LEAD TENANCY SCHEMES IN SCOTLAND

Julie Rugg and David Rhodes
Centre for Housing Policy,
University of York

Scottish Executive Social Research
2004
Further copies of this report are available priced £5.00. Cheques should be made payable to The Stationery Office Ltd and addressed to:

The Stationery Office Bookshop
71 Lothian Road
Edinburgh
EH3 9AZ
Tel: 0870 606 5566
Fax: 0870 606 5588

The views expressed in this report are those of the researchers and do not necessarily represent those of the Department or Scottish Ministers.
# CONTENTS

EXECUTIVE SUMMARY  
1

CHAPTER ONE : INTRODUCTION  
5
- INTRODUCTION  
5
- RESEARCH AIMS  
6
- RESEARCH METHODS  
6
- STRUCTURE OF THE REPORT  
7

CHAPTER TWO : THE RATIONALE FOR LEAD TENANCY SCHEMES  
8
- INTRODUCTION  
8
- A HISTORY OF LEAD TENANCY SCHEMES  
8
- DEFINITIONS  
10
- PROMOTING THE LTS  
11
- RATIONALES FOR RLS ADOPTION OF LEAD TENANCY SCHEMES  
12
- REGIONAL ADMINISTRATION OF LTS  
12
- CONCLUSION  
13

CHAPTER THREE : LEAD TENANCY SCHEMES IN OPERATION  
14
- INTRODUCTION  
14
- LTS IN OPERATION: PROPERTIES AND LANDLORDS  
14
- CLIENT GROUPS AND OUTCOMES  
17
- CURRENT MANAGEMENT  
18
- CONCLUSION  
18

CHAPTER FOUR : AN EVALUATION OF LEAD TENANCY SCHEMES  
19
- INTRODUCTION  
19
- ADMINISTRATION  
19
- MEETING HOUSING NEED: HOUSING STRATEGY VERSUS HOMELESSNESS STRATEGY  
20
- THE IMPACT ON LOCAL RENTAL MARKETS, AND MARKET IMPACTS ON LTS  
21
- COST-EFFECTIVENESS AND QUALITY  
22
- CONTINUING WITH LTS  
22
- TENSIONS  
23
- CONCLUSION  
24

CHAPTER FIVE : CONCLUSION  
25
- INTRODUCTION  
25
- WHAT BENEFITS  
25
- MAXIMISING THE BENEFITS  
26
- WAYS FORWARD  
27
- CONCLUSION  
29

BIBLIOGRAPHY  
30
EXECUTIVE SUMMARY

CHAPTER ONE : INTRODUCTION

1.1 The Lead Tenancy Scheme (LTS) was introduced in 1992. Its specific aim was to provide a grant system to subsidise the refurbishment of empty properties in private ownership, which would then be leased to a Registered Social Landlord (RSL) to accommodate homeless households.

1.2 Between 1995/6 and 1997/8, ten RSLs took up and developed LTS. Activity was concentrated in the North East of Scotland.

1.3 This evaluation of LTS aims to assess past and present LTS; analyse its role in meeting housing need; and provide some recommendation for future expansion and development.

CHAPTER TWO : THE RATIONALE FOR LTS

2.1 The policy rationale for LTS was set in the dual context of a desire to bring back into use properties that had become dilapidated, and which constituted an urban disamenity; and to help tackle non-statutory homelessness.

2.2 Despite its similarity to other leasing models, LTS had distinctive features including its limited grant (set at two-thirds of Housing Association Grant for new build); its long lease period; its focus on providing short-term accommodation for homeless households; and its application to empty properties in the private sector.

2.3 LTS was adopted by RSLs for one of three reasons: to increase the RSL’s housing supply in a particular location without the heavy cost and sometimes impracticality of effecting new build; the desire to use the scheme to meet housing need, following a consciousness of the limited supply of affordable rented housing; and an appreciation of the community benefits brought by the wider strategic and environmental purposes of the scheme.

CHAPTER THREE : LEAD TENANCY SCHEMES IN OPERATION

3.1 Ten RSLs were involved in LTS, bringing into use a total of 28 properties, accounting for 252 separate living units. Well over half the properties were located in larger settlements: Aberdeen, Dundee, Dunfermline and Stirling. Development in smaller, rural settlements appeared to be the exception rather than the typical way LTS was used. Seven of the ten RSLs developed between one and three properties under the scheme. A typical LTS property comprised a large building conversion into several units in a city-centre location.

3.2 RSLs were positive about the benefits of the scheme to landlords. The scheme offered a subsidy to repair a property that would otherwise bring no income to the landlord, and indeed may carry some costs with regard to community charges. It gave the landlord a steady
income, guaranteed possession of a property in a good state of repair at the end of the final tenancy, and it included a management package that minimised the landlord’s involvement.

3.3 However, some disincentives for landlord involvement were also recognised. For example, it was commented that the long lease times that came with the LTS subsidy could be a disincentive to landlords, in reducing their ability to maximise the profits accruing to the property should markets shift. A heavy clawback penalty added to the inflexibility of the system, with landlords being required to pay back a high proportion of the subsidy on withdrawing from the lease before the agreed time. In addition, it was thought the legal complexities attached to setting up the scheme led to many projects being abandoned.

3.4 Although LTS was designed as a means of increasing the supply of property to homeless households, its actual use was wider. The majority of the RSLs adopted the scheme to suit the housing needs of the groups they housed. Thus, if a client became settled, move-on arrangements were not made. It was commented by RSLs that communities benefited if tenancies did not keep turning over, particularly in regeneration areas where attempts were being made to create more stable communities.

3.5 Where attempts were made to use LTS to house under-25s, there were difficulties in gaining nominations to fill what was a large property conversion, and to secure support services for that group. The RSL involved had suffered high void rates before it had been able to settle on a steady nomination and support arrangement with a local voluntary sector agency.

CHAPTER FOUR: AN EVALUATION OF LEAD TENANCY SCHEMES

4.1 The LTS was evaluated in terms of administration; its role in meeting housing need; the impact of local rental markets; and issues relating to cost-effectiveness and quality. To a large degree, low take up of the scheme was explained in terms of poor administration. Just over half the RSLs who had heard of the scheme but not taken it up indicated that LTS was too costly and time-consuming to set up, and was too complex to understand, with insufficient information and support available from Communities Scotland.

4.2 RSLs who had taken up the scheme almost all commented on difficulties with the legal aspects of the scheme. The model lease had been ambiguous, and contained contentious clauses; the involvement of three parties protracted negotiations; and little consideration had been given to costing what became a lengthy and expensive process.

4.3 The value of LTS as a housing strategy was rated more highly than its contribution as a homelessness strategy. Where LTS was used to meet temporary housing need, then it was more important for that need to have been recognised in the local homelessness strategy, and that the required support services were available. There were fewer problems in cases where the scheme was used to add to local rental stock for the longer-term housing needs of homeless people, although some comment was made that the requirement to use a Scottish Short Assured Tenancy offered insufficient security to tenants.

4.4 Overall, the scheme was felt to have value in offering the possibility of renovating and bringing back into use properties in smaller communities, where an additional one or two
properties for rent might carry a disproportionate importance in retaining community balance – for example, in allowing a family to stay and so maintaining a feasible school roll.

4.5 Rental markets generally operated as a constraining force on LTS development. Well over a third of RSLs with an interest in LTS had been unable to progress with plans since there were no suitable properties for development in their area. In particular, high demand for homes for holiday lets had absorbed all properties capable of cost-effective conversion. In addition, RSLs could only offer a below-market rent on conversion, which proved to be a further disincentive to take up. It was felt that higher levels of grant should be made available, since this could persuade landlords with more dilapidated properties to bring them into use.

4.6 In terms of cost effectiveness, few of the schemes had taken into account the high set-up costs that were attached to the legal requirements of the scheme. The regulations allow RSLs to charge 15 per cent management fees, but in some instances low demand for the properties had led to high void rates, so pressurising the RSL management budgets.

4.7 None of the RSLs expressed a willingness to complete further LTS projects unless there were some changes to its operation. It was clear that there were a number of tensions inherent within the objectives of LTS, its regulations, and the conditions imposed by the PRS market. However, there was a desire to retain a modified LTS since it was felt that, with some changes, the benefits of the scheme could be maximised.

CHAPTER FIVE : CONCLUSIONS

5.1 RSLs suggested a number of alterations they felt could usefully be made to the LTS. These included a review of the requirement for the initiative to serve non-statutorily homeless households to increase the flexibility of the initiative; the ability to offer greater security of tenure to tenants rather than offering short-term accommodation; an option of higher renovation grants for strategically important properties, particularly in the more remote rural areas; and simplification of the legal requirements, which were often considered to be overly complicated and costly.

5.2 A focus group of RSLs and local authorities was convened to consider how the LTS could be taken forward. It concluded that LTS constituted a valuable addition to the suit of initiatives that promote greater use of the PRS by social landlords. However, it was also felt that RSLs and local authorities should not be pressurised into adopting the scheme, particularly since the most successful uses of the LTS had largely been opportunistic in nature.

5.3 The focus group believed that a significant improvement to the initiative would be the provision of additional guidance. Much of this guidance should be based on a fuller understanding of the good practice gathered through existing experience of operating the scheme. Perhaps a small steering group could be formed, including RSLs that have run LTS; associations that have experience of such schemes such as Housing Associations as Managing Agents (HAMA); and universities managing head lease schemes.

5.4 Guidance on the costs of LTS was suggested, that included the likely set-up costs of the scheme, and the higher on-going management costs for certain market conditions and
tenant types. Guidance on the legal requirements of the LTS would be beneficial to indicate the rights and responsibilities of all the involved parties in the scheme. It could also define the management and property standards, and responsibilities with regard to repairs and nomination rights. Guidance on implementing LTS in the context of differing local market conditions would be helpful, as would promotional literature on the scheme that was aimed at property owners.
INTRODUCTION

1.1 It has been increasingly recognised that the private rented sector (PRS) can play a valuable role in meeting a range of housing needs. Above all, the PRS is deemed to be a flexible tenure, in having the capacity to meet a variety of niche demands, for example, from high income professionals seeking prestige lets, households seeking temporary accommodation whilst access to other tenures is negotiated, student households wanting term-time lets, and holiday-makers. Within this wide range of demand groups lies single-person households, for whom supply of property in both social housing and owner occupation is limited. The problem of poor supply is exacerbated to some degree by the nature of the PRS in Scotland. Overall, the supply of properties in Scotland is comparatively small: the sector comprises some 10.3 per cent of all housing stock, according to the 2001 Census (own analysis). Further, in rural locations, reliance on privately rented properties can be disproportionately high (Satsangi, 2002).

1.2 One type of initiative that has been deemed useful as a means of increasing the supply of property to a particular demand group is to offer management incentives to landlords. Essentially, a social landlord will take over responsibility for letting the property, collecting and even guaranteeing a rent payment, in return for a small management fee. The social landlord uses such a scheme to secure exclusive rights to a property, which can then be used to house a particular defined group at an affordable rent. A number of such schemes have been in operation since the early 1990s, including Private Sector Leasing (PSL), Housing Associations as Managing Agents (HAMA) and in Scotland, Lead Tenancy Schemes (LTS).

1.3 LTSs were introduced in 1992 in the report, *Homelessness, A Scottish Perspective*, as one of a range of policies that encouraged partnership working on the issue of homelessness. The scheme was:

“...specifically aimed at tapping into empty properties in private ownership and bringing these back into rented use, where this represented a cost effective option. A housing association becomes the ‘lead tenant’ by leasing the property from the private owner and subletting by granting a tenancy to someone who is homeless.” (Scottish Homes, 1992: 4).

1.4 From its launch in 1994, a total of ten registered social landlords have taken up and developed LTS: Albyn Housing Society, Angus Housing Association, Cammore Housing Association, Grampian Housing Association, Hillcrest Housing Association, Kingdom Housing Association, Langstane Housing Association, Lochaber Housing Association, Loraburn Housing Association, and the Moray Housing Co-operative. The timescale in which development took place was relatively narrow. Langstane Housing Association set up the earliest schemes in 1995/6, and the latest schemes were developed in 1997/8. The RSLs were concentrated in the north-east region of Scotland, reflecting the strong commitment of that Communities Scotland regional office to the initiative.
RESEARCH AIMS

1.5 This research on LTS is a consequence of interest shown by the Scottish Executive in exploring and expanding initiatives to tackle homelessness. One aspect of this interest is an examination of the roles that can be played by the private rented sector in preventing and alleviating homelessness. Thus, for example, research has been completed on the operation of deposit guarantee schemes, that facilitate access to private rented properties for people on low income (Rugg, 2003).

There were four principal aims of this evaluation of LTS:

- to evaluate past and present LTS;
- to assess their usefulness in improving the supply of and access to rented housing for young people, and in preventing and reducing homelessness;
- to make recommendations on whether and how the LTS should be expanded; and
- to consider how future LTS should be designed and implemented to maximise effectiveness.

RESEARCH METHODS

1.6 There were six elements to the research method. First, the research team completed three contextual interviews with individuals who had knowledge about the early development of LTS in Scotland, and who were able to comment on the rationale for and development of this particular policy initiative. Further interviews took place with two representatives from a Regional Office where LTS was in operation. Second, a review took place of literature relating to the LTS held by Communities Scotland, including earlier reports and evaluations by Chapman Hendy (Chapman Hendy, 1994a, 1994b, 1995).

1.7 Third, a survey was completed of all RSLs in Scotland. The Scottish Executive provided the research with a list of all RSLs operating within Scotland. A total of 296 RSLs were included on the list, which were sent a questionnaire during March 2003, and a reminder was sent to non-responses during May 2003. It became clear from the responses and subsequent contact with branches of the Abbeyfield Society that this organisation does not deal with homelessness, and that the organisation was unable to help with the LTS research in any way. The 61 branches of the Abbeyfield Society were therefore removed from the survey. Responses from the remaining 235 RSLs indicated that there were 11 duplications or amalgamations, which reduced the final population to 224 RSLs. Following the reminder to the survey, the total number of completed questionnaires was 104, representing a response rate of 46 per cent. The survey ascertained the number of RSLs that have undertaken and currently operate LTSs, and RSLs who had actively considered LTS but then became unable or unwilling to progress with the scheme. Where RSLs were managing properties under the scheme, basic information about the properties was requested, in addition to questions evaluating the workings of the scheme.

1.8 Fourth, interviews were completed with RSLs who had properties under the scheme. A total of ten such RSLs were found, and contact was successful with eight of these. In some instances it proved to be difficult to locate the officer responsible for setting up and dealing...
with LTS since the initiative was launched some time ago: in a couple of cases it was necessary to contact two officers to gain a fuller understanding of how the scheme operated.

1.9 Fifth, interviews took place with two private landlords who were involved in LTS. The initial intention had been to interview up to twelve landlords, but this aim proved to be ambitious. The nature of the scheme meant that in many instances, direct contact between the RSL and the landlord is no longer routine, and correspondence tends to go through a solicitor or managing agent. In at least three cases, landlords have moved abroad, sold the property or have died and left the property to relatives. The landlords have only been contactable through a protracted chain that included the RSL and a perhaps a solicitor. The two landlords who were interviewed were asked about their motivations for becoming involved with the scheme, their experience of setting up the scheme, and their satisfaction with the management of their property.

1.10 Sixth, a focus group meeting took place with representatives of four RSLs who had experience of LTS and two local authorities that had shown an interest in developing similar work with the private rented sector in the 2003 Homelessness Strategies as submitted to the Scottish Executive in that year. The meeting aimed to review interim findings from the report (summaries of stages 1-5) and consider what, if any, steps should be taken with further promotion of the scheme.

**STRUCTURE OF THE REPORT**

1.11 The remainder of the report is structured in four chapters. Chapter two considers the history of the LTS and its rationale. Since a number of similar schemes are in operation, some time will be taken to clarify distinctions between the LTS and other schemes with comparable structures. The chapter discusses the promotion of the scheme, and the reasons why RSLs chose to take up the initiative. Chapter three describes LTS as it currently operates. The number and type of properties that have been covered by the scheme is discussed, as is their location. The landlord types involved and the clients who were housed are also described. Chapter four presents an evaluation of the LTS in terms of its administration, its importance in meeting housing need, its cost-effectiveness and its impact on local rental markets. The concluding chapter – chapter five – revisits the specifications for the research, and reviews the key concerns that were the focus of the evaluation. The chapter concludes with a discussion of recommendations for promoting a revised LTS.

1.12 It should be noted that since the introduction of LTS, Scottish Homes changed its name to Communities Scotland. In order to minimise confusion, this report will refer to the organisation throughout as Communities Scotland. In addition, RSL and Communities Scotland confidentiality will be respected with regard to reporting from interviews, and so generalised anecdote and experience will be given rather than direct examples.
CHAPTER TWO  THE RATIONALE FOR LEAD TENANCY SCHEMES

INTRODUCTION

2.1 LTS arose from a policy context that combined two principal housing concerns for Scotland: the existence of derelict properties that once renovated could constitute a valuable addition to housing stock in a particular location; and housing shortages experienced particularly by single, non-statutorily homeless households seeking property to rent. LTS arose from an appreciation of the value of schemes in which a lead organisation leases properties from a private landlord for a set period, in order to make that property available to a particular group, and to some degree guaranteeing a rent payment to the property owner. Although a number of similar schemes are in operation, the LTS has some distinguishing characteristics, which are outlined in this chapter. Further sections of the chapter will consider the way in which the scheme was promoted, principally by Communities Scotland, and the ways in which RSLs became involved. The chapter outlines the varied reasons why RSLs took up LTS.

A HISTORY OF LEAD TENANCY SCHEMES

2.2 Communities Scotland began to encourage RSLs to take up LTS in 1993. Initially, the concept of LTS had been borrowed from the operation of Head Tenancy Schemes, as used by the universities of Edinburgh and Glasgow to bring private sector properties into use as student accommodation. Under the Head Tenancy Scheme, the universities acted as an intermediary between the landlord and the student household, in essence acting as the ‘head tenant’ ensuring the payment of rent to the landlord and ‘subletting’ the property to students. Lead tenancy schemes recognised that the presence of an intermediary offering a rental guarantee could prove an effective inducement to landlords to let to a specific group.

2.3 The LTS was developed within the framework of two policy contexts. First, there was a desire to bring back into use properties that had become dilapidated, and which in some instances constituted a conspicuous urban disamenity. In 1991, the Post Census Survey of Vacant Property found that 4.5 per cent of the total housing stock across all tenures was vacant (Scottish Homes, 1997: 4). The issue of empty homes was prevalent in policy development in the early 1990s. For example, in 1990, Scottish Homes had launched the Rural Empty Properties Grant, which provided grants to owners to refurbish uninhabitable properties that were then let to local people on modest or low incomes.

2.4 It should be noted that LTS was never promoted as a principally rural initiative. For example, the Chapman Hendy outline procedures for the pilot project in 1994 listed seven eligibility criteria for property to be included in the scheme, and neither rurality nor even location of the property development was mentioned directly. Pages one and two of the report listed a number of factors explaining why homes may remain empty for long periods, and an incidental comment was made:

"A further factor which is particularly relevant in rural areas, is that many empty properties have been left unoccupied for so long"
that they are virtually derelict and uninhabitable.” (Chapman Hendy, 1994b: 2)

2.5 It is perhaps this comment that unintentionally gave a ‘rural’ dimension to the scheme, although – as will be seen in chapter three – the location of properties under LTS is a mixture of urban and rural.

2.6 The second policy context for LTS was homelessness, and in particular non-statutory homelessness. This group was recognised as a growing proportion of homeless applications to local authorities. The scheme aimed to provide temporary housing for people in immediate housing need, and for whom appropriate move-on arrangements – perhaps after a six or twelve-month tenancy – would be put in place.

2.7 The principal aim of the scheme was to ameliorate the dual problems of vacant homes and non-statutory housing need through partnership working. More specific objectives included:

- increasing the supply of properties available to homeless people;
- improving the quality of these properties;
- encouraging the use of private finance;
- stimulating the private rented sector and improving access to housing; and
- contributing to regeneration strategies (Scottish Homes, 1997:5).

2.8 Initially, the LTS had two options. First, a ‘ready-to-let’ LTS - also called an Empty Property Lease Scheme – that mirrored both the Housing Association as Managing Agent (HAMA) schemes that had been operating in England, and the universities Head Lease Schemes. Under the ‘ready-to-let’ option, owners were not eligible for grants, and did not have to enter into an extended leasing arrangement. The RSL would simply take over the letting of the property for a set period, deducting a management fee from the rent. The way in which this option developed is uncertain, and no reference is made to it in any subsequent evaluative literature.

2.9 The second and long-term option aimed to bring properties into use for a longer period. This option involved both a payment of grant for property redevelopment, and a long-term lease that ensured RSL control of the property for a given term, the maximum period being twenty years. This report will discuss the second option as it was adopted by RSLs.

2.10 Originally, promotional literature ‘sold’ the benefits of the scheme to landlords on the basis that they would become eligible for grants to improve their properties; those properties, once in the control of the RSL would be well-maintained; day-to-day management of the properties would be the responsibility of the RSL; and rents would be secured and guaranteed for a defined period, with the RSL accepting the risk of any voids. Additionally, tenants would be placed on short assured tenancies, and so theoretically landlords could gain possession of their property at relatively short notice (eight-month’s notice), although a pro-rata repayment of grant would have to be made by the landlord. Landlords would also retain the right of access for inspection, and during void periods the RSL would take responsibility for property security.

2.11 In March 1994, Chapman Hendy Associates defined a promotion strategy for the scheme, and tenancies under the scheme were made available from April 1994. The scheme
was marketed through dissemination to housing associations and local landlords, through seminars and information published in the housing press.

2.12 In 1995, Chapman Hendy Associates completed an interim assessment of the progress of the LTS. The assessment was based on interviews with nine Scottish Homes development officers with responsibility for promoting LTS to RSLs. A further in-house assessment of the early development of the initiative was completed in 1997, and in the absence of more up-to-date information from Community Scotland’s perspective, this material will be used to inform some of this discussion on the administration of the scheme.

DEFINITIONS

2.13 Evaluation of LTS requires clarity with regard to its key features. A wide range of similar types of initiative have been in operation since the early 1990s, and constitute an almost ‘pick and mix’ approach with regard to variables including property type, funding source, lease arrangements, nomination rights and rent setting. It is perhaps not the place of this report to discuss elements of all known lease schemes in exhaustive detail, but it is useful to understand that a range of approaches is evident.

2.14 Table 2.1 explains each of these variables in turn, and refers principally to five different types of lease scheme: the LTS; the Rural Empty Properties Grant (REPG); university head lease schemes (HLS); Housing Associations as Managing Agents (HAMA); and a specific local scheme – the Highland Council’s use of leasing schemes to administer Empty Homes Initiative funds (HEHI).

Table 2.1: Lease scheme elements

<table>
<thead>
<tr>
<th>Element</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property type</td>
<td>Whether the property is very dilapidated (REPG, HEHI), in need of some renovation (LTS), or is largely ‘ready to let’ (HAMA, HLS)</td>
</tr>
<tr>
<td>Funding source and levels</td>
<td>Where the property is ready to let, no funding necessary. In other cases, grants for renovation may be or have been available from Communities Scotland (REPG, LTS), or the Empty Homes Initiative. Funding levels may be capped at a percentage of total project costs (REPG), at a cost per year of lease (LTS), or with grant maximum applicable with no regard to project cost (HEHI).</td>
</tr>
<tr>
<td>Lease limit</td>
<td>The limit is usually connected to grant levels: higher subsidies usually carry the requirement of longer leases. LTS carried an expectation of arranging 20-year leases. Where no grant is involved, lease times can be short – as little as one or two years (HAMA, HLS). No lease at all is involved with REPG.</td>
</tr>
<tr>
<td>Role of the RSL</td>
<td>Lease schemes do not always involve RSLs: in some instances the lease arrangement is made between the landlord and the local authority (HEHI) or a university (HLS)</td>
</tr>
<tr>
<td>Management</td>
<td>Whether the owner retains management of the property (REPG) or hands it over to another agency (HAMA, HLS, HEHI, LTS)</td>
</tr>
<tr>
<td>Rent setting</td>
<td>Whether the arrangement includes a requirement to set rent at a specified level: for example, ‘affordable’ (REPG), or below market rent (HEHI, LTS).</td>
</tr>
<tr>
<td>Housing aim</td>
<td>Whether the initiative aims to supply long-term housing (REPG), house statutorily homeless groups (HEHI, HAMA) or non-statutory homeless (LTS), or to increase supply to students (HLS).</td>
</tr>
<tr>
<td>Nomination rights</td>
<td>Landlord may retain right to choose tenant, but choice is ‘supervised’ by grant giver (REPG), or the local authority has nomination rights (LTS, HAMA, HEHI)</td>
</tr>
</tbody>
</table>
2.15 In order to meet its particular objectives, LTS had the following key characteristics:

- LTS aimed to bring properties into use by encouraging landlords to renovate empty properties through the availability of subsidy. To ensure that the scheme was cost-effective, the subsidy level was set at two-thirds of HAG for new-build, with a benchmark cost of £1100 per unit per year of lease.
- It was anticipated that most properties would be leased for a period of 20 years, which was the maximum time allowable under Scottish law.
- RSLs should allow for a 10 per cent void rate in setting the rent and deduct a 15 per cent management charge.
- Tenancies would be arranged using Scottish Short Assured Tenancies, since the housing aim of the initiative was to provide short-term accommodation – of perhaps six months to a year – to non-statutorily homeless households. Use of the properties would comprise a ‘resettlement’ period before the RSL made arrangements for a formal ‘move-on’ of the household into longer-term accommodation, so freeing up the LTS property for re-use by another non-statutorily homeless household.
- Rents would be set at a below market level, to ensure that tenants who were able to work would not be caught in a ‘benefit trap’.
- The scheme was aimed at the use of properties that had remained empty for a period of six months or more, and that would be in need of renovation to bring them up to a required standard for residential use.

PROMOTING THE LTS

2.16 Principal responsibility for brokering the LTS rested with Communities Scotland, operating through its Regional Offices. Publicity leaflets were prepared and circulated to RSLs, local authorities, estate agents and solicitors. The Highland, Islands & Grampian office was one of the more energetic promoters of the scheme, which is reflected in the relatively high rate of LTS development in that area.

2.17 From the Regional Office perspective, the Office that was interviewed indicated that development of particular LTS projects had followed discussion with local authorities and other local housing stakeholders. In two instances, developments had been proposed to RSLs in the context of a wider regeneration agenda for a given locality.

2.18 The RSLs that were interviewed reported a mixed experience of their initial involvement with the LTS. In around half the cases, it was recalled that the RSL was approached by Communities Scotland with landlords and properties suitable for LTS. In the remaining cases, the RSL was more proactive. For example, one RSL manager had a property in mind for conversion and himself approached the landlord with a view to renovation. In another case, a close working relationship with local solicitors appraised the RSL of properties that might be suitable for the scheme. Overall, it is difficult to draw any generalisations from RSL accounts of the promotion of the scheme, since the numbers involved tended to be small.
RATIONALES FOR RSL ADOPTION OF LEAD TENANCY SCHEMES

2.19 It was frequently the case that RSLs expressed three sets of inter-related rationales underpinning their adoption of LTS: consideration of their own position as a housing provider in a particular locality; the contribution of the scheme to meeting housing need in a given area; and an appreciation of the wider strategic and environmental purposes of the scheme.

2.20 Four of the RSLs considered that taking up LTS would constitute a useful initiative for the RSL itself. The scheme provided an opportunity to expand holdings in a given locale, where the RSL had only a limited number of properties, and where new build was not possible. LTS was also viewed as a means of diversifying existing stock, to expand holdings out from more mainstream family accommodation into the management of single-person units. Less positively, one of the earliest LTS adopters indicated that it had felt coerced into taking on the scheme by Communities Scotland, and complied in order to continue securing ‘nice’ developments.

2.21 Housing need in a number of different guises predominated most agendas for taking up LTS. In one instance, LTS funding was used to complement a much broader scheme of town-centre regeneration, and assisted in the process of refurbishing for let a large number of properties over a centrally-located row of shops and bars. In this instance, both the local authority and Communities Scotland were eager for the RSL to take on board the project. For other RSLs, there was a general consciousness of a poor supply of privately rented property in many areas: this awareness was particularly acute in locations where pressure for properties for holiday or student lets was high. In addition, it was felt that LTS would be particularly useful in effecting a supply of property suitable for single-person households.

2.22 The scheme was also thought to bring environmental benefits, in bringing properties into use that were deemed to be local ‘eyesores’. RSLs often referred to properties in central town locations that were visibly derelict. The subsequent improvement was seen to be of wider community benefit. Other benefits included the ability to use the scheme to renovate properties in strategic locations. For example, the renovation of a unit suitable for family accommodation in a small rural location could mean that school rolls might be maintained at a sustainable level.

REGIONAL ADMINISTRATION OF LEAD TENANCY SCHEMES

2.23 Once a RSL had made the decision to apply for grant, application was made to the Regional Office of Communities Scotland. The Regional Office that was interviewed noted that there were few projects that did not then attract funding, although it was involved in some ‘aborted’ projects. The projects that were abandoned tended to fail due to the withdrawal of the property owner, who was often dissuaded by either the long lease time or the low grant level.

2.24 The grant would then be assessed on its technical and economic aspects. Given the low level of subsidy attached to the grant, there were rarely questions attached to individual projects offering value for money. This was particularly the case given that projects were meeting the dual agendas of offering additional accommodation for homeless households, and meeting empty property objectives.
CONCLUSION

2.25 Although the format of the LTS has similarities with other lease schemes, it has the specific policy objectives of bringing into residential use vacant properties in need of renovation, and to serve the temporary needs of non-statutory households. To a large degree, the RSL rationales for taking up the scheme reflected the original premises of the LTS, in offering a means of increasing the supply of rented property, utilising what had been vacant stock. However, as will be seen in the following chapter, the workings of the LTS in practice strayed a little from original intentions of the scheme, certainly with regard to its stated intention of meeting short-term housing need.
CHAPTER THREE LEAD TENANCY SCHEMES IN OPERATION

INTRODUCTION

3.1 This chapter considers the way in which the LTS was used in practice. The chapter indicates the number of both properties and units that were generated by the scheme, and the types of landlord involved. The views of landlords involved in the schemes are discussed here. The chapter also considers the types of housing need that were met by the scheme. Some variation was evident in the use of LTS as a housing initiative, and it was not always the case that its intended purposes were fulfilled in practice.

LTS IN OPERATION: PROPERTIES AND LANDLORDS

3.2 As has been noted, ten RSLs were involved in LTS, bringing into use a total of 28 properties comprising 252 separate living units. Table 3.1 summarises the information for each RSL.

Table 3.1: Property numbers and units developed under LTS

<table>
<thead>
<tr>
<th>Registered Social Landlord</th>
<th>Number of properties</th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albyn</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Angus</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Canmore</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Grampian</td>
<td>5</td>
<td>58</td>
</tr>
<tr>
<td>Hillcrest</td>
<td>3</td>
<td>31</td>
</tr>
<tr>
<td>Kingdom</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Moray</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Langstane</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Lochaber</td>
<td>3*</td>
<td>2</td>
</tr>
<tr>
<td>Loreburn</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>28</strong></td>
<td><strong>252</strong></td>
</tr>
</tbody>
</table>

* Lochaber developed three properties under LTS, but in one case the owner sold the property to the RSL within two years of the start of the first tenancy.

3.3 It has been noted that the assumption has been made that LTS was principally a rural initiative. Table 3.2 gives details of the location of property development funded under LTS. The table indicates that well over half the properties were located in larger settlements – Aberdeen, Dundee, Dunfermline and Stirling. Development in much smaller rural settlements – for example, Lhabryde, Golspie and Ballachulish – appeared to be the exception rather than typical of the way LTS was used.
### Table 3.2: LTS property locations

<table>
<thead>
<tr>
<th>Settlement</th>
<th>Population</th>
<th>Number of properties</th>
<th>Number of units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aberdeen</td>
<td>212,125</td>
<td>8</td>
<td>112</td>
</tr>
<tr>
<td>Dundee</td>
<td>154,674</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Dunfermline</td>
<td>41,172</td>
<td>1</td>
<td>19</td>
</tr>
<tr>
<td>Stirling</td>
<td>29,516</td>
<td>1</td>
<td>21</td>
</tr>
<tr>
<td>Arbroath</td>
<td>22,785</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Peterhead</td>
<td>17,947</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Fraserburgh</td>
<td>12,454</td>
<td>2</td>
<td>13</td>
</tr>
<tr>
<td>Montrose</td>
<td>11,216</td>
<td>4</td>
<td>16</td>
</tr>
<tr>
<td>Fort William</td>
<td>10,459</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Lochgelly</td>
<td>6,749</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Crocketford</td>
<td>*</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Lhanbryde</td>
<td>1,845</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Golspie</td>
<td>1,652</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Ballachulish</td>
<td>971</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

*The population of Crocketford is no more than 4,500: a more exact figure is not available. All population figures have been taken from census estimates as reported on Scottish local government websites.

3.4 Seven of the ten RSLs involved in the LTS developed between one and three properties under the scheme, and the remaining three completed on between five and seven properties. Experience of the scheme included some quite large conversions: for example, Canmore Housing Association’s LTS comprised the redevelopment of properties above a shop in the centre of Stirling, bringing 21 units into residential rental use; and in Aberdeen, Langstane Housing Association was involved in the conversion of the YWCA and a redundant church to produce 28 and 35 units respectively. The majority of the schemes were smaller in scale. Twenty of the 28 properties were of ten or fewer units. However, overall, a typical LTS was not a single property located in a small settlement; rather, it tended to be a larger, multi-occupied building conversion in a city-centre location.

3.5 The majority of the units were single bedrooomed and were let partially furnished. Where the RSL had been involved in a small number of schemes, it was more likely that the properties would include two or three-bedroomed units, and the properties would be let unfurnished.

3.6 Some information was available on the owner of the property in 27 cases. Seven of the property owners were thought by the RSLs to be individuals. Private companies were thought to own eighteen of the developments, although in some instances these companies were small building and property development businesses. One RSL mentioned that it had worked with a builder/contractor who had specifically purchased property with a view to renovation using LTS grant. Other RSLs mentioned that it was common to work with landlords who also had small building contracting businesses, and saw property renovation as valuable to both aspects of their work.

3.7 On the whole, RSLs tended to be positive about the attraction of LTS to landlords, particularly those who were willing to see the initiative as a long-term investment. In a couple of instances, RSLs had become involved with landlords who had misunderstood the nature of
the initiative, and who had attempted to become directly involved in the letting of the property; and where landlords had pressured the RSL to implement rent increases above the agreed limit. However, where landlords were willing to wait out the terms of the lease, the initiative was felt by RSLs to be extremely favourable, in terms of providing a steady income and guaranteeing the landlord possession of the property in a good state of repair at the end of the final tenancy.

3.8 The Regional Office was less sure about how landlords felt about the scheme, perhaps because the Office had more routine involvement with projects that were abandoned before they were handed over to RSLs. It was felt that landlords considered the scheme too complex, and that the finances were not attractive in the long-run since they tied the landlord into an extended lease with a heavy clawback penalty if the landlord withdrew. These aspects reduced the ability of the landlord to maximise their profits if markets shifted.

3.9 Given the fact that it has only been possible to interview just two landlords, it would be misleading to generalise from their accounts. Instead, their ‘stories’ are narrated.

**Landlord One: Eight flats above shops**

3.10 This landlord contacted the RSL through an architect he knew. The landlord owned the shops above which the flats are located, and he had never thought to let them before the introduction of the scheme since they were in poor repair and demand for property to let in the area is not high. The process of redeveloping the properties was protracted, but the landlord noted that much of this was his fault due to delays in raising the necessary capital.

3.11 He has no other property that he lets for residential use, and has no real interest in being involved in becoming a residential landlord. He spent £150,000 renovating the flats, and received a subsidy of £80,000. He now receives a below-market rent for the properties amounting to £7,000 a year, which just covers the cost of repaying the loan he obtained to renovate the property. He felt sufficient confidence in the scheme’s guarantees that he was able to ‘do the sums’ and calculate his likely income and loan repayment. The landlord summarised his benefits:

“They have the property for twenty years. But the bonus for us was that we got this grant to convert the property. So we own the building, and then in twenty years we’ll have a property in good condition to be returned to us with dilapidations [ie. with any repairs completed], so we’ll get back eight flats in good condition.”

**Landlord Two: Four flats**

3.12 The landlord could not recall how he had become involved with the LTS, but he had had experience with a partner of buying up and renovating flats in the North East area for thirty years. He had renovated four flats through the LTS, at a cost of £140,000, and with a subsidy of £60,000 from the LTS. He felt that the added subsidy had made all the difference with respect to the renovation taking place:
“If they hadn’t chipped in, (place) would have had a derelict property laying on their hands for years to come, because you couldn’t renovate them and make money out of letting them. The costs would have been way beyond the returns.”

3.13 Income from the four flats – around £5,000 – just about covers the cost of a £70,000 loan he took out to supplement his existing capital. Over time, increases in rent levels and reductions in the loan repayments as the capital is gradually paid mean he will see some profit from the venture. The landlord saw considerable benefits in having an intermediary to deal with letting the property, since he had bad experiences of letting to tenants directly and saw himself as an amateur when the housing association was more professional. This landlord would be happy to complete further renovations under the LTS, and as with Landlord One, he considered that with the LTS:

“You’ve got an investment that’s going to eventually, just like an insurance policy, it’s going to bear fruit at the end of the day. You’re tying up your money, but as long as you’re not looking for a quick return, hopefully it’ll be profitable to us.”

CLIENT GROUPS AND OUTCOMES

3.14 Although the LTS was designed as a means of increasing the supply of property to non-priority homeless groups, in actuality usage of the scheme has been wider. Just one of the RSLs operated within what they termed ‘the spirit of LTS’ in managing the properties as short-term lets for non-priority groups. One RSL with three properties under the scheme anticipated that tenancies will end after a six-month period, and the tenants will then move on into the RSL’s mainstream housing. For other RSLs, the use of the LTS properties tended to be fixed to the needs of the clients who moved in: if the client became settled, the issue of moving them on was shelved. The majority of the RSLs said that they would be happy if the clients were still in the same properties some years down the line. Indeed, the advantages of this being the case were outlined by one RSL: long-term use of these urban properties was beneficial to stabilising central town communities. Another RSL commented that it had become known locally that a particular property was used as ‘temporary’ accommodation for families, and so to protect the tenants involved they had shifted its use to longer-term lets.

3.15 In instances where RSLs have been using some of their LTS properties for shorter term, supported housing, the experience was in some cases problematic. One RSL found that the property location was poor, and nominations were difficult to secure. The RSL had experienced heavy voids and had considered the return of the property to the landlord with the subsequent payment of substantial penalties. The situation had developed largely because the agreed tenant support from a particular agency had been withdrawn, and the RSL was not spatially well located to take over closer management of the property. The situation was finally resolved as the RSL entered into an agreement with a nearby hostel to use the property for the resettlement of its residents, at a subsidised rent.

3.16 One of the objectives indicated in the research brief was to assess the usefulness of LTS as a specific youth homelessness initiative. Only one of the RSLs schemes was operating with a clear intention to use some of their units to house under-25s in a given location, and had created links with a local specialist support agency to meet need in one of the developed
properties. However, the RSL found it difficult to gain referrals of homeless under-25s to another similar property in the same location, and some of the units were let on the open market, in some instances to students.

CURRENT MANAGEMENT

3.17 Few of the RSLs had a great deal to say about the way in which the LTS schemes were currently being managed. On the whole, the schemes had been integrated within the mainstream housing provision of the RSL and offered few problems. Cases where voids were evident were the exception. As has been noted, some difficulties were being encountered with regard to furnished tenancies, but it must always be expected that this type of letting requires a higher level of management, particularly as tenancies come to an end, and furniture and fittings have to be reviewed before a new letting is arranged.

3.18 The Regional Office representatives indicated that they did not complete any ongoing monitoring of LTS, once grant had been agreed.

CONCLUSION

3.19 The LTS in operation is marked to some degree by diversity in terms of housing aims and outcome. In terms of bringing empty properties back into use, LTS has succeeded in renovating 28 properties and creating 252 tenancies, often in central locations and with the added advantage of effecting an improvement in the urban landscape. However, RSLs have tended in practice to use LTS as a means of increasing property supply for let to a wide range of users: for example, in Aberdeen some LTS units have been let to students. The value of the LTS has frequently been seen not as a means of offering transitional accommodation, but as a means of providing longer-term tenancies.
CHAPTER FOUR        AN EVALUATION OF LEAD TENANCY SCHEMES

INTRODUCTION

4.1     This chapter reviews the operation of LTS and offers an evaluation from four perspectives: administration; its value as a housing strategy versus its usefulness as a homelessness strategy; the impact on and of local rental markets; and issues relating to cost effectiveness and quality. Further evaluatory comment was gathered from RSLs, in their response to the question of how far they would continue with further schemes. The chapter indicates that tensions exist between the policy objectives underlying the scheme and its operation in practice.

ADMINISTRATION

4.2     RSLs made a number of comments on the scheme’s administration, which in addition explained why take up of the scheme has been markedly low. As part of the postal survey, RSLs who had heard of the scheme were asked why they had been unwilling or unable to do so. Seventy five RSLs were included in this category, and they could specify more than one answer to this question. In total, 38 RSLs noted factors that were, one way or another, connected with the administration of the scheme. This was by far the largest group of factors. Twenty of the RSLs said that the LTS was too costly and time-consuming to set up; and a further eighteen indicated that either the LTS was too complex to understand, insufficient information was available, or insufficient support to take up the scheme was available from Communities Scotland.

4.3     The experience of RSLs who had completed schemes underlines difficulties with administration of the initiative. Isolated for particular comment were problems in negotiating a satisfactory lease that was acceptable to the landlord, the RSL and to Communities Scotland. RSLs characterised the legal side of LTS as a bonanza for solicitors, and indicated that costs related to this side of LTS development often spiralled beyond the anticipated budget. One RSL had a bill of £8,000 to deal with the legal requirements of LTS, having planned for a spend of £1,500 under that heading. In this case, the lease still has not been signed. Another RSL found that, rather than legal issues becoming less complex as their experience of LTS grew, the requirements specified by Communities Scotland became more onerous and difficult to anticipate. Overall, RSLs were critical of Community Scotland’s handling of the legal side of LTS, and considered that it was their requirements that had complicated matters unduly, especially since it was thought that little more than a simple lease was required. Legal aspects that were mentioned by RSLs as being particularly problematic included the need to provide projected property valuations, negotiating inequitable break clauses and unreasonable requests for security. Taken together, negotiations on legal issues and time to inspect properties and oversee development added to a staffing cost that some RSLs considered disproportionate against the benefits accruing from LTS.

4.4     Representatives of the Regional Office made similar comment on the administration of the scheme. The legal aspects of the initiative were thought to be cumbersome because of the involvement of solicitors representing the property owner, Communities Scotland and the RSL, which lengthened the negotiation time. Guidance to the Regional Office on this – and
other aspects of the scheme - was in limited supply. Document SHGN 98/01 provided RSLs with a sample agreement and a model lease, but neither carried sufficient detail to be useful. The model lease contained contentious clauses – such as that relating to the clawback of subsidy should the owner want to end the lease before the end of the agreed term. Much of the legal discussion tended to centre around this issue. Additional documentation on LTS was not issued in a routine fashion, and indeed available information tended to be piecemeal and ad hoc. Some reliance was made on the details issued in press releases, although this was felt to be an inadequate source of information since the documents were not always dated, and so it was uncertain if they had been superseded. Similarly, references were also made to the Chapman Hendy evaluations, but these were never translated into guidance notes. Overall, the lack of guidance meant that the legal paperwork issued by RSLs was deemed inadequate, and so duplicated work for the Regional Office.

4.5 The guidance relating to the financial aspects of LTS was also thought to be poor. The guidance that was issued included a worked example, but Regional Office representatives thought this to be more confusing than illuminating. For example, the example did not indicate whether the allowable subsidy of £1100 per year of lease should be linked to inflation, or should remain a set figure. It was difficult for the Regional Office to get clarification on these matters, since it was uncertain which department of Communities Scotland had central responsibility for the initiative.

4.6 Overall, the Regional Office described LTS as a having a ‘long learning curve’, in comprising an initiative with an unfamiliar framework. There was limited opportunity for either RSLs or property owners to gain a working knowledge of the LTS process, since few tended to repeat the exercise. Given that a heavy time resource was necessary to develop each scheme, the resultant one or two units were not always thought to be worth the effort.

MEETING HOUSING NEED: HOUSING STRATEGY VERSUS HOMELESSNESS STRATEGY

4.7 A further aspect of the evaluation is to view the benefits of LTS as a housing strategy compared with its value as a homelessness strategy. As the previous chapter indicated, the majority of RSLs were using the scheme as a means of increasing the supply of privately rented stock for any group in demonstrable housing need, whether or not that need was deemed short or long-term. There were two issues that appeared to be attached to these different uses of LTS property. First, where property use was planned to be short-term, greater attention had to be paid to ensuring that the support needs of clients would be met, and that move-on arrangements were in place. In a couple of instances, RSLs had drawn up agreements with local support providers. Indeed, informal ‘nomination rights’ to those properties had been agreed with the support providers, to ensure that vulnerable households with similar support requirements could be housed together. In one instance, this arrangement had evolved after a period of ‘trial and error’, and the RSL in question noted that in future similar schemes should only be developed after a period of consultation and reference to the local homelessness strategy. Where LTSs were being developed to meet short-term housing need, there needed to be a guarantee that such need was in evidence, and that the local authority would fulfil its obligation to supply nominations to the property.

4.8 Second, where use of a LTS property was longer-term, certain aspects of its operation were considered inappropriate. For example, the fact that tenants were on Scottish Short
Assured Tenancies was deemed to offer insufficient security to households who evidently intended to stay in the properties for some time. Some RSLs were concerned that the end of lease periods may not correspond with the end of the tenancy, and one RSL was clearly happy that this situation had been resolved when the landlord decided to sell the property to the RSL. In addition, the rent levels were in some cases regarded as too high for tenants who wanted to work. In some instances, support costs and charges related to the supply of furniture added substantially to the rent.

4.9 However, despite these difficulties, the value of the RSL as a housing rather than strictly speaking a homelessness initiative was recognised by many respondents. The scheme offered the flexibility to target particular properties that might have strategic importance in small communities, and secured an RSL presence in inner-city locations where new build may not have been possible.

THE IMPACT ON LOCAL RENTAL MARKETS, AND MARKET IMPACTS ON LTS

4.10 When the LTS was first launched, a concern was expressed that the initiative might distort the rental market, and pull too many properties into RSL leasing arrangements. The low take-up of the scheme precludes any further discussion of this particular concern: a total of 28 properties covering 252 tenancies is unlikely to have widespread impacts on the market although in many instances the scheme was responsible for bringing ‘new’ or previously void properties into use for residential letting.

4.11 In terms of evaluation, a more pressing concern is the impact of the rental market as a constraining force on the effectiveness of the LTS. Returning to the RSLs who were unable to progress further with plans to set up lead tenancies, 29 of the 75 indicated that there were no suitable properties in the area for inclusion in such a scheme. Few of the RSL interview respondents noted that they had had a surfeit of properties to choose from, and many had in fact dealt with only a very small handful. In some of the more picturesque rural locations, the demand for homes for holiday lets had absorbed all properties capable of cost-effective conversion. The ability of the RSL only to offer a below-market rent meant that unless the property owner had a ‘social conscience’ the property was unlikely to be offered for scheme use.

4.12 Conversely, it was also the case that RSLs had difficulty in letting properties converted through the LTS that were located in areas where demand was low. These were communities in which employment opportunities were limited following the collapse of major industries.

4.13 One aspect of LTS that was thought to have an impact on the low availability of suitable properties was the level of grant for refurbishment. For RSLs located in the Highland region, an alternative leasing scheme had been available, through Highland Council’s management of substantial Empty Homes Initiative grant. Incremental improvement funding depending on lease length had been made available to landlords. The properties were then to be managed by RSLs who would let to statutorily homeless households at a below market rent. It was commented that this scheme offered advantages over LTS since the grant levels were higher under the Highland option, which meant that properties that were more severely dilapidated could be brought into use.
4.14 A further element of LTS evaluation is consideration of cost-effectiveness and quality. There were three issues that arose under this heading. *First,* for the RSLs, cost-effectiveness had to be understood in both the short and the long term. As has been indicated, in some instances high set up costs for LTS meant that the RSLs bore expenditure that could not be offset by the ongoing management fee that was chargeable against the property’s rental income. In general, there was a vaguely-expressed hope that in the long-term, a series of protracted lets during which the property would essentially manage itself would help to offset this high initial cost. With regard to long-term costs, some RSLs mentioned fears that bringing older properties back into use might involve them in costly repair and maintenance work in the future. For example, one RSL had to replace and upgrade costly sash windows in one property – required by the listing procedures – soon after it had been handed over for letting. A lack of adequate control over standards during the property redevelopment introduced some worries for RSLs who thought that they would be involved in costly repairs before the lease expired. However, overall it was thought that the initiative did offer some value in terms of bringing properties into use in strategically important locations at a total cost that fell well below expenditure required by new build.

4.15 *Second,* cost-effectiveness also had to be measured in terms of assessing the ongoing management costs of dealing with the properties. Under LTS, management fees are set at 15 per cent of the rental income. For two of the RSLs, ongoing costs of managing the properties were thought to be reasonable, and indeed when they had a good tenant who paid the rent regularly and required no support, then management costs were deemed to be effectively nil. In other cases, management costs proved higher than anticipated. In one instance, voids rates were higher, much more tenancy support was required and repairs and maintenance costs were in excess of expectation. In instances where LTS has been used to secure short-term lets for non-statutory homeless people, the support needs of the group housed put considerable pressure on the RSL’s management budget. Where furnished lets were being offered, management budgets could be squeezed if replacement items were required at the end of each tenancy. One RSL anticipated a problem arising when white goods in their units would need replacing.

4.16 *A third,* connected, issue was that of quality. Almost all the RSLs expressed the view that, although the properties had been secured at a lower cost than new build, the quality of the buildings often fell far below the standard of their mainstream properties. In part, the quality issue reflected the fact that old buildings were being brought back into use, which meant that space standards had not been met in some properties, and listing regulations had constrained the use of modern features such as double glazing. Where the RSL had taken a ‘hands off’ management stance with the contractor, who was often also the owner, there had been some concerns about the quality of the building work being done.

**CONTINUING WITH LTS**

4.17 As an additional method of evaluating LTS, the RSLs that were interviewed were asked if they would be involved in further LTS schemes if grant were available. None of the RSLs expressed unqualified support for the initiative, and two indicated regret that they had
become involved to the extent they had. Experience of the LTS differed to some extent for each RSL, and responses from each of the eight RSLs on their desire to engage in LTS again are summarised:

- no incentive to complete further LTS since the scheme generates no asset for the RSL in terms of borrowing;
- a good scheme to secure long-term housing for single people, but its value as a means of stabilising inner-town communities would be weakened if tenancies were expected to be short term;
- scheme does not work where rents are too low to be attractive to landlords in areas of high demand;
- a good method for adding to the stock of supported housing, but now that need has been met there is no further use for the initiative;
- in practice a good scheme, but legal complications mean that it is not cost effective on small unit numbers;
- a risky option to take up if client supply is uncertain;
- a good way to add to housing stock in small communities, but will not pursue further now that need has been met under LTS; and
- legal complications are a disincentive to further use, as are limits to grant levels.

TENSIONS

4.18 RSLs have clearly experienced difficulties with implementing LTS, and it appears that an interplay of factors has created a series of obstacles to effective implementation. Tensions exist between policy objectives, key features of the LTS model and the market within which the model aims to operate. These tensions, and the consequent outcomes, are summarised in Table 4.1.

Table 4.1 : Tensions inherent within LTS

<table>
<thead>
<tr>
<th>Tension between…</th>
<th>Use of Scottish Short Assured Tenancies and RSL culture of offering tenant security</th>
<th>which means</th>
<th>low levels of take up by RSLs of LTS: it is felt to be a bad deal for tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desire to bring dilapidated properties back into use</td>
<td>limits on available funding to subsidise required building</td>
<td>which means</td>
<td>reduced supply of properties becoming available</td>
</tr>
<tr>
<td>High demand for holiday lets, and pressure on property supply in some key cities</td>
<td>requirement to offer market rents</td>
<td>which means</td>
<td>in competition for properties, LTS offers a relatively poor deal to landlords so reducing supply</td>
</tr>
</tbody>
</table>
CONCLUSION

4.19 In evaluating the LTS, the RSLs that were interviewed tended to focus on the administration of the scheme, the way in which it was able to meet housing need, the impact of local rental markets, and issues relating to cost effectiveness and quality. Particularly with respect to legal matters, there appears to have been inconsistent administration of LTS by Communities Scotland, which precluded RSLs from the possibility of learning from their own experience or from each other to ensure the process became simpler over time. RSLs often noted that the high costs relating to settling legal issues remained one of the factors most likely to dissuade them from continuing to pursue properties for the scheme.

4.20 A further factor constraining more widespread use of LTS was the state of local rental markets, and the uncertain supply of suitable properties. Where conversion was financially viable, it was likely that landlords had already gone down that route to take advantage of high rents that might be accrued from holiday lets. The low rental income offered by LTS meant that RSLs were not in a good position to compete for properties.

4.21 Working together, these factors introduced a series of internal tensions that were evident in the scheme in operation. However, despite these tensions the RSLs involved still retained an interest in seeing further development of the initiative. The following chapter considers a review of the LTS model.
CHAPTER FIVE  CONCLUSION

INTRODUCTION

5.1 Chapter four considered some of the problems attached to the operation of LTS. This chapter focuses on taking the evaluation forward to consider the benefits of the scheme, and ways in which those benefits could be maximised. The chapter concludes that LTS does have value as a method of meeting housing need, but its value could be considerably enhanced by substantial changes to its objectives and its administration.

WHAT BENEFITS?

5.2 Although much of the RSL comment on the LTS was adverse in its nature, it remained the case that benefits were still thought to accrue from the scheme. It is perhaps appropriate at this stage to relate these benefits back to the particular issues that the research was required to explore.

5.3 First, it was asked whether the LTS can be successfully targeted at homeless people, or is it better to use the mechanism to improve access to the private sector more generally? The research indicated that LTS can be targeted at homeless people, providing the appropriate support mechanisms are in place. Using the developed properties in this way might be deemed less appropriate in small settlements where the property might become conspicuous in its use as ‘a homeless flat’. Overall, the initiative was instrumental in providing 252 tenancies in properties that prior to the scheme had not been available for residential letting. In this regard, LTS had improved access to the PRS, both in ‘creating’ new private lets and facilitating access to those by removing requirements to pay any ‘up front’ rent in advance and deposits, for example. Widening use of the initiative beyond homeless groups does not limit their potential value, and there may in fact be an increased benefit to be derived by broadening the approach taken. For example, there was some support for the operation of LTS as an environmental initiative, in focussing effort on bringing properties into use that constituted a local disamenity. Thus, it was felt by some RSLs, that the general community had benefited from development under LTS. The scheme had allowed RSLs a degree of flexibility in terms of pinpointing a particular property and being able to offer incentives to its owner to effect improvement. The property might have strategic importance in offering a rental option to a household to enable it to stay in a locality rather than have to move away.

5.4 Second, it was asked how far a LTS property, expressly providing a temporary tenancy, could satisfy the duty on local authorities to provide people assessed as being homeless and in priority need with permanent accommodation? As the research has demonstrated, the majority of the RSLs managed their LTS properties as long-term lets. Where this was not the case, there was some attention paid to move on procedures, ensuring that the tenant had access to accommodation in the RSL’s mainstream housing stock if it was required.

5.5 Third, it was asked how far local authorities or any other social landlord should become involved in setting up LTS? The interviewed Regional Office indicated that it had been proactive in discussing LTS development with the local authorities in their area, and examples existed of schemes that developed in the context of partnership working between
the local authority and Communities Scotland, based on a review of housing strategy and planning decisions, and in the context of regeneration initiatives. In addition, the LTS format – with regard to setting up a social agency as a lead tenant – has and can be used effectively by local authorities and has been used as a format to deliver grants under the Empty Homes Initiative. Further exploration could usefully take place of the roles that local authorities can play in promoting, brokering, developing and directly managing such schemes.

5.6 Fourth, how do different housing market conditions affect the scope of the LTS? The scope of the LTS is closely linked with the nature of local market conditions in a number of ways. First, LTS activity in creating new properties for supply for a particular group is a necessarily finite activity in the majority of locations. For example, in one town there was a concern that too many LTS properties housing single homeless households in the centre might have a ‘ghettoising’ effect. Thus, in some places, it was felt that LTS had run its course, and had now satisfied the target market. Second, adverse market conditions could entirely restrict the scope of LTS since likely properties would already have been absorbed by the private rented sector – often by a lucrative holiday homes market. However, LTS carried the advantage of providing a framework that could encourage local authorities or RSLs proactively to pinpoint derelict properties that may be suitable for development, and draw down funding that could effect renovation and so add to the private rented stock in a location.

5.7 Fifth, what are the barriers to introducing LTS, and can they be removed? The principal barriers to the growth of the scheme were its poor dissemination and complex administration, together with local housing market constraints. A review of LTS operation could remove the procedural barriers. Market difficulties are more problematic, but there remain some market scenarios in which LTS could be effective. For example, areas in which there may be a displacement in the PRS market perhaps through the shifting of a demand group away from a particular location – for example, students moving out of the sector following the development of accommodation by a higher education institution. Any location in which PRS property is in oversupply might be amenable to a ‘ready to let’ LTS model. In addition, a revised scheme that introduced a higher funding rate for more dilapidated properties might be successful in encouraging owners to come forward who may not have the capital to effect improvement without substantial subsidy.

5.8 Finally, how can RSLs reduce the risk they assume, for example, that properties might remain empty? This type of difficulty can be avoided through an increased attention paid to ensuring that proposed schemes are informed through reference to local housing and homelessness strategies. These would ensure that the development would be accurately focused on its demand group, and that where necessary appropriate agencies would be in place to offer necessary referrals and support.

MAXIMISING THE BENEFITS

5.9 In order to maximise the possible benefits that could accrue to the scheme, the LTS as it currently operates would have to change. A number of alterations were suggested by the RSLs themselves. The suggested changes were:

- A review of the requirement for the initiative to serve non-statutorily homeless groups. The RSLs sought flexibility with regard to using the properties as part of their mainstream...
stock. The scheme offered the potential to expand the supply of affordable housing into locations in which the RSL would normally have been unable to complete new-build projects.

- **The ability to offer better security of tenure where desired by the tenant.** The original intention of the scheme to offer temporary lets was deemed inflexible and, certainly in the smaller settlements, LTS was being used to secure long-term housing.

- **The possibility to secure higher renovation grant for properties that were deemed strategically important in wider housing terms.** In the more remote rural areas, some properties required higher levels of grant aid to bring them into use, because they had remained empty for an extended period.

- **Substantial simplification of the legal requirements.** The long lead-in times for many projects reflected extended and costly legal negotiations, that for the most part were deemed unnecessary.

- **Schemes assessed in terms of their reference to the local homelessness strategy.** Funding should not be granted without Community Scotland making an assessment of the scheme’s relationship to the local homelessness strategy and a review of the projected partnership working arrangements between the RSL, the local authority and the landlord.

**WAYS FORWARD**

5.10 The focus group of RSLs and local authorities considered ways in which LTS could be carried forward. Although it was concluded that LTS constituted a valuable addition to the suite of initiatives that promote greater use of the PRS by social landlords, it was felt that the Scottish Executive should not pressurise either RSLs or local authorities to adopt the scheme. Successful use of LTS was largely opportunistic, so setting performance indicators and targets for take up of the scheme would not be feasible given the particular nature of the circumstances in which LTS has proved to be effective. However, at the same time, Communities Scotland could usefully locate the RLSs that were in a position to make use of such schemes, and give more targeted encouragement.

5.11 There was a view that LTS grant levels should be flexible, and not be tied to an absolute rating, such as a set amount per year of lease, or a set percentage of HAG – both of which are features of LTS thought to be lacking in clear rationale. Rather, each project should be assessed for funding on its own merits, an approach which was also thought likely to reduce the risk attached to scheme development by either the RSL or local authority.

5.12 The focus group noted a need for additional guidance, much of which should be based on a fuller understanding of the good practice gathered through existing experience of operating the scheme. It was thought that a small steering group including RSLs that have run LTS, along with associations that have experience of schemes such as HAL or HAMA and universities managing head lease schemes could be involved. A need for three broad types of guidance was identified by the group, including guidance on the likely costs of LTS, guidance
on the legal requirements of the scheme, and guidance on the strategic aspects of identifying the need for and implementing LTS. Specific issues identified were:

- Guidance on the costs of setting up LTS, including the staffing resources of identifying and recruiting property owners, negotiating with the owners, and settling legal requirements.

- Thought should be given to the on-going management costs of LTS, including the potential for high void rates amongst certain tenant types, and the possibility of extra staffing and capital costs in dealing with furnished lettings.

- Some attention could also be given to the cash-flow implications of delays in housing benefit payments.

- The complexities of the current legal procedures were noted by almost all RSLs as presenting a substantial obstacle to further take up of funds under the initiative, and as a significant addition to scheme development costs. It was suggested that further research should be completed to review the legal frameworks of such initiatives as HAL, HAMA and the Head Tenancy Schemes, and consider aspects of best practice in the way these arrangements are regulated. If possible, new legal guidance should use any similar existing frameworks, since a degree of familiarity would be more likely to promote confidence in using the scheme for the first time.

- The legal guidance should include a clear articulation of the rights and responsibilities of all parties involved in the LTS, including the RSL, the property owner, the local authority and Communities Scotland Regional and Central Offices.

- Legal guidance could define management and property standards, responsibilities with regard to repair, and nomination responsibilities.

- Guidance on the development of schemes in the local housing market context was thought likely to be of benefit to ensure that they meet the specific housing need in a given locality.

- It would be useful to construct some ‘how to’ guidance in locating and contacting the owners of uninhabited or derelict properties. One Regional Office respondent suggested that a ‘timeline’ should be constructed that indicated the order in which activities should take place, and an indication of how long those activities should take. This would help RSLs and local authorities in the task of project management.

- Promotional literature on the scheme would be helpful that outlined LTS benefits to landlords with clear indicators of the costs and their legal obligations.

- Some thought should be given to reviewing the clawback regulation to increase the attractiveness of the scheme to landlords.
CONCLUSION

5.13 This final chapter has indicated some of the benefits that have been attached to the use of LTS. Although the scheme was originally introduced with the intention of providing temporary accommodation for homeless households, in actuality the scheme was more broadly applied. Indeed, its unintended flexibility is a value that has been most appreciated by RSLs. One manager indicated that the initiative constituted another valuable arrow in the armoury that he could use in addition to other grants and funding programmes to improve PRS housing supply. Such is the value of the scheme, this report recommends that ways forward should be found to redevelop LTS to maximise its benefits. Many of the difficulties accruing to the scheme have revolved around a mismatch between the policy objectives underlying LTS and the way in which the scheme has actually been implemented. A full review of policy objectives is evidently in order, to include an assessment of the target housing group(s) for the scheme, intended impacts on the private rented sector, and the roles and rationales of possible partnership agencies.

5.14 The majority of the changes to the scheme suggested by RSLs in one way or another aimed to enhance both its flexibility and ease of use. This therefore suggests that the objectives of the LTS should be to provide a funding framework whereby RSLs or local authorities could access grant to subsidise the redevelopment of private properties in strategically important locations – such as smaller settlements, and areas where a particular property type such as single-person units are in limited supply. Attached to this funding framework should be a leasing model that offered a realistic time frame to the landlord according to the level of subsidy and the target tenant group: thus, longer time-scales and perhaps higher subsidy could be arranged where the intention is to meet longer-term housing needs.

5.15 A re-launch of the scheme is appropriate. However, Communities Scotland should radically review its administration, and institute a system to support the scheme in operation. This support includes the preparation of detailed guidance for local authorities and RSLs on costs, legal aspects of LTS, and on project development. Communities Scotland should also undertake to complete ongoing monitoring of LTS in operation, to keep guidance up to date, and ensure that subsidy levels and cost-benefit analyses remain relevant.
BIBLIOGRAPHY


