

Appendix 1 – Review of the private landlord’s incentive scheme (April 2016)

1.0 Summary

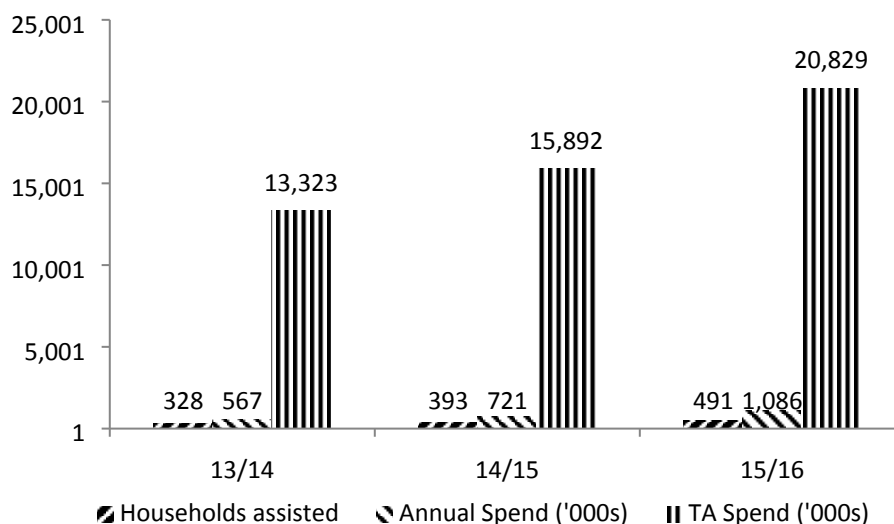
Barnet Homes developed its’ Let2Barnet service in 2012. The former rent deposit scheme service was re-modelled and external expertise brought in from the estate agency and sales industries to help overhaul the service.

The private sector landlords’ incentive scheme has been in operation for almost four years now. It has helped over 1,300 households find affordable homes. The private landlords incentive scheme is a vital tool in helping the Council prevent homelessness for those households who approach for assistance.

The provision of alternative private rented sector supply provides better outcomes for both residents (in offering affordable and sustainable housing solutions) and the Council (through reducing reliance on more expensive temporary accommodation). Households supported through this scheme are given the opportunity to resettle and reduce dependency on the Council.

2.0 The cost of delivering the private landlords incentive scheme

Since the incentive scheme was introduced, the level of incentive expenditure and the number of households assisted has increased against a background of growing temporary accommodation (TA) expenditure.



Whilst spend on incentives has almost doubled since 2013/14, TA spend has increased by £7.5 million in that time. It is therefore crucial that robust systems are in place to safeguard payments and protect against fraud. Barnet Homes has robust checks in place to guard against fraud. These include measures such as landlord verification, a comprehensive list of documents required from landlords, and a multi-level management authorisation of payments.

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Effective marketing strategies coupled with private sector expertise have enabled the service to successfully house over 1,300 households since April 2013. This has provided better outcomes for both residents (in offering affordable and sustainable housing solutions) and the Council (through reducing reliance on more expensive temporary accommodation).

The service offered to landlords consists of a negotiated cash incentive payment to offset rent deposit and rent in advance requirements seen in the private market, and a personalised service which includes an after care service to help ensure tenancies are sustainable and retain landlord custom.

Barnet Homes has been successful in containing PRS incentive rate inflation despite PRS market rent inflation escalating. However, it is predicted that incentives will continue to rise over the coming years to keep pace with private sector rents and remain competitive. The predicted incentive inflation is expected to rise to an average cost of almost £2,600 by 2020/21.

Predicted incentive inflation (unit cost)

	14/15	15/16	16/17	17/18	18/19	19/20	20/21
Ave Cost (£)	2,181	2,207	2,303	2,372	2,443	2,517	2,592

In 2015/16 the Council spent almost £1.1m on securing private rented accommodation. With this funding, Barnet Homes was able to help resettle almost 500 households at an average cost of around £2,200 per household.

Each household assisted through the cash incentive scheme would have likely otherwise been placed into temporary accommodation, placing significant further pressure on the Council’s General Fund. The following table shows the estimated benefit of the cash incentive scheme:-

	2016/17	2017/18	2018/19	2019/20	Total
1. Number of private lettings with incentives	500	500	500	500	2,000
2. Annual Cost of private lettings with incentives (£’000s)	1,174	1,209	1,245	1,283	4,911
3. Equivalent TA demand met (all demand met by TA on an even basis throughout the year with a 2% incentive fail rate)	250	735	1,210	1,675	3,870
4. Equivalent TA demand cost (£2,397.20 ¹ pa net per unit multiplied by 3 above) (£’000s)	599	1,762	2,936	4,111	9,408

¹ Average net cost of 2-bed unit secured through interim temporary accommodation providers, excluding any bad debt provision

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5. Cost avoidance(£'000s)	-575	553	1,691	2,828	4,497
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The impact of the cash incentives is realised over the medium to long-term. For example, providing temporary accommodation will cost c£3,000 per annum for a 2-bed household (compared to the current average incentive rate of £2,600 for a 2 bed household through the incentive scheme), and this cost will be incurred each year the household remains in temporary accommodation. The graph above highlights the impact of meeting demand in year. If the cash incentive scheme were to cease, the General Fund would be shouldering the cost of housing 2,000 more households by March 2020 at a net cost of £4.68m per annum, compared to the benefits delivered through the cash incentive scheme which would mean that cost is significantly less at £0.78 million.

2.1 Benchmarking

Barnet is not alone in operating a private sector landlord’s incentive scheme to help meet homeless demand. Barnet is competing against other boroughs that are looking to procure within the region including within Barnet. Those boroughs are willing to pay higher incentives to help applicants access private sector supply. The table below indicates the level of incentives available in other boroughs in February 2016 for 2-bed properties.

Borough	Incentive Paid	Weekly LHA ²	Average PRS rent ³
Barnet	Up to £3,000 cash incentive and up to £4,500 for a 2 year AST	£255.34	£323.80
Brent	£4,000 cash incentive and up to £4,500 for a 2 year AST	£242.33	£346.15
Camden	£4,500 cash incentive (plus deposit bond if for 2 year AST)	£302.33	£480.00
Enfield	£3,000 cash incentive	£255.34	£288.46
Haringey	£4,000 cash incentive and a 4 week deposit bond	£255.34	£345.00
Harrow	£3,000 (£1,000 cash deposit plus £2,000 incentive)	£242.33	£298.85
Waltham Forest	£4,000 cash incentive	£229.58	£288.46
Watford	£3,500 cash incentive	£196.96	£265.38

Little information is shared by boroughs on how many households are assisted into the PRS. However, from the P1E prevention data an indication of this can be obtained.

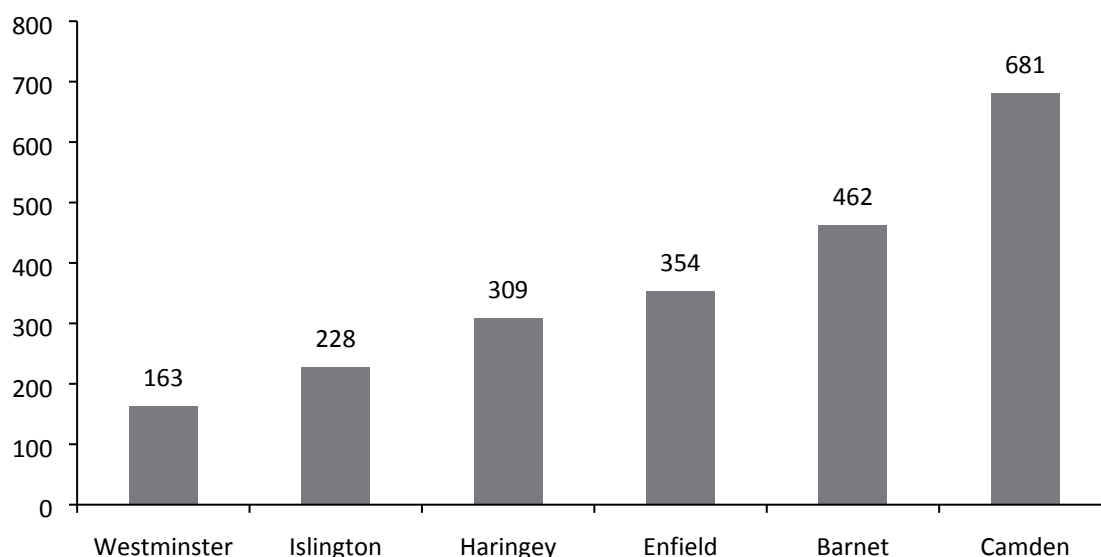
² Outer North London Broad Rental Market Area (BRMA) April 2016

³ From Private Rented Market Statistics May 2016 published by Valuation Office Agency

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The ‘Assisted to obtain alternative accommodation’ P1E can include other schemes, though many of these are likely to be those assisted into the PRS. This data shows Barnet to be performing well against those in our sub-region.

P1E - Assisted to obtain alternative accommodation - 2014/15 (North London sub-region)



2.2 The benefits of the cash incentive scheme

There are a number of key benefits afforded by the private landlords’ incentive scheme:

- It is an important vehicle used to help the Council prevent homelessness for those households who approach for assistance.
- It provides better outcomes for residents through offering affordable housing solutions.
- It provides better outcomes for the Council through reducing reliance on more expensive temporary accommodation.
- Households supported through this scheme are given the opportunity to resettle and reduce dependency on the Council.
- The average length of stay in temporary accommodation is 7 years, whilst the majority of applicants who move into the private rented sector request no further assistance (as illustrated by the 2.1% of households in the table below who required further assistance after 12 months of living in a Let2Barnet tenancy). This equates to a potential **long-term saving of over £18k per household** at current prices for each household moving into the private rented sector through the incentives scheme.

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- Tenancy sustainment levels are high –research conducted over the period April 2015 to February 2016 suggests that after 12 months, over 77% of households renewed their tenancy, and 21% moved on and required no further assistance from the Council. Only 2% returned to temporary accommodation and required further assistance from us.

Sustainment after 12 months	No:	%
Households contacted	287	100.0%
Still in their properties	222	77.4%
Moved on	59	20.6%
In TA	6	2.1%

2.3 How does the incentive scheme compare with the private market?

Landlords renting their properties could broadly expect to receive the following for a 2 bedroom property in Barnet:

	Private Market	Let2Barnet
6 weeks rent in advance	£1,650	
6 weeks deposit	£1,650	
Incentive		£2,600
Tenant Rent	£285 per week	£255.34 per week
Total revenue year 1	£16,470	£15,878
Total revenue year 2	£14,820	£13,278

As highlighted by the table above the incentive scheme helps customers’ access properties that are otherwise unaffordable. The £3,300 cost of 6 weeks rent in advance and 6 weeks deposit is more expensive than the incentive offered. Additionally, the rent in the PRS could typically be in the region of £30 per week more expensive in this scenario. Whilst landlords letting in the private market would receive more rental income and be required to register their deposit, the cash incentive offered through the let2barnet scheme has no such requirement so landlords are entitled to use the incentive as they see fit. This enables landlords to use incentive payments to help top-up rents received in the first year of the tenancy. In future years however, there is a comparative shortfall of at least £30 per week when compared with the private market. With LHA rates frozen for this and the next 3 years, this shortfall is expected to grow.

2.4 What more could be done to improve the incentives scheme?

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In the past we have offered bonds, rent in advance and deposits to help increase access to affordable private sector properties, with varying degrees of success, however the cash incentive scheme has received the most positive feedback from our landlords. This has also been borne out in our results with performance demonstrating their popularity.

Barnet Homes has considered attempting to source accommodation for longer-terms but this has proven difficult. Wherever possible Barnet Homes seeks to secure 2 year Assured Shorthold Tenancies for our customers, and offer landlords a slightly higher premium for doing so. However many landlords offering property to rent are reluctant to enter into long term agreements mainly due to uncertainties brought about by welfare reforms.

Barnet Homes is constantly reviewing the services offered through its’ let2barnet service to ensure they remain competitive and fit for purpose. With uncertainties over the impact of future welfare reforms and both Registered Social Landlords and accommodation providers only interested in providing temporary accommodation where boroughs underwrite or guarantee rents, the private landlords cash incentive scheme is currently the only viable method of meeting housing demand whilst reducing dependency on the Council.