



Rent Regulation Error Update Report

To:

Councillor Gerri Bird, Executive Councillor for Housing

Report by:

Julia Hovells, Head of Finance and & Business Manager

Tel: 01223 - 457248

Email: julia.hovells@cambridge.gov.uk

Wards affected:

All containing Cambridge City Council homes.

Key Decision

1. Executive Summary

- 1.1 This report provides an update on progress in respect of the project to recalculate and correct rents and refund any overpayment for properties affected by either of two identified rent regulation errors.

2. Recommendations

Under Part 1 of the Housing Scrutiny Committee Agenda, the Executive Councillor, is recommended, following scrutiny and debate at Housing Scrutiny Committee:

- a) To note progress in respect of the correction and quantification, calculation and repayment of any overpayments resulting from the two identified rent regulation errors.

3. Background

- 3.1 In late 2023, the Council sought legal advice on how it had historically set its Rent and Service Charges.
- 3.2 It was confirmed at Housing Scrutiny Committee in January and March 2024 following the legal advice that 2 historical errors had been identified in how the Council has set its rent and service charges.
- 3.3 The first error related to not correctly applying the 1% rent reduction under The Welfare Reform and Work Act 2016 to our affordable rented homes. The legal advice confirmed the reduction should be retrospectively applied and refunds of any overpayments made by tenants, given back to them.
- 3.4 The second error related to how rent and service charges have been displayed on rent accounts since the introduction of rent restructuring from April 2002 and the subsequent separation out of service charges from April 2004. The authority displayed gas and electrical and mechanical maintenance charges separately from the rent, which has now been confirmed as incorrect. The legal advice received confirmed that these charges have always been part of the rent and that the authority needed to combine these charges back into the rent ensuring that the total didn't breach the formula rent. If the formula rent has been breached, the difference needs to be refunded and if charges were added on top of the rent, these need to be removed and refunded.
- 3.5 The authority set up a Project Team to manage the significant workload. There have been over 23,000 tenancies during the 20 years, requiring review to determine whether they have been affected.
- 3.6 The table below identifies the key stages and milestones in the project, which spans many months:

Stage / Milestone	Estimated Date Range	Status
Obtain legal advice	December 2023	Complete
Notify Regulator of Social Housing	December 2023	Complete

Identify affected current affordable rented tenants	January 2024	Complete
Communicate to affected current affordable rented tenants	January 2024	Complete
Calculate correct rents from April 2024 for all tenants	January 2024	Complete
Identify affected current social rented tenants	February 2024	Complete
Communicate to affected current social rented tenants	February 2024	Complete
Calculate estimated impact of the value of refunds for year-end accounts and agree approach with auditors	March 2024	Complete
Charge correct rents from April 2024 to all tenants	April 2024	Complete
Recruit Project Manager	April 2024	In Progress
Calculate and validate individual refund values	Summer 2024	In Progress
Determine methodology for repaying overpaid Housing Benefit	Summer 2024	In progress
Determine approach for repaying overpaid Universal Credit	Summer 2024	In progress
Provide update to affected current tenants	Summer 2024	In progress
Design processes to manage application of credits and resulting refunds	Summer 2024	In progress
Apply credits and refund any overpayment for affected current affordable rented tenants	Summer / Autumn 2024	

Apply credits and refund any overpayment for affected former affordable rented tenants	Winter 2024 / Spring 2024	
Apply credits and refund any overpayment for affected current social rented tenants	Winter 2024 / Spring 2025	
Apply credits and refund any overpayment for affected former social rented tenants	Spring / Summer 2025	

- 3.7 The council self-referred these issues to the Regulator of Social Housing in early December 2023, with further information provided between January and March 2024, as officers worked through the detail of which tenants had been affected. The Regulator is considering issuing the authority with a Regulatory Judgment, because of the number of tenants affected and the sums involved. The Regulator has noted however, that the authority had been pro-active in reporting the breach and in working to remedy it. The Regulator has met with the authority on a number of occasions and is meeting with officers bi-monthly.
- 3.8 Recruiting an experienced project manager, with the appropriate mix of skills to deliver the remainder of this project has proven difficult, with the role having been advertised for the second time in May 2024. Once this role has been recruited to, a team of temporary staff will be employed to manage the extensive case work that will be required to complete this project.
- 3.9 Based upon the work undertaken during March 2024, which attempted to quantify the value of the potential overpayment for the purpose of the 2022/23 and 2023/24 year end accounts and audit process, an estimated 8,150 tenants, both current and former, have been affected by one or other of the rent errors.
- 3.10 The biggest risk to the target timescales is an inability to obtain an agreed way forward with the DWP in respect of any overpayment of Universal Credit. We are in communication with the DWP to resolve this in the most efficient way possible.

3.11 For Housing Benefit, we have a direct internal relationship with the Housing Benefit Team and the appropriate legislation exists for us to be able to communicate with them and facilitate repayment of any sums due back via this route. However, the mechanism to achieve this in technical / administrative terms is yet to be determined due to the volume and the length of time that the overpayments relate to.

4. Implications

(a) Financial Implications

The work undertaken in March 2024 to produce a reasonable estimate of the value of the rent overpayments resulted in the following:

	Value
<u>Service Charge Error</u>	
Current	2,260,584.91
Former with name	749,457.33
Former anonymous	268,881.31
	3,278,923.55
<u>Affordable Rent Error</u>	
Current	920,137.05
Former with name	168,933.75
Former anonymous	1,146.74
	1,090,217.54
Total	4,369,141.09

It should be noted that this is an estimate, arrived at in advance of 31/3/2024 and before more detailed analysis has been carried out to validate the estimated overpayment values arrived at.

The above estimated overpayment value has been used to close the financial accounts for 2023/24, resulting in the need to re-structure the financing of the capital programme to ensure that the HRA does not fall below the prudent minimum level of general HRA revenue reserves.

From an ongoing perspective, the affordable rent error results in estimated reduced annual income of £189,080 and the service charge error, £382,370.

The impact of both the refunds, and the ongoing reduction in rental income will need to be addressed as part of the HRA Medium Term Financial Strategy in the autumn, where difficult decisions will need to be made to redress the balance.

(b) Staffing Implications

There is a need to recruit a Rent Regulation Customer and Project Manager to lead this project through to its conclusion and a team of temporary staff to undertake the case management activity. Existing staff who have been working on this project over the last 6 months in addition to what they normally do, need to return to their substantive roles to ensure business continuity.

(c) Equality and Poverty Implications

There are no new equality or poverty implications associated with this report.

(d) Net Zero Carbon, Climate Change and Environmental Implications

There are no new environmental implications arising from this report.

(e) Procurement Implications

There are no new procurement implications arising from this report.

(f) Community Safety

There are no community safety implications arising from this report.

5. Consultation and communication considerations

Tenant and leaseholder representatives are consulted as an integral part of the scrutiny process associated with this committee. Current tenants affected have already received initial communications and all tenants affected by the issue will be individually communicated to at appropriate points on the timeline as they arise.

6. Background Papers

There were no public background papers used in the preparation of this report. Data directly from the Council's housing management system was used in the report's preparation.

7. Appendices

There are no appendices associated with this report.

8. Inspection of Papers and Queries

If you have a query on the report please contact:

Julia Hovells, Head of Finance & Business Manager

Telephone: 01223 - 457248 or email: julia.hovells@cambridge.gov.uk