



17 July 2019

Dear Colleague

### Regulation fees in 2020/21

I am today writing to all private registered providers to set out our proposals for fee charging in 2020/21. Arrangements for fee levels were previously confirmed to the end of the Spending Review period to April 2020. We are now setting out our approach for the next period.

Following a review of resources we have identified the need for an increase in capacity to ensure that we can continue to effectively regulate the changing risk profile of the sector. In our last stakeholder survey 93% of respondents agreed that the regulator takes action to ensure confidence in the sector is maintained. We want to make sure that we have the capacity to maintain that confidence. While we have made a number of efficiency improvements such as our accommodation strategy, flexible working and use of data, to fund part of that additional capacity we are also proposing to increase the fees for private registered providers with 1,000 units or more. We are not proposing to increase the initial registration fee or the fixed fee for small providers. This letter sets out the context to the review of resources and the implications for our resources and fee levels.

### Current fees arrangements

Annex 1 to this letter sets out the background to the RSH fees scheme. When fees were introduced we committed to ensuring that the initial registration fee and small providers' fee would remain fixed at the same level for the Spending Review period, which runs to the end of the 2019/20 financial year. Over the same period, we also committed to a maximum 1% per annum increase in total fee level from a base of £12.5 million for 2017/18<sup>1</sup>.

The Regulator has kept to all its commitments on the levels of fees. For 2017/18, providers have received a refund to reflect underspends on the regulation budget and can expect to do so again for 2018/19.

<sup>1</sup> <https://www.gov.uk/government/consultations/consultation-on-introducing-fees-for-social-housing-regulation>



## **RSH resource review**

Against a background of increased sector risk and complexity, the Regulator has driven forward a step change in our regulation whilst remaining responsive to new sectoral and policy challenges. When we surveyed the sector in 2018, 91% of respondents answered questions about the effectiveness of our regulatory framework and approach positively<sup>2</sup>.

However, as we look to the potential challenges in the future we are considering how we best use our existing resources and where we need to supplement our skills and staff base. Changes are also proposed to reflect our initial experience as a standalone organisation and to ensure that effective regulation can be maintained which continues to meet our statutory objectives. We need to keep pace with an evolving sector and wider economic and policy changes. This includes the increasing consolidation and market focus amongst some registered providers. A further example is the development of new business and funding models for the provision of social housing, including more commercial for-profit providers.

We have made progress in a number of areas to improve efficiencies. For example, our accommodation strategy focuses recruitment at our core offices (Leeds, Manchester, Birmingham and Bristol) unless locating a post in London is business critical. We continue to progress towards being a more flexible workforce and our accommodation strategy assumes that we have a desks to staff ratio of 6:10. Furthermore, we have also moved to a new customer relationship management system which offers potential for efficiency improvements in our day-to-day operations. Finally, we are planning for increased use of data and analysis to inform our risk-based approach to regulatory engagement.

Benchmarking with other regulators shows that relative to the scale of the sector the costs of our regulation are low. However, efficiencies alone will not be sufficient and there is still a need to increase our resources in specific areas.

## **Resources required from 2020**

We want to supplement our capacity to reflect the growing demands of regulating an increasingly diverse sector. This includes a greater range of business models which are more complex and commercially orientated as well as more diverse financing products. In order to do this, our regulatory engagement model has been reviewed to ensure that we continue to take a risk-based and differentiated approach to regulating the range of providers.

The Regulator has identified a number of areas where additional resources are needed. To reflect the above, new posts are proposed in our business intelligence and regulatory assurance functions, particularly to maximise use of our data to inform our targeted regulatory approach. This includes the identification of key sector risk areas and taking assurance from our data work. Additional capacity is also proposed within our regulatory operations team to deliver an expanded programme of In Depth Assessments (IDAs) and ongoing regulatory engagement for the largest and most complex providers. This is to take account of risk and the systemic importance to the sector of such providers as potential rescue partners.

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<sup>2</sup> <https://www.gov.uk/government/publications/rsh-stakeholder-survey>

At the same time we wish to ensure that we are able to meet the increasing range of demands being made of our Legal team such as in relation to data protection and information requests. Our investigation and enforcement function, which is funded by Government via grant-in-aid, requires further resource particularly to reflect a sustained increase in casework in relation to new business and funding models (including lease-based providers) and more commercial for-profit providers. Our grant-in-aid budget has previously been increased by Government in response to these pressures, which are continuing to grow. Finally, we propose to enhance our Corporate Service resource to ensure that we can continue to run the organisation effectively to deliver its objectives and to meet our obligations as an arms-length body.

In total, we propose circa 30 additional posts (on a net basis) by creating a number of new roles at a range of levels of seniority. In addition, we propose an increase to non-staff costs of £0.7m. This primarily relates to non-pay costs such as IT and facilities costs needed to support new roles. It also reflects a proposed increase to our external legal advice budget. A summary of the proposed additional resources and budget is provided in Annex 2. We propose to meet the cost implications of these changes partly through increases in fees and partly through increases in grant-in-aid. The cost of non-routine regulation such as action taken where there is breach of our economic standards must be met by grant-in-aid whereas routine regulation such as IDAs is covered by fee income.

### **Implications for 2020/21 fees**

In recognition of increased pressures on our investigation and enforcement function, grant-in-aid levels have already been increased for 2018/19 and 2019/20. However, we anticipate that our total budget would need to be increased in the order of £2.8m for 2020/21 to reflect the overall requirements set out above. Of this, we estimate that £2m would be met through increases to fees charged to private registered providers from the 2019/20 baseline of £12.75m. We would seek additional grant-in-aid for the remaining £0.8m. For more details see Annex 2.

On the basis of units data from the 2018 Statistical Data Return (SDR) this would result in an increase in the fee level of 75 pence per unit to £5.47 per unit for 2020/21. We do not propose to increase the initial registration fee or the fixed fee for small providers because the drivers for increasing fees principally relate to the regulation of providers with 1,000 social housing units or more. Once we have considered feedback on these proposals we will issue a fees statement for 2020/21 confirming the indicative per-unit fee level by November 2019 in line with the 2019 SDR units data.

At the time of writing the debate around the green paper on social housing and the need for more proactive regulation of the consumer standards (across both local authorities and private registered providers) has not yet concluded. The proposed fee levels, therefore, do not include any potential future costs for a more proactive consumer regulation role. From April 2020 we will begin regulating the rents of local authorities and the resources needed to do this will be met by the Government through grant-in-aid.

Given the increase in the level of fees for 2020/21 we wanted to set out our proposals, based on our current role and resource requirements well in advance of our next fees statement so that providers have an opportunity to comment. We have already outlined these issues to the Fees and Resources Advisory Panel<sup>3</sup> that we established when we first introduced fee charging.

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<sup>3</sup> <https://www.gov.uk/government/publications/fees-and-resources-advisory-panel-terms-of-reference>

When the Regulator issued its fees decision statement we said that we did not intend to issue a consultation on fee levels on an annual basis as a matter of course as we believed this would be disproportionate<sup>4</sup>. However, if in future years our total fees budget is expected to increase by more than inflation (CPI) or government guidance on public sector pay (whichever is the higher) then we will again set out our proposals in advance of confirming the indicative fee level in the annual fees statement.

We would welcome views from registered providers about the proposals set out in this letter over the next four weeks. Please send any comments to [enquiries@rsh.gov.uk](mailto:enquiries@rsh.gov.uk) by 14th August 2019 with the title 'Fees 2020/21'. We will also be discussing fees at stakeholder meetings with providers over the coming weeks. As mentioned earlier in this letter, we will confirm the indicative fee level when we issue the 2020/21 fees statement by November 2019.

### **Stakeholder survey**

We have also written to you separately (on 11 July) with regard to our Stakeholder survey which covers a range of issues. We look forward to hearing your views which will help to further inform how we target our resources.

Yours faithfully



Fiona MacGregor  
Chief Executive

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<sup>4</sup> <https://www.gov.uk/government/consultations/consultation-on-introducing-fees-for-social-housing-regulation>

## Annex 1: Background to RSH fees

1. Fees for social housing regulation were introduced in October 2017 following a statutory consultation in 2016<sup>5</sup>. The Regulator's budget is currently met by a combination of fees charged to private registered providers and grant-in-aid.
2. The Regulator's fee charging powers are set out in Section 117 of the Housing and Regeneration Act 2008. The principles of the fees scheme are set out in fees guidance alongside practical information about the operation of the scheme<sup>6</sup>. The five principles of the fees scheme are set out in Table 1 below; no changes to these principles are proposed.

**Table 1: The five principles of RSH's fees scheme**

1. A fixed fee applies to all successful applications for initial registration.
2. The annual fee payable by a registered provider is set by reference to the number of social housing units owned by that provider.
3. A fixed fee should apply to all providers owning fewer than 1,000 units.
4. For groups owning 1,000 social housing units or more where the parent is registered, the annual fee should be set at group level rather than for each individual entity on the register.
5. Providers must pay the full cost of the annual fee for the year that they are on the register when they register or de-register.

3. There are three types of fee charged by RSH:
  - The **initial registration fee**, currently £2,500, which is a one-off fee paid by registered providers upon successful completion of registration.
  - The **annual fee** which is based upon the number of social housing units owned by that provider as stated in the Statistical Data Return. The fee is only paid by providers with 1,000 units or more and for 2019/20 the rate is £4.72 per social housing unit.
  - A **fixed annual fee for small providers** which is currently £300 and applies to all small providers owning fewer than 1,000 social housing units.
4. Impacts in relation to fees introduction were considered when the Regulator consulted on fees introduction. It is not anticipated that the proposals in this letter will materially change the fees impacts set out in our business engagement assessment (this is annexed to our fees decision statement<sup>7</sup>).

<sup>5</sup> <https://www.gov.uk/government/consultations/consultation-on-introducing-fees-for-social-housing-regulation>

<sup>6</sup> <https://www.gov.uk/government/publications/fees-for-social-housing-regulation>

<sup>7</sup> <https://www.gov.uk/government/consultations/consultation-on-introducing-fees-for-social-housing-regulation>

5. Fee charging brought RSH into line with the funding model for other regulators and reflects the benefits that flow to registered providers from being regulated. Fees have helped to ensure that the Regulator is adequately resourced and that effective regulation continues into the future. Registered providers benefit from effective regulation through lower borrowing costs as lenders take comfort from our regulation. Virtually all fees are paid (99.99% is the normal collection rate) and any non-payment issues have been isolated cases.
6. When fees were introduced we introduced two new measures to promote fee transparency and accountability. Firstly, the Fees and Resources Advisory Panel (FRAP) was introduced to enable a specific focus on fees with a range of stakeholders<sup>8</sup>. The FRAP is an advisory body and supports transparency with stakeholders on our use of fee income and overall value for money.
7. Secondly, we introduced the annual fees statement<sup>9</sup>. This publication sets out the fees budget for the year ahead, the indicative per unit fee and our regulatory priorities. This publication is published in October/November each year and provides information for stakeholders on how our costs are broken down between different functions and corporate costs. It also sets out what is paid for by grant-in-aid versus fees. Furthermore, in the autumn we will publish our first annual report for the period 1 October 2018 – 31 March 2019 alongside our financial statements.

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<sup>8</sup> <https://www.gov.uk/government/publications/fees-and-resources-advisory-panel-terms-of-reference>

<sup>9</sup> <https://www.gov.uk/government/publications/fees-statement-2017-to-2020>

## Annex 2: Fees budget and additional resources

**Table 2: Additional resources proposed by function**

Function	Description	Number of posts (Net)	How funded
Operational approach	<p>A number of new posts are proposed at a range of levels of seniority including as follows:</p> <ul style="list-style-type: none"> <li>To support an expanded IDA programme and ongoing regulatory engagement for the largest and most complex providers</li> <li>To support implementation of our new regulatory engagement model</li> <li>Analytical roles to implement the model which increases the regulatory insight from our data sources</li> <li>A new team responsible for regulating for-profit providers and new entrants with non-standard business models</li> </ul>	9	Fees/ Grant-in-aid
Investigation and enforcement	Increasing demands are being made of our investigation and enforcement function particularly due to new business and funding models (including lease-based providers) and more commercial for-profit providers.	5	Grant-in-aid
Corporate services	We need to enhance our Corporate Service resource to ensure that we can run the organisation effectively and to meet our obligations as an arms-length body. This includes key areas such as our digital strategy, information security and health and safety.	8	Fees / Grant-in-aid
Legal team	Our legal team needs greater resources to support the organisation as a whole. In particular, to support the accounting officer; provide legal and company secretarial support to the Board/Executive; data protection; and to handle requests for information. There is also a need for greater legal resource to support operational teams such in relation to intensive engagement casework and complex registration applications.	5	Majority grant-in-aid / Remainder fees
Communications	Additional capacity to reflect the greater demands on our communications function as a standalone body.	2	Fees/ Grant-in-aid

**Table 3: Fees budget**

	<b>2019/20</b>	<b>2020/21</b>	<b>Increase</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Staff costs	13,385	15,483	2,098
Non-staff costs	4,000	4,699	699
<b>Total</b>	<b>17,385</b>	<b>20,182</b>	<b>2,797</b>
Fee income	12,751	14,743	1,992
Grant-in-aid	4,634	5,439	805
<b>Fee per unit</b>	<b>£4.72</b>	<b>£5.47</b>	<b>£0.75</b>