suggests that local authorities establish a service level agreement with each of their associations to restore confidence in the HB system.

Taken together, these new measures will help to streamline the process.

## Evaluation of possible solutions

### ADVANTAGES

#### 1. Co-ordinate housing of homeless families with assessment for housing benefit

- No legislative changes required.
- Would speed up the determination of entitlement to HB.
- Should eliminate the delays in payment of benefits at the start of a tenancy.
- Should reduce the stress to tenants awaiting HB payments.
- Would provide the benefits of “joined-up government” to tenants.

#### 2. Monitor/penalise under-performing local authorities

- May help to reduce anomalies between the performance of local authorities.

#### 3. Change the payment cycle for housing benefit payments for PSL properties

- Easy to implement.
- Would have an immediate positive impact on cashflow.

#### 4. Pay all PSL charges as a management fee

- Easy to implement.
- Guaranteed payment to association.
- Immediate reduction to association risks.
- Easier to monitor arrears.
- Reduction in HB claims to local authority.

### DISADVANTAGES

- Would require much closer working between the homelessness unit and benefits. May even require moving staff from one department to another.

- Benefit claims are only processed for persons who have a fixed address. Procedures/systems may have to be developed to allow determination of entitlement before a property is identified.

- Problem may be caused by lack of suitably trained managers/staff. Not easy to remedy in the short term. May put extra pressure on staff and force them to leave.

- A performance indicator monitoring system has been in place for some years but has not solved the problem.

- Would have no effect on the risk factor associated with new claims/bad debts.

- May require minor amendments to computer programs.

- Changes required to funding regulations for local authorities. Primary legislation may be required.

- Very tight contractual arrangements would be required between local authority and HA.

- Monitoring requirements of local authorities would widen substantially.

**ADVANTAGES****DISADVANTAGES****5. Pay all PSL charges as a management fee for a fixed period at the start of each tenancy (3 to 6 months)**

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>○ Easy to implement.</li> <li>○ Guaranteed payment to association.</li> <li>○ Immediate reduction to association risks.</li> <li>○ Easier to monitor arrears.</li> <li>○ Reduction in HB claims to local authority.</li> <li>○ Would bring the tenant back into the standard HB regime after a short time.</li> <li>○ Would allow the association to ensure that claims for HB were made in ample time to ensure that there was no major delay in receipt of the HB payments.</li> </ul> | <ul style="list-style-type: none"> <li>○ Changes required to funding regulations for local authorities. Primary legislation may be required.</li> <li>○ Very tight contractual arrangements would be required between local authority and the association.</li> <li>○ Monitoring requirements of local authorities would increase substantially.</li> <li>○ Two systems to operate for the same type of accommodation. Might lead to confusion/duplication/delays in payments.</li> </ul> |
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**6. Charge tenants a “target” rent and local authority a management fee**

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|---|---|
| <ul style="list-style-type: none"> <li>○ Reduced dependency on HB payments.</li> <li>○ Guaranteed payment of part of the charge to associations.</li> <li>○ Immediate reduction in level of risk to the association.</li> <li>○ Easy to implement.</li> <li>○ Would have an immediate positive impact on cashflow.</li> </ul> | <ul style="list-style-type: none"> <li>○ Changes required to funding regulations for local authorities. Primary legislation may be required.</li> <li>○ Very tight contractual arrangements would be required between local authority and the association.</li> <li>○ Monitoring requirements of local authorities would increase substantially.</li> <li>○ Two systems to operate for the same type of accommodation. Might lead to confusion/duplication/delays in payments.</li> <li>○ Two separate systems required both by the local authority and the HA, for each property and for each tenant.</li> <li>○ Funding for local authority would need to be identified.</li> </ul> |
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**7. Improve liaison between association and local authority**

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|---|--|
| <ul style="list-style-type: none"> <li>○ Associations are more aware of the status of each claim and can attempt to take remedial action.</li> <li>○ Associations believe that this level of liaison does speed up the processing of claims.</li> </ul> | <ul style="list-style-type: none"> <li>○ Bureaucratic and time consuming.</li> <li>○ Tends to be used to monitor all claims rather than dealing with exceptional cases.</li> <li>○ Where benefit payments are very slow all cases would be exceptional.</li> <li>○ Does not tackle the underlying problem.</li> <li>○ This level of intervention on individual claims is likely to extend the average time taken to process all claims.</li> </ul> |
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### 3.3 Turnover of tenants

#### 3.3.1 Nature and extent of the problem

PSL properties are designed to provide short-term accommodation for homeless families. As such, it is accepted that tenants should be moved on to permanent accommodation as soon as suitable properties become vacant.

In reality, tenants usually have to wait a considerable time before permanent accommodation becomes available. In many instances, the PSL properties are being used as an extension to the stock of permanent properties, with tenants only being moved to permanent accommodation when the lease expires and the tenants must be decanted.

The main problems with the turnover of tenants arise when tenants abandon properties either before their HB entitlement has been established, or where tenants are unable to manage their tenancy and abandon their property, leaving the property in a state of disrepair.

The issues of sustaining tenancies has attracted some attention in recent years, not just the problems faced by homeless families, but also problems faced by persons in all types of social housing. It is recognised that every effort should be made to assist all tenants to sustain their tenancies as the cost of tenancy breakdown, both in economic and personal terms, is very high.

Most tenants who fail to sustain their tenancy will represent themselves to the local authority as homeless and unless the underlying problems are dealt with, these persons will enter a vicious circle and continue to fail to establish a permanent tenancy.

Shelter, the homeless charity, is currently carrying out a pilot project called "Homeless at Home" at three sites, Birmingham, Bristol and Sheffield. The evaluation of this project has been carried out by Centre for Housing Policy, University of York. The following quotes and data have been taken from their report "Firm Foundations". The statistics are based on records of 253 out of the 271 families whose records were examined.

#### Causes of homelessness

Domestic violence	38%
Relationship breakdown	15%
Asylum seeking	11%
Loss of private sector accommodation	9%
Neighbour harassment	8%
Overcrowding/unfit	8%
Other	7%
Debt/other	4%
<b>Total</b>	<b>100%</b>

*"Many homeless families have few personal and financial resources with which to manage a home and take an active part in social and economic life. They may become homeless with only very few, or no, possessions of their own and little prospect of earning a reasonable income. Families will quite often have lost the social supports from friends and family that most of us enjoy. In addition, the experience of*

*homelessness, particularly if they escaped violence, may have left them traumatised and alienated from society.*

*Families often found it difficult to manage their home when their sole income was from benefits. Financial pressures could create a situation in which families felt unable to cope with pressure and their general well being was being undermined."*

Household composition of families at referral

Lone parent, with children under 10	46%	} 73%
Lone parent, with children over 10	12%	
Lone parent, children of mixed ages	15%	
Couple, with children under 10	15%	

Other categories were: couple with children over 10, couple with children of mixed ages, single person, couple with no children and other.

As can be seen from the data above, the vast majority of referrals to the Homeless at Home service were families of lone parents with children, 73% of all referrals.

There are no research data available to quantify the scale of the problem of repeat homelessness. However, in the research data published on the Homeless at Home project, the following information was identified:

*"In 38% of cases information existed as to whether the household had been homeless before, 56% of these families had experienced at least one spell of homelessness."*

Extensive quotes have been taken from the Firm Foundations report as it demonstrates that the issue of homelessness is unlikely to be solved by the provision of housing alone. Much more attention needs to be given to the support needs of families that have been re-housed. Otherwise a large percentage will fail to sustain tenancies and represent as homeless at a future date.

### 3.3.2 Possible solutions

- Provide support to tenants to ensure they are able to maintain a household and have access to suitable medical and educational facilities.
- Refine the nominations procedures to ensure that properties more closely meet the requirements of individual families.
- Ensure that association staff are informed on the possible difficulties experienced by homeless families and that staff build relationships with other organisations that can provide additional assistance, e.g. charities that can provide furniture and white goods free or at a low cost, agencies that can assist with applications for grants or access to medical and educational facilities.
- Set up a volunteer support group to assist with decorating and gardening and provide a forum to allow families to assimilate in the community.

## 3.4 Bad debts

### 3.4.1 Nature of the problem

There are a number of reasons why associations incur bad debts in PSL properties:

- **Failure of tenants to claim HB**

Tenants are required to lodge claims for HB within one month. Claims lodged after this date will only be backdated by a maximum of one month from date of receipt of claim.

If a tenant fails to lodge a claim on time then any rent charges that are ineligible for HB will have to be recovered from the tenant. Given the high level of rent charges in this sector, a tenant may owe substantial amounts to the association in a relatively short period of time and will be unlikely to be in a position to effect payment.

Where a new tenant fails to claim HB or fails to provide the information required to establish the validity of the claim and abandons the tenancy before the position can be resolved, the association will be unable to recoup rent either from the tenant or from HB.

- **Tenant not eligible for full HB**

Where a tenant is not eligible for full HB, the tenant must pay that portion of the rent not paid by benefits.

### 3.4.2 Possible solutions

The issues around HB claims are discussed in detail in Section 3.2 and the issue of tenancy sustainment in Section 3.3. If solutions can be found to these issues then the risk of incurring bad debts should be reduced considerably.

To be successful at managing PSL associations must have very robust arrears monitoring and credit control procedures in place, until these issues are resolved.

## 3.5 Void Management

### 3.5.1 Nature of the problem

Void properties incur high costs. The association must pay rent for the property to a private landlord, but has no income from the property while it is void.

Properties may need to be repaired/decorated prior to being relet, thus adding to the costs incurred by the association. Costs arise from:

- Loss of rental income during void period.
- Costs of repairs/decorations.
- Delays in nominating new tenants (Section 3.6).
- Disputes with landlord (private sector) about who is responsible for repair/decoration costs.

### **3.5.2 Possible solutions**

Issues around sustaining tenancies have been discussed in detail in Section 3.3. If the number of abandonments can be reduced this should have an appreciable impact on the number of voids.

It is important that associations have detailed policies and procedures covering void works. These should comply with the requirements of the PSL contracts with local authorities. The issues surrounding these elements of void management are not specific to PSL properties and associations should ensure that all void properties are made available for letting in as short a space of time as possible.

The cost of void works is also an issue that is not specific to PSL properties. Having an agreed void works programme for all voids, and by proper pre- and post- works inspections to ensure adequate quality control can reduce these costs.

It should be possible to avoid disputes with private sector landlords over who is responsible for void works by having responsibilities clearly identified in the lease agreements.

The following sections discuss these issues.

## **3.6 Delays in Nominations**

### **3.6.1 Nature of the problem**

Associations notify the Homelessness Unit of the local authority when properties become available to rent to new tenants. The amount of time taken by the local authority to nominate tenants can be unacceptably long. Delays result in increased void losses for the association. This problem is not specific to PSL properties.

### **3.6.2 Possible solutions**

The association should have policies and procedures in place to identify when properties will become available for letting, and for notifying the local authority at the earliest possible opportunity.

These procedures should cover the monitoring of completion dates of void works and the progress of finalising leases on new PSL properties. Local authorities can then be informed and arrange viewings either before repair works are fully complete or immediately on completion or finalisation of the new lease.

The association should also have an agreed maximum period in which the local authority must make nominations. Exceeding this limit should trigger penalty payments by the local authority.

One issue that is outside of the control of both the HA and the local authority is the entitlement of tenants to reject offers of housing. It is not known how much of an impact this has on housing homeless families.

### 3.7 Lease terms

A number of risk factors identified by the study arise from the terms of the lease. The solution to all of these issues is to have leases that clearly identify the respective responsibilities of the association and the landlord, in some detail.

- **Maintenance obligations at end of lease**

Usually the association is required to hand back the property to the landlord in the same condition as when the lease commenced, less normal wear and tear.

Disputes regularly occur in the interpretation of what constitutes 'normal wear and tear'. Where possible the association should draw up a standard specification to which it will repair/decorate PSL properties at handback stage. This specification could form part of the lease agreement.

- **Gas certificates**

Landlords are required to have a valid gas certificate for each property. Certificates are valid for a period of twelve months, and all gas appliances must be checked and certified on an annual basis.

Problems arise where the association does not assume the responsibility for gas certificates, and the landlords do not schedule the annual checks to comply with legislative requirements. This issue is especially problematic where the landlord lives overseas.

The easiest way to remedy this problem is for the association to assume responsibility for this function under the terms of the lease and either charge the landlord the cost of this service, or deduct it from the gross rent payable.

- **Maintenance obligations during lease**

When an association has a number of different leases in operation for its PSL stock, it is difficult to track the repairs on individual properties for which the HA has responsibility and those that are the responsibility of the landlord.

The only solution to this problem is to have clear procedures in place to allow staff to readily identify relative responsibilities.

This problem may be exacerbated if repairs requests are logged to a repairs department that services the requirements of both the general needs and the PSL stock of the association. In this situation, it may be possible to have a separate PSL authorisation procedure to identify relative repair responsibilities before repairs are carried out.

- **Recovery of costs from landlords**

The association may incur costs for which the landlord is legally responsible, such as repairs, gas checks, etc. Landlords may dispute these charges or may fail to pay for them.

If the lease clearly identifies the items for which the landlord is responsible, disputes should be kept to a minimum.

If possible, the association should ensure that it has the right to deduct costs from rent payments, subject to prior approval from landlords. Ideally these should be included in the lease terms.

### **3.8 Level of support required by tenants**

Associations recognise that homeless families require a high level of support. Most associations provide it. The average staff/property level in PSL is 1:120 compared with 1:300+ in general needs housing. These extra costs are currently funded from rent/management fees.

Intensive support should be provided to assist tenants during the first three to six months of the tenancy. This service could be provided by the local authority, the association or by an agency. Such a service could be eligible for Supporting People grants.

### **3.9 Delays in receipt of management fees from local authorities**

Some associations have experienced delays in receipt of management fees from local authorities.

Robust accounting and credit control procedures are required to ensure that levels of arrears are kept to a minimum.

### **3.10 Language difficulties**

Many of the people housed in PSL properties do not have English as a first language. Most associations have staff with language skills that match the range of languages spoken by their tenants in permanent accommodation. However, the tenants in PSL stock present a far wider range of languages. It is not reasonable to expect associations to have all of the required language skills in-house.

Translation/interpretation facilities are provided by some local authorities and by organisations such as Language Line. Associations should ensure that staff have access to these facilities, where necessary.

## **4. ISSUES RAISED BY LOCAL AUTHORITIES**

### **4.1 How do local authorities attract associations to provide PSL schemes?**

The local authorities invite tenders from associations to provide PSL schemes in their area. Tenders are issued on a three-year cycle and result in contracts to acquire leased properties in the borough for the three-year period.

If an association fails to win a contract for the succeeding period, they cannot acquire any additional properties for the borough but they can continue to manage the properties they have under lease agreements.

Where associations have not been reappointed this has often been as a result of the association deciding not to tender rather than failure to win reappointment. In some instances associations are deselected by the local authority in an attempt to introduce new associations to the area.

### **4.2 Main factors used to select associations**

- Rent level and amount of any nomination/management fee required.
- Experience of the association in managing PSL schemes.
- Track record of the association in provision of PSL schemes.
- Terms of the association standard lease complying with the requirements of the local authority.

### **4.3 How does the local authority monitor housing association performance?**

- Associations are required to provide monthly monitoring statistics on voids, arrears and rent collection.
- Regular liaison meetings are held between the local authority and the association.
- The local authority regularly reviews complaints from PSL tenants, or regarding PSL stock.
- The local authority reviews the performance statistics on acquisitions to ensure that the association is in compliance with the terms of their agreement.

### **4.4 What are the main risk factors for local authorities with the provision of PSL schemes?**

- Failure of the association to comply with the contract or decisions by the association to terminate agreement to supply PSL schemes.
- Rent officer determinations that may lead to the local authority having to make a top-up payment to the association.
- Early hand-back of property to the landlord or failure to extend the term of the lease. This requires that the tenant must be decanted and alternative accommodation found.

- Increase in the level of homelessness. This is not within the control of the local authority and can have a major impact on the number of PSL units required. It is difficult for the local authority, and the HAs to react quickly to large changes in demand.
- Tenants threatened with eviction for non-payment of rent arrears that is usually caused by delays in processing HB claims. This leads to additional work within the local authority and can generate complaints from tenants.
- Lack of support for vulnerable tenants that may lead to failure of the tenant to sustain the tenancy.
- Duration of the lease. Local authorities would like to see longer leases to reduce the number of properties to be decanted.
- Financial stability of associations. Following the failure of one association to manage PSL successfully, local authorities are more aware of the need to ensure that associations are financially robust.

#### **4.5 What are the main obstacles to increasing the number of PSL units?**

- There is a limited supply of properties that meet the criteria of cost, quality and size.
- Delays in regeneration projections means that properties awaiting regeneration may not be of a standard suitable for letting and during regeneration the properties will not be available.
- Failure of associations to supply PSL properties in line with the contract terms.
- Competition between PSL and Bed and Breakfast Annexe provision. Some local authorities are currently examining the possibility of converting the B&B Annexe accommodation to PSL schemes.
- Inability of local authorities to acquire PSL properties 'out of borough'. This practice is discouraged as it can result in first moving the homeless families from one area to another without improving the overall position.

#### **4.6 What are the main changes that local authorities would like to see to current practices?**

- Open book policy by associations to provide detailed accounts on the PSL activities on a borough-by-borough basis. This would enable the local authority to validate claims by associations that PSL schemes are generating deficits. There was a very strong feeling that associations may be making deficits in some boroughs but that was not a justification for trying to negotiate higher fees/margins or indeed, pulling out of the PSL sector in full.
- Better communication between the association and tenants, especially with tenants for whom English is not their first language.
- Associations should facilitate representation by PSL tenants in its activities.

#### **4.7 What changes would local authorities like to see in government policy?**

- Timescales for new government initiatives tend to be too short. Many of the new initiatives announced by the bed and breakfast unit are only in place until April 2004. Local authorities would prefer more long-term solutions to the problems of homelessness.
- Social housing development policies seem to provide mostly one/two bed apartments. There is very little provision of larger properties that are often required for homeless families. Local authorities would welcome a change in the development policies for social housing that would increase the supply of properties for larger families.
- Legislation should be enacted to allow local authorities to access void private properties.
- Central government has launched many new initiatives on social housing and homelessness. Some of these initiatives, such as those announced by the bed and breakfast unit, are time limited and authorities struggle to ensure that they make the best use of the opportunities provided by these initiatives. Authorities would like to see a commitment to longer term funding. Also a number of competing social housing initiatives have been announced such as key worker accommodation and shared ownership. These compete with general needs social housing schemes for a limited supply of building sites.
- The problem of homelessness could be tackled more effectively if contiguous local authorities formulated joint policies for dealing with the issues. Some joint ventures for dealing with homelessness already exist between London boroughs. Some would like this to be more formal and cover, for example, all of West London. Possibilities would include West London Temporary Accommodation Agency and enforced joint working with associations on the allocations process.
- The government should encourage better use of existing accommodation by tackling the problem of under occupation.
- The system could be greatly simplified if funding for temporary accommodation was outside the HB regime. Any changes to the method of payment to associations would not be acceptable to local authorities if this resulted in payment out of Council Tax funds.

#### **4.8 What type of organisation is most suited to manage PSL schemes?**

- Associations are not the sole available providers of a PSL service. Some commercial companies (property management companies or estate agents) may be in a position to provide the service. Nevertheless local authorities question the ability of private companies to provide housing management services, and whether they would require an unacceptable level of profit. Also, there would be no regulatory framework to monitor their activities.

- Some non-housing association companies have bid for PSL contracts. They have been judged to lack relevant expertise in housing management. However, it would be possible for local authorities to structure contracts so that the housing management function could be provided directly by the local authority.
- Local authorities could lease the properties directly. Some local authorities have in-house PSL departments that lease properties direct from private sector landlords. Where such departments already exist it would be easy to expand their activities.

#### **4.9 General local authority comments**

- It may be possible to reduce some of the risks to associations, or increase other opportunities to compensate. Joint commissioning with a select few associations would provide closer links with HB, provide access to development opportunities within borough, etc.
- Associations should specifically target BME landlords.
- Local authorities recognise that many homeless families require a very high level of support to enable them to sustain their tenancy. One of the local authorities interviewed in the course of our research estimated that support is required by between 10 and 20% of its PSL clients. It is currently setting up arrangements for two agencies to provide this support under Supporting People arrangements (from April 2003).
- At least one local authority is actively promoting the idea of associations buying properties to provide units to PSL schemes. It is willing to provide long-term leases to associations and/or take the properties into their in-house PSL scheme.

## 5. CONCLUSIONS

### 5.1 Private sector leasing

Our study shows that there are a number of associations who are actively engaged in PSL and have been able to operate successfully within this sector. It is obvious that other associations have had difficult experiences in the sector and sustained deficits from PSL activities resulting in decisions to cease acquiring new units or in some cases to withdraw completely from the sector.

The successful associations have the following attributes:

- A commitment to the sector that allows management to:
  - Invest in setting up an appropriate organisational infrastructure
  - Recruit high calibre staff
  - Invest in setting up appropriate systems and control procedures to monitor the PSL activities and report on them on a borough-by-borough basis.
- Staff that can negotiate robust agreements with local authorities.
- Standard leases that provide adequate protection to the association while remaining attractive to private landlords.
- Regular liaison meetings with the local authorities, both with the commissioning department and with the HB department.

These are the main areas of risk that are within the control of the association and the local authority.

Local authorities are also committed to this sector. Commissioning departments within the local authority have a clear understanding of the issues faced by associations but feel that some associations are using the current climate to negotiate agreements at inflated prices and often fail to provide information to justify statements about difficulties being experienced with their PSL schemes. Some associations fail to provide regular monitoring information and do not provide annual accounts in respect of PSL activities in the borough.

Many of the issues raised by both local authorities and by associations would seem to suggest that basic standard performance criteria should be enforceable by both parties to the PSL agreements. Many of the issues mentioned demonstrate a lack of performance by both parties that should be unacceptable.

To assist with eliminating some of the problems within the sector, it would be helpful to provide a set of guidelines that would establish a best practice standard for both associations and local authorities. This guide should deal with issues such as:

- Staff skills and staffing levels required.
- Content and frequency of monitoring reports.
- Performance standards for:
  - Management costs
  - Void turnaround times
  - Nomination targets
  - Collection rates
  - Credit control procedures
  - Acquisition methods
  - Lease terms
  - HB claims processing.

## 5.2 Housing benefit

Housing benefit has been identified as the main risk factor for associations. Numerous suggestions have been made to reduce the problems caused by poor performance of HB departments. The favoured approach, while keeping the system within the HB regime, would be to pay benefits on the first three months of a PSL tenancy regardless of the circumstances of the tenant. At the end of the three-month period, normal verification rules would apply.

The four weeks in arrears rule for payment of benefits should be amended to either two weeks in advance/two weeks in arrears, or four weekly in advance. This would reduce the average level of arrears over the range of tenants in PSL schemes.

In addition, local authorities should make every effort to ensure that benefits departments comply with government guidelines for processing claims.

## 5.3 Rent officer determinations

Many local authorities and associations have experienced difficulties when rent officers have capped the level of rent payable on a property.

HB departments have the discretion on whether or not to refer rent levels to the rent officer. It should be possible to structure PSL agreements in such a way as to allow the benefits department to decide not to refer PSL rents to the rent officer provided they comply with the levels agreed in the PSL contract.

New guidelines issued by the Department for Work and Pensions should help to streamline this process.

## 5.4 Support for tenants

Many instances of homelessness are caused by tenants being unable to manage their tenancy. Many tenants housed in PSL accommodation fail to sustain their tenancy, resulting in void losses and bad debts and the tenants re-presenting as homeless.

Local authorities should make every effort to provide support to vulnerable tenants, both in permanent accommodation, and specially those in PSL properties.

## 5.5 Availability of property

A number of suggestions were made on how to increase the supply of properties to the PSL sector. Many of these suggested that associations should purchase properties on the open market and either lease them to the in-house PSL department of the local authority or let them for the provision of accommodation to homeless families at or near market rents.

A more radical suggestion, which would potentially provide a much larger number of units would be to establish larger areas (i.e. a number of contiguous boroughs) to tackle homelessness. The local authorities and the associations within this larger area could then set up a property company with capital funding from each of the partners and borrow funds at favourable rates that would allow it to buy properties on the open market and lease these to the HAs or the Local Authorities. It should be possible to lease properties at a slightly lower rate than under current arrangements. Long lease terms would be needed to make the schemes viable. At the end of the lease or when the purchase price has been recouped the property could either be transferred to general needs housing, remain in the PSL sector to subsidise other PSL schemes, or it could be sold. All of the partners in the company would benefit either from a distribution of profits or a reduced cost of housing the homeless.

As this would be a new approach to the problem it is recognised that it would require careful planning and negotiation between interested parties. This may over time provide part of the long-term solution to the problem of the availability of properties.

**APPENDIX 1: HA QUESTIONNAIRE  
HACAS CHAPMAN HENDY  
PSL RESEARCH PROJECT**

1. Name of HA   
 Address   
 Contact Person   
 Telephone No.   
 E-mail Address

**2. How many units were in management at the end of March 2002?**

Total  PSL

**3. In which Local Authority areas do you have leased schemes?**

Local Authority	No. of units
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>
<input type="text"/>	<input type="text"/>

**4. What was the turnover of your organisation for the 12 months ended 31 March 2002?**

Total  PSL

**5. Do you have a special department to manage PSL stock?**

Yes  No

If YES, how many staff (WTE) are employed in the department?

a) General Housing Management Officers	<input type="text"/>
b) HB Co-ordinator/Liaison Officer	<input type="text"/>
c) Court Liaison Officer	<input type="text"/>
d) Landlord Recoveries Officer	<input type="text"/>
e) Gas Certification Officer	<input type="text"/>
f) Handback Officer	<input type="text"/>
g) Acquisitions Manager	<input type="text"/>
h) Dedicated Finance staff	<input type="text"/>
i) Others (please specify)	<input type="text"/>
<input type="text"/>	<input type="text"/>
Total	<input type="text"/>

*Only include staff in Sections b)–i) if these are the only/main tasks performed by these staff.*

If No, what is the WTE of the workload of staff in General Needs Housing spent on PSL properties?

a) General Housing Management Officers	<input type="text"/>
b) HB Co-ordinator/Liaison Officer	<input type="text"/>
c) Court Liaison Officer	<input type="text"/>
d) Landlord Recoveries Officer	<input type="text"/>
e) Gas Certification Officer	<input type="text"/>
f) Handback Officer	<input type="text"/>
g) Acquisitions Manager	<input type="text"/>
h) Dedicated Finance staff	<input type="text"/>
i) Others (please specify)	<input type="text"/>
<input type="text"/>	<input type="text"/>
Total	<input type="text"/>

*Only include staff in sections b)–i) if these are the only/main tasks performed by these staff.*

**6. Please comment on staffing and salary levels pertinent to PSL and any workload peculiarities associated with managing and leasing schemes (e.g. mix of temporary and permanent staff, specialist skills, salary levels, etc.)**

**7. What type of leasing schemes do you operate?**

	No. of units
HAL	<input type="text"/>
HAMA	<input type="text"/>
Other PSL	<input type="text"/>
Other (please specify)	<input type="text"/>

**8. What was the total turnover of your organisation for the year ended 31 March 2002?**

**9. What was the turnover and surplus/deficit by scheme type for the year ended 31 March 2002?**

Scheme Type	Turnover	Surplus/deficit
<input type="text"/>	<input type="text"/>	<input type="text"/>

**10. What factors do you use when appraising new schemes?**

**11. What are the main risk factors associated with the provision of leasing schemes? Please rank each factor on a scale of 1–10 (1 = very low risk, 10 = very high risk).**

	Ranking
Housing Benefit administration	<input type="text"/>
Receipt of management fees from LA	<input type="text"/>
Void management	<input type="text"/>
Bad Debts	<input type="text"/>
Turnover of tenants	<input type="text"/>
Rent Officer approval of rent level	<input type="text"/>
Delays in nominations	<input type="text"/>
Level of support required by tenants	<input type="text"/>
Language skills	<input type="text"/>
Maintenance obligations (during lease)	<input type="text"/>
Maintenance obligations (at end of lease)	<input type="text"/>
Gas Certificates	<input type="text"/>
Recovery of costs from landlord	<input type="text"/>
Propose lease terms	<input type="text"/>
Others (please specify)	<input type="text"/>
<input type="text"/>	<input type="text"/>
Comments	
<input type="text"/>	<input type="text"/>

**12. What are the main issues that need to be managed in your relationship with the Local Authorities with whom you have leasing schemes?**

**13. Do you feel that there is a need for more PSL properties in the areas in which your organisation currently provides leasing schemes?**

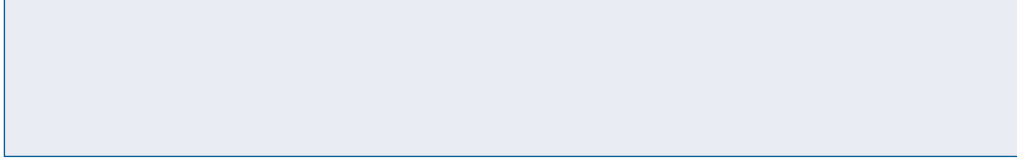
Yes  No

If YES, how many extra PSL properties would be required to meet these requirements?

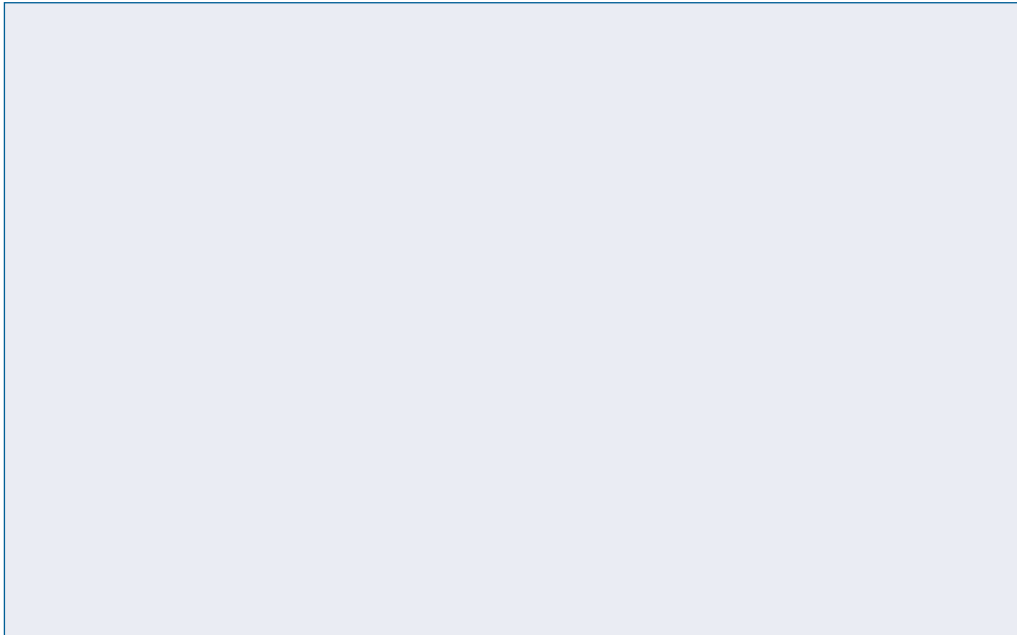
Number:

**14. What are the main obstacles to increasing the number of PSL units?**

**15. What changes would your organisation like to see to current practices in the PSL sector?**



**16. Please add any further comments that you think are relevant to enable a full understanding of the issues regarding leasing schemes as operated by your organisation.**





**4. Do you have a special department to manage PSL stock?**

Yes  No

If YES, how many staff (WTE) are employed in the department?

	Title	No.
a)	<input type="text"/>	<input type="text"/>
b)	<input type="text"/>	<input type="text"/>
c)	<input type="text"/>	<input type="text"/>
d)	<input type="text"/>	<input type="text"/>
e)	<input type="text"/>	<input type="text"/>
f)	<input type="text"/>	<input type="text"/>
g)	<input type="text"/>	<input type="text"/>
h)	<input type="text"/>	<input type="text"/>
Total	<input type="text"/>	<input type="text"/>

Only include staff in sections b to h if these are the only / main tasks performed by these staff.

**5. Please comment on staffing and salary levels pertinent to PSL and any workload peculiarities associated with managing leasing schemes.**

**6. What type of leasing schemes do you operate?**

HAL   
 HAMA   
 Other

**7. What factors do you use when selecting new HAs? (Get copy of evaluation pack, if possible)**

**8. What are the main factors you take into consideration when approving new units? (Get copy, if possible)**

**9. How do you monitor the PSL arrangements? (Get copy of monitoring programme, if possible)**

**10. What are the main risk factors associated with the provision of leasing schemes? Please rank each factor on a scale of 1–10. (1 = very low risk, 10 = very high risk).**

Item	Ranking
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>

**11. What are the main obstacles to increasing the number of PSL units?**

**12. What changes would your organisation like to see to current practices in the PSL sector?**

## **APPENDIX 3: TERMINOLOGY**

There are three types of arrangements under which properties are leased by the social housing sector from private landlords:

Private sector leasing (PSL) refers to schemes where local authorities lease properties from private landlords. The local authority manages the properties.

Housing association as managing agent (HAMA) refers to properties leased by the local authority but property management is provided by a housing association.

Housing association leasing schemes (HALS) refers to properties leased and managed by housing associations.

## **APPENDIX 4: QUESTIONNAIRE CIRCULATION LIST**

### **Housing Associations**

#### **Completed Questionnaires and/or interviews:**

Acton HA  
Amicus Housing Group  
East Thames Housing Group  
Family HA  
Frays Charitable HA  
Genesis Housing Group  
Kelsey HA  
Notting Hill Housing Group  
Oxford Citizens HA  
Shepherds Bush HA  
Solon South West HA  
Solon Wandsworth HA  
South London Family HA

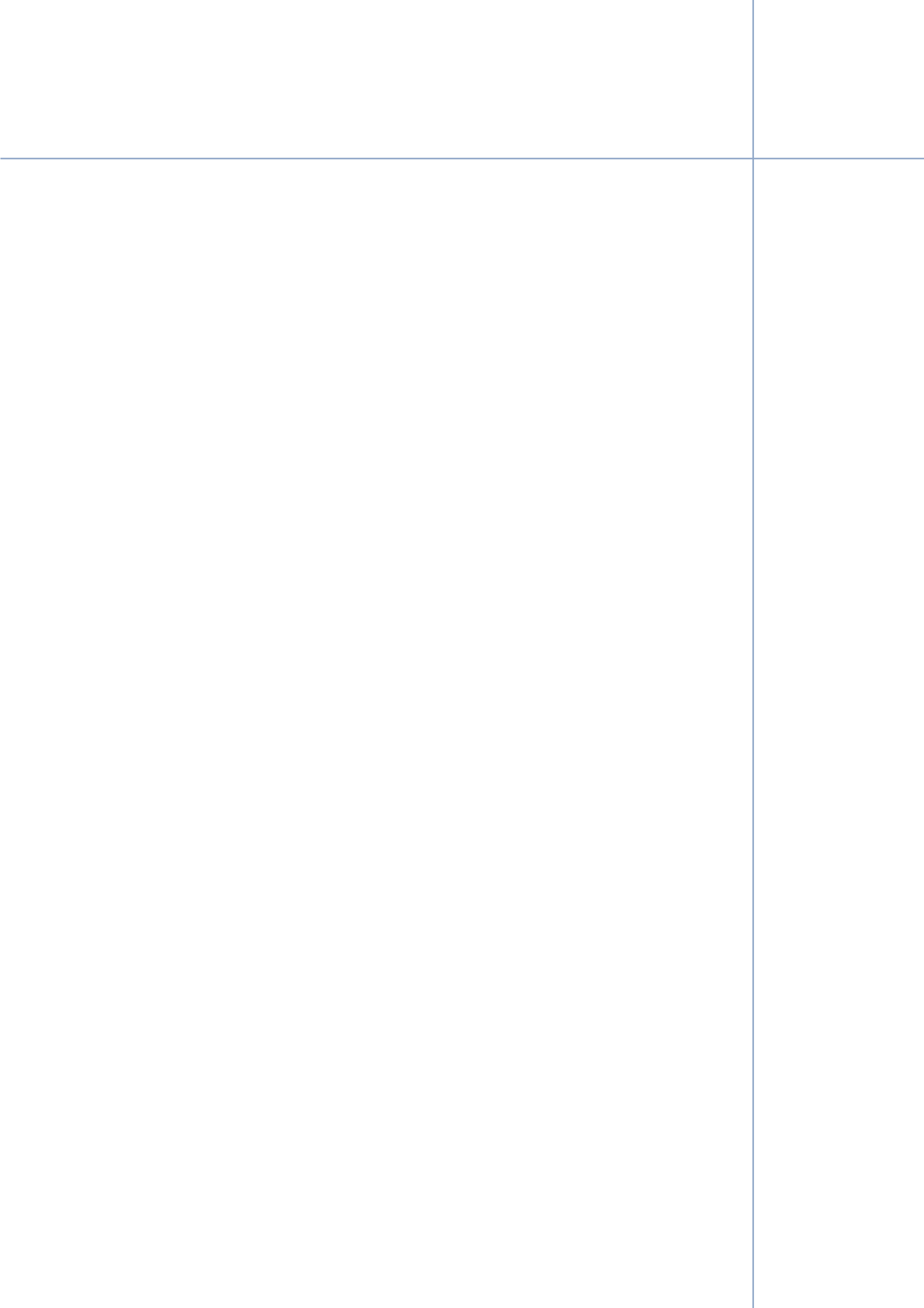
#### **Questionnaires not returned, either because no PSL or other reason:**

Christian Action (Enfield) HA  
Hexagon HA  
Hyde HA  
Peabody Trust  
Presentation HA  
Richmond upon Thames Churches HA  
St Martin of Tours HA  
Ujima HA

### **Local Authorities**

London Borough of Brent  
London Borough of Haringey

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