

Appendix 2 - Outline of options

1. Option 1 - PCC acting as tenancy guarantor

1.1. By standing as guarantor for a PRS tenant, the council will be taking on the following liabilities (see Appendix 3 for sample guarantor agreement, provided by a local lettings agency):

1.1.1. To pay any unpaid rent, interest and costs, for the term of the tenancy;

1.1.2. To pay any additional costs of damage or theft caused during the tenancy that are not covered by the tenancy deposit.

1.2. A typical agreement with a guarantor, which would be acceptable to the majority of landlords, traditionally means that there is no limit on the financial liability. To reduce the financial risk to the council the following actions would be required:

1.2.1. Pre-tenancy assessment of the tenant's ability to manage a tenancy and meet their rent liability;

1.2.2. Only acting as guarantor if the council is satisfied that there is no one else who could act as guarantor. This would be difficult to confirm.

1.2.3. Visiting the property and checking the inventory at the start of the tenancy, to ensure any future damage claim is accurate and reasonable;

1.2.4. Requiring notice from the landlord if the rent account is more than 10 days in arrears;

1.2.5. Providing specialist money advice and support to any tenant that falls into arrears;

1.2.6. Requiring the landlord to take urgent action to end the tenancy if the tenant is unable or unwilling to pay (but note that this puts the tenant at risk of homelessness),

1.3. It cannot be assumed that these clauses in a guarantor contract would be acceptable to the landlord. If both sides did not reach an agreement it would be likely that the tenancy would not start.

1.4. The guarantor's liability continues as long as the tenancy continues. If the council chooses to cease acting as guarantor when the tenancy is due for renewal, the tenancy will be ended unless the tenant has found another guarantor, or is now earning enough and meeting any other requirements of the landlord to enable them to secure the tenancy without a guarantor.

1.5. The council's total liability will increase for each individual PRS tenant that it agrees to act as guarantor. The liability for the council will only reduce if a

tenant chooses to give up their tenancy, or no longer requires a guarantor and signs a new tenancy agreement.

- 1.6. Should the council agree to stand as guarantor, it is proposed that the tenant would be required to sign an agreement acknowledging that the council will take action against them for repayment of any sums that are paid out on their behalf as guarantor. However the ability to take such action, and the commitment to do so considering the individual circumstances, is untested.
- 1.7. As noted at 1.2.6, if a tenant becomes unable or unwilling to meet their rental liability, the council must ensure that the landlord takes action to end the tenancy, to limit the council's financial liability. This must form part of the guarantor agreement, and the council must ensure it is followed in practice.
- 1.8. The risk for the council is that the landlord, knowing that the council will meet its financial liability, may choose to allow a tenancy to continue where the tenant is not paying their rent, aware that the rent loss will be covered by the guarantor agreement.
- 1.9. This will require a rapid response by a council officer, to understand as soon as possible whether any rent arrears can be resolved, or if the tenancy needs to be ended.
- 1.10. The pre-tenancy assessment could help to reduce risk by considering:
 - 1.10.1. Current tenancy rent payment history, if there is one;
 - 1.10.2. Previous tenancy payment history, if the tenant is able to provide contact details for former landlords;
 - 1.10.3. Financial appraisal of the applicant's income and expenditure;
 - 1.10.4. Credit check; this would be a 'soft search', and show any County Court Judgements, Individual Voluntary Arrangements or Bankruptcy, and also confirm the registered address on the electoral role, but will not show all current debt liabilities or arrears.
- 1.11. Requiring notice of arrears at 10 days would ensure the tenant can be offered support at an early stage, and enable the council to understand the reason for arrears. This may require some assertive outreach work for tenants who do not initially engage with support.
- 1.12. Resource appraisal of Option 1
 - 1.12.1. One full time equivalent (FTE) post at approximately band 8 would be required to consider applications, assess eligibility, complete the pre-tenancy assessment, assess suitability of the home, and provide assertive outreach support in the event of rent arrears. This would provide capacity to assess up to 5 applications per week, and make decisions for approval,

up to a maximum caseload of around 40 tenancies, depending on the level of defaults.

1.12.2. An additional 0.5 FTE would be required to provide management, finance and legal support to this role.

1.13. Financial risk

1.13.1. The financial risk to this council from this option almost entirely depends upon the number of tenancies that end with debts owing to the landlord that the council would be expected to cover. Both the number of tenancies that this would happen in, and the average cost when it did happen are unknown. Therefore, if this scheme was to proceed it would require a long-term pilot to establish the financial liability that the council would face in acting as a guarantor to a significant number of PRS tenants.

1.13.2. If rent payments cease, the council will engage while the tenant is in the first month of arrears, and continue to offer support while arrears increase to two to three months. If the tenant refuses to engage, the council would require the landlord to take possession action. This could take around four to six months, if the tenant does not leave at the end of the notice period and the landlord has to apply to court for a possession order and bailiffs warrant for eviction. This would mean the council could be liable for around seven to nine months' rent arrears, court costs of around £480, and the costs of any damage or theft from the tenancy.

1.13.3. However, under a standard guarantor agreement there is no upper financial limit on the council's liability.

1.13.4. Funding of £25,000 could be sufficient to cover the liability of three failed tenancies, based on provision for nine months' rent arrears (at an average of £800 per month), one month's rent for damage, and £480 for court costs for eviction.

2. Option 2 - Bond scheme

2.1. Previously the council has offered only a very limited bond scheme, protecting the landlord against theft or damage up to a maximum of one month's rent, only during the first year of the tenancy, and with no protection against rent arrears.

2.2. Offering a bond of up to four months' rent for qualifying residents would limit the council's total liability, but provide time for a landlord to pursue eviction if the tenant won't pay their rent or engage with support.

2.3. The bond could be claimed against rent arrears, damage or theft. The bond agreement would enable the landlord to make a claim during the term of the tenancy, for example for unpaid rent, and at the end of the tenancy, provided that the total claimed does not exceed four months' rent.

2.4. Work will be required with letting agencies and landlords in the city, to negotiate accepting a bond in place of a guarantor. Some landlord rent insurance schemes specifically require a guarantor to be in place, so a bond scheme would not be compliant. Therefore this option would only enable tenants to access a more limited range of landlords or properties than the guarantor scheme in Option 1, but with a reduced and finite financial risk.

2.5. Managing the risk

2.5.1. The bond agreement would require the landlord to notify the council within 10 days if there are any rent arrears, damage or other breaches of the tenancy that could lead to a claim against the bond.

2.5.2. The council will have a dedicated resource to respond quickly to any tenancy issues, offering advice and support to the tenant and mediating with the landlord.

2.6. Resource appraisal of Option 2

2.6.1. One FTE post would be required to consider applications, assess eligibility, complete the pre-tenancy assessment, assess suitability of the home, and provide assertive outreach support in the event of rent arrears. This would provide capacity to assess up to 4 applications per week, engage with landlords, and make decisions for approval, up to a maximum caseload of around 40 tenancies, depending on the level of defaults.

2.6.2. An additional 0.5 FTE would be required to provide management, finance and legal support to this role.

2.7. Financial Risk

2.8. The maximum financial liability will be four months' rent for each tenant assisted under the scheme.

2.8.1. Funding of £25,000 could cover the liability for around eight failed tenancies, based on an average monthly rent of £800.

3. Option 3 - The council managing the rent account and providing guaranteed monthly payments to the landlord

- 3.1. Other local authorities, including Gosport Borough Council and Reading Borough Council, have developed schemes where the council pays the monthly rent to the landlord, and the tenant pays rent to the council.
- 3.2. The council would sign an agreement to pay the monthly rent in full direct to landlord. The tenant signs an agreement to pay rent to the council. However, the tenancy agreement remains between the tenant and the landlord, so the council does not assume any further responsibility for tenancy management.
- 3.3. To limit the council's liability, the agreement with the landlord or lettings agency would include a clause allowing the council to terminate with two months' notice.
- 3.4. The scheme would provide assurance to the landlord that for the term of the agreement, they will receive the rent in full and on time.
- 3.5. The council would use its experience in managing rent accounts and supporting tenants to ensure that the rent is paid.
- 3.6. Because rent payments are made direct to the council, we will know immediately if any rent is overdue, unlike Options 1 and 2 which depend on the landlord notifying us of arrears.
- 3.7. This enables the council to make contact with the tenant to understand the reason for arrears at an earlier stage, and provide help and advice to ensure the rent account is paid in full.
- 3.8. However, if rent continues to go unpaid from the tenant, the council will be paying the rent costs from its own resources. Therefore if it is unable to resolve the arrears with the tenant, the council will need to end the agreement with the landlord, which is likely to prompt eviction action against the tenant.
- 3.9. Resource appraisal for Option 3
 - 3.9.1. 1.5 FTE posts would be required to consider applications, assess eligibility, complete the pre-tenancy assessment, assess suitability of the home, manage the rent account, and provide support in the event of rent arrears. They would also arrange monthly payments to the landlord, and manage the rental income. This would provide capacity to assess up to 5 applications per week, engage with landlords, and make decisions for approval, and to manage the rent accounts of up to 45 tenants. An additional 0.7 FTE would be required to provide management, finance and legal support to this role.
- 3.10. Financial liability

3.11. The maximum liability is around four months' rent for each tenant assisted under the scheme. If a tenant has not set up an arrangement to repay arrears within two months, the council will serve the landlord two months' notice to end the arrangement.

3.11.1. Funding of £25,000 could cover the realistic liability for around eight households, based on an average monthly rent of £800.

4. Option 4 - Deposit and rent in advance loan scheme

- 4.1. In this option the council would work with a community bank to provide low cost loans to those who need them to access the PRS, with the council providing a contingency fund to underwrite the cost of failed loans. This contingency fund would only be used in the event of loans failing.
- 4.2. The council would provide a contingency fund of 25% of the total amount loaned, based on the level of risk of making these loans, and in order to enable the community bank to offer a preferential interest rate. This enables the council to make available £100,000 of loans at a maximum cost to the council of £25,000, significantly increasing the number of those we can assist.
- 4.3. Community banks are ethical lenders with strict criteria around eligibility to borrow. Before offering a loan, they access a full credit report, including all outstanding debt liabilities. Landlords and letting agencies can only access a 'soft search' of publicly available information from the credit report (i.e. details of any County Court Judgements, and whether the person is registered on the electoral roll at the address they have given), so community banks are in a better position to understand the customer's ability to pay their rent and repay a loan, and identify where there is a need for specialist debt advice.
- 4.4. The community bank would make an affordability assessment based on current income, debt liabilities, and average outgoings for the size of household. Loans of up to £1,000 could have an interest rate of around 6.9% APR, while loans above £1,000 would be around 5.2% APR.
- 4.5. This compares favourably with rates advertised by other lenders. A high street lender's loan calculator indicates that a loan of £1,000 over 24 months would have a representative APR of 18.5%, while a prominent doorstep lender offers loans of £1,000 over 12 months with a representative APR of 299%.
- 4.6. A loan of £1,000 over 24 months at 6.9% APR would attract around £75 in interest. In order to make the scheme more attractive to residents, the council could choose to pay the interest on all loans under this scheme, enabling beneficiaries to receive interest-free loans.
- 4.7. Payment would be made direct to the landlord by the community bank, to ensure the funds are only used to secure housing.
- 4.8. While most applications would be to the value of one or two months' rent in order to secure a property, in some circumstances it may be appropriate to lend six months' rent, to enable the borrower to secure a property without the need for a guarantor. This would depend on an affordability assessment, and a decision on making best use of the available funds.
- 4.9. Resource appraisal of Option 4

- 4.9.1. A 0.5 FTE post would be required, to consider applications, assess eligibility, refer to the community bank, and monitor the outcome of referrals. Alternatively, funding could be provided to the community bank to deliver this service, assessing all applications under the criteria set by the council.
- 4.9.2. An additional 0.2 FTE would be required to provide management support to this role, or to provide oversight to the service delivered by the community bank.
- 4.10. Financial Liability
- 4.11. The cost liability to the council has a fixed maximum value, of 25% of the total loaned by a community bank under this scheme.
- 4.11.1. Providing £25,000 in contingency funding would enable a community bank to lend £100,000, which would assist around 100 households, if the amounts borrowed are similar to the council's current financial provision to secure private rented homes, through the homelessness prevention fund and Discretionary Housing Payments. Alternatively, it could assist around 20 households by lending six months' rent in advance, based on an average rent of £800, or 50 households with loans of £1,000 and 10 households with loans of 6 months' rent in advance.
- 4.12. As loans are repaid, contingency funds could be returned to the council, or retained by the community bank to increase the number of people assisted.
- 4.13. **Option 4b**
- 4.14. In addition to the contingency funding outlined above, the council could cover the costs of the loans, in order to offer an interest-free scheme to residents, so that borrowers only repay the amount they borrowed.
- 4.15. This would require additional funding of around £7,500 on loans of £100,000.

5. Option 5 - Funding an external guarantor scheme

5.1. Some letting agencies in the city will accept guarantor agreements with private companies; the most common one appears to be Housing Hand, an insurance-backed privately run scheme, whose service is aimed at students who do not have a UK-based guarantor, and working people who do not meet the letting agency's minimum earning requirements.

5.2. Housing Hand could assist those who:

5.2.1. Earn at least 1.5x the monthly rent and;

5.2.2. Have a co-signer who will not be living in the rented property and is willing to accept joint liability to pay the rent

5.3. Therefore the scheme only assists those who are just outside most letting agencies' minimum earning requirement of 2.5x monthly rent, and who have someone willing to stand as co-signer, which means they must take on the same joint liability as a guarantor, but they are not required to meet the letting agency's guarantor requirement (usually, earning 3x monthly rent).

5.4. Housing Hand charge a fixed fee to act as guarantor for each 12 month period of the tenancy, usually up to 95% of one month's rent. The tenant is not entitled to any of this money back if they meet all of their rent obligations. If a tenant fails to pay any of their rent, the landlord claims against Housing Hand, who pay the amount owed and then pursue the tenant and their co-signer for repayment.

5.5. This scheme could therefore only assist a limited number of people meeting the specific criteria, requires additional funding every year, and does not enable the council to recoup any of its outlay.

5.6. Resource appraisal

5.6.1. A 0.5 full time equivalent post would be required, to consider applications, assess eligibility, and process payments to Housing Hand.

5.6.2. An additional 0.2 FTE would be required to provide management and finance support to this role.

5.7. Financial Appraisal

5.8. Funding of £25,000 per year could pay the fees of Housing Hand to assist approximately 33 households, based on an average monthly rent of £800. This is in addition to the cost of the tenancy deposit and rent in advance.

6. Comparison of options

Option	Financial liability per tenancy supported (based on an average monthly rent of £800)	Additional council resources anticipated to be required for a pilot	Number of households this staffing resource could assist per year, and cost / financial liability	Strengths / opportunities	Weaknesses / threats
Option 1 - PCC acting as rent guarantor	<p>Unknown until the annual number of defaults, and average size per default is known. For budgeting purposes it is assumed to be 20%</p> <p>It is realistically anticipated that each default may cost up to £8,000, but the council is not able to cap this figure</p>	1.5 FTE £60,000 pa	<p>Assess up to 5 applications per week, up to a maximum caseload of 40 tenancies</p> <p>40 tenancies estimated total liability £320,000 (but not limited)</p>	<p>Meets landlord requirements</p> <p>Enables access to PRS homes for lower income households with no guarantor</p> <p>No additional financial commitment or liability for the tenant</p>	<p>High (potentially unlimited) level of financial risk</p> <p>Reputational risk from using council funds to cover an individual resident's liabilities</p>
Option 2 - Expanded bond scheme	<p>Unknown until the annual number of defaults, and average size per default is known. For budgeting purposes it is assumed to be 20%</p> <p>However the risk can be capped at four months' rent, meaning each default would cost approximately £3,200 each</p>	1.5 FTE £60,000 pa	<p>Assess up to 4 applications per week, up to a maximum caseload of 40 tenancies</p> <p>40 tenancies estimated maximum liability £128,000</p>	<p>Capped maximum financial liability for council</p> <p>Enables access to some PRS homes for lower income households with no guarantor</p> <p>No additional financial commitment or liability for the tenant</p>	Requires landlord agreement

<p>Option 3 - The council managing the rent account</p>	<p>Unknown until the annual number of defaults, and average size per default is known. For budgeting purposes it is assumed to be 20%</p> <p>However the risk can be managed so that it is restricted to approximately four months' rent, meaning each default would cost approximately £3,200 each</p>	<p>2.2 FTE £88,000 pa</p>	<p>Assess up to 5 applications per week, up to a maximum caseload of 45 tenancies</p> <p>45 tenancies estimated maximum liability £144,000</p>	<p>Landlord receives rent in full every month</p> <p>Enables access to PRS homes for lower income households with no guarantor</p> <p>No additional financial commitment or liability for the tenant</p>	<p>Requires landlord agreement</p> <p>More staffing resource required for ongoing rent account management</p>
<p>Option 4 - Deposit and rent in advance loan scheme</p>	<p>Fixed sum of liability can be agreed with the lender and this will influence the total amount of loans it would provide</p>	<p>0.7 FTE £28,000 pa</p>	<p>Assess up to 5 applications per week</p> <p>To assist 100 households with loans of around £1,000, contingency funding of £25,000 required</p> <p>To make these loans interest-free to the customer would cost around £7,500</p> <p>To assist 4 households with loans of around £5,000, contingency funding of £5,000 required</p> <p>To make these loans interest-free would cost around £1,500</p>	<p>Leverages the community bank's resources - PCC's maximum liability is 25% provision for bad debt</p> <p>Able to assist larger number of people</p>	<p>The tenant must repay a loan</p> <p>Cost of interest to borrower, unless PCC pays the interest charge</p>

<p>Option 5 - Funding an external guarantor scheme</p>	<p>Fixed spend per tenant supported of approx. £760 per year</p>	<p>0.7 FTE £28,000 pa</p>	<p>Assess up to 5 applications per week To assist 50 households for 12 months would cost around £38,000</p>	<p>Fixed cost, with no additional risk to PCC Enables access to PRS homes for some lower income households with no guarantor No additional financial commitment or liability for the tenant</p>	<p>Narrow earnings eligibility criteria, therefore fewer residents would be able to make use of the scheme Tenants must have a co-signer willing to accept the responsibilities of a guarantor Additional payment for each 12 month tenancy, with no funds returned if the tenancy is successful</p>
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Option	Resource costs for 12 month pilot	Anticipated number of people supported	Maximum liability exposure	Likely cost of liability	Likely cost per annum (resources and likely cost liability)	Cost per application
Option 1 - PCC acting as rent guarantor	£60,000	40	£320,000	Unknown Assume 20% = £64,000	£124,000	£3,100
Option 2 - Expanded bond scheme	£60,000	40	£128,000	Unknown Assume 20% = £25,600	£85,600	£2,140
Option 3 - The council managing the rent account	£88,000	45	£144,000	Unknown Assume 20% = £28,800	£116,800	£2,596
Option 4 - Deposit and rent in advance loan scheme (assumes average loan of £1000)	£28,000	100	£40,000	£20,000 max	£48,000	£480
Option 4b - Deposit and rent in advance loan scheme. PCC pay interest to make it interest-free for customer for one year	Staff costs £28,000 Interest costs £22,000	100	£40,000	£20,000 max	£70,000	£700
Option 5 - Funding an external guarantor scheme	£28,000	50	£38,000	£38,000 spend	£66,000	£1,320