

Renters Reform Bill

Lead department	Department for Levelling Up, Housing and Communities
Summary of proposal	The Department are introducing legislation to reform the private rented sector (PRS), to improve the access to quality homes for current and future tenants, whilst retaining appropriate safeguards and powers for private landlords.
Submission type	Impact assessment (IA) – 24 March 2023
Legislation type	Primary legislation
Implementation date	2025
Policy stage	Final
RPC reference	RPC-DLUHC-5264(1)
Opinion type	Formal
Date of issue	21 June 2023

RPC opinion

	RPC opinion
Rating¹	
Fit for purpose	The Department has provided suitable evidence to support the estimation of the EANDCB for those measures introduced by the Bill, although the RPC is concerned about the lack of quantitative analysis of the impact on landlords and the private rented sector (PRS) market. The IA identifies the likely scope of small and micro businesses (SMBs) that will be affected by the reforms. The Department has set out the issues facing the PRS, as well as the policies that have been considered to rectify these, including non-regulatory alternatives. A clear plan for monitoring and evaluation (M&E) has been included.

¹ The RPC opinion rating is based only on the robustness of the EANDCB and quality of the SaMBA, as set out in the [Better Regulation Framework](#). RPC ratings are fit for purpose or not fit for purpose.

Business impact target assessment

	Department assessment	RPC validated
Classification	Qualifying regulatory provision	Qualifying regulatory provision
Equivalent annual net direct cost to business (EANDCB)	£89.5 million (initial IA estimate) £19.9 million (final IA estimate)	£19.9 million <i>(2019 prices, 2020 pv)</i> Further IAs to be submitted at secondary legislation stages, for validation of EANDCB figures
Business impact target (BIT) score	£99.6 million	£99.5 million
Business net present value	£-1,099.0 million ²	
Overall net present value	£938.7 million	

² The business and social net present values included by the Department in the IA, represent the impact of all policies covered in the Bill, including both those directly enacted through the Bill as well as those requiring secondary legislation.

RPC summary

Category	Quality ³	RPC comments
EANDCB	Green	The IA includes a sufficient scenario 1 assessment of the impacts for measures enacted through the Bill, and scenario 2 assessment for those requiring future secondary legislation (both scenarios as defined in RPC guidance ⁴). The Department has identified a range of impacts across the various reforms, providing an adequate level of evidence to support most assumptions and analysis.
Small and micro business assessment (SaMBA)	Green	The IA clearly sets out that a large proportion of landlords are likely to be SMBs and as a result they cannot be exempt from the new requirements being introduced. The IA would be improved through further quantitative consideration of potential mitigation for any SMB landlords disproportionately impacted, as well as considering the impacts faced by medium-sized businesses (MSBs).
Rationale and options	Weak	The Department provide an overview of the PRS market, and the issues affecting it and provides a case for why intervention is necessary. The IA discusses non-regulatory alternatives, including those that the Department aim to implement alongside the regulatory interventions.
Cost-benefit analysis	Very weak	The IA draws upon various evidence sources, in particular the latest findings from the English Housing Survey to inform the analysis. Whilst the analysis of the direct impacts is sufficient, the IA lacks a suitable quantitative analysis of the, potentially very substantial, broader impacts on landlords and the PRS market due to the reforms. Additionally, the assumptions relating to the familiarisation costs for landlords should be better explained and the IA should have better considered the specific quantitative impacts faced by the most affected landlords, rather than focusing primarily on average impacts across all those in the PRS.
Wider impacts	Weak	The IA includes an in-depth look at the impacts upon those with protected characteristics (both tenants and landlords), however the assessment of wider impacts needs strengthened. In particular, whether the reforms will introduce additional barriers to entry for new landlords and whether

³ The RPC quality ratings are used to indicate the quality and robustness of the evidence used to support different analytical areas. The definitions of the RPC quality ratings can be accessed [here](#).

⁴ <https://www.gov.uk/government/publications/rpc-case-histories-primary-legislation-ias-august-2019>

Monitoring and evaluation plan	Good	they will restrict investment into the PRS (and if this will impact on future supply).
		While the Department does not clearly commit to undertaking a post-implementation review (PIR), the IA includes a clear plan for reviewing the reforms, including undertaking process, impact and value-for-money evaluations.

Response to initial review

As originally submitted, the IA was not fit for purpose as it had not correctly classified (or provided appropriate justification) for some business impacts. Additionally, the Department had not clearly identified what measures were being enacted through the Bill itself and what would necessitate further secondary legislation, while also failing to ensure that the IA truly reflected the content of the Bill at this time. Furthermore, the Department had not considered the full range of likely impacts upon landlords in the PRS, as well as the stock of housing that the sector contains. Lastly, the IA made use of unjustified assumptions which were unsupported by evidence.

The Department has now adjusted the classification of direct and indirect impacts where necessary, while providing further explanation to support those where there may have been doubt over its appropriateness. There is now further clarity over what measures are covered in the IA and whether they are enacting or enabling, with the Department providing further clarity throughout when discussing the EANDCB and relevant NPV figures. In addition, the Department has included some additional consideration of further impacts that may affect landlords and the PRS sector overall and provided additional text to support key assumptions made.

Summary of proposal

The size of the private rented sector (PRS) has increased significantly over the past two decades, now accounting for almost one fifth of households. Given this rise in the prominence of the PRS, it is becoming increasingly important to ensure that legislation is sufficient to ensure that the quantity, and quality, of housing is sufficient in the PRS, as well as ensuring that the rights and needs of landlords are suitably met too. The Department consider three options within in the IA:

- **Option 1** – do nothing;
- **Option 2** – a collection of non-legislative interventions across the various policy areas; and
- **Option 3** – to legislate and introduce a range⁵ of new requirements, and future powers to be taken, through the Bill (preferred).

The IA covers a range of impacts across the policies considered. The primary costs considered include the familiarisation costs to business (such as landlords and letting agents) as well as local authorities, various time costs for business and local authorities associated with new administrative requirements, various fees to be paid by business, potential foregone rental income for landlords, and the costs to local authorities of enforcing the new requirements. Meanwhile the IA also discusses a range of benefits, primarily for tenants, such as a reduction in rent increases, rates of eviction and involuntary moves, as well as increased housing quality and other associated benefits.

⁵ This will likely include abolishing section 21 'no fault' evictions, reforming possession grounds, introducing a new Ombudsman that private landlords must join, providing stronger protections against unreasonable rent increases, increasing councils' investigative powers and introducing a new requirement for councils to report on enforcement activity, making it illegal for landlords and agents to have blanket bans, and giving tenants the right to request a pet in their property.

The Department has indicated that the EANDCB for the policies enacted through the Bill itself to be £19.9 million. Additionally, the Department estimates the business net present value (NPV) to be £-1,099.0 million of the Bill overall (including both enacting primary legislation, as well as future expected secondary).

EANDCB

Identification of impacts

The Department has provided a scenario 1 assessment for those measures coming into force directly as a result of the Bill (*Tenancy reform, Blanket Bans and Renting with pets*), while also providing an indicative (scenario 2) assessment for those requiring additional secondary legislation (i.e., *Property Portal and Ombudsman*). The IA identifies a range of impact across the various measures covered in the Bill, providing an appropriate indicative analysis of those measures requiring future secondary legislation.

Direct and indirect impacts

The IA does well to clearly set out the expected impacts for each measure (in the relevant annexes), identifying who shall face these impacts, as well as including the Department's assessment of whether they are direct or indirect. In addition, the Department has provided supporting explanation of some key impacts where the classification as direct or indirect may not be immediately apparent.

Future assessment

The Department indicates that further IAs will be produced, as appropriate, for any related secondary legislation, specifically for that required to fully implement the *Property Portal* and *Ombudsman* policies. The RPC would expect to see much more detailed qualitative and quantitative cost-benefit analyses in the IAs accompanying the relevant secondary legislation enabled by the Bill. Furthermore, the Department should ensure that the classification of these future measures, and the resulting impacts, is consistent with both RPC guidance⁶ and the Better Regulation Framework⁷ (BRF). The RPC would welcome any discussion with the Department prior to the submission of IAs produced to accompany future secondary legislation.

SaMBA

Scope

The Department clearly identify the proportion of SMB landlords operating in the PRS. The IA should be strengthened by discussing in more detail the different issues that SMB landlords would face in complying with the new requirements compared with their larger counterparts.

⁶ <https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019>

⁷ <https://www.gov.uk/government/publications/better-regulation-framework>

Exemption and mitigation

The Department does well to explain why SMBs cannot be exempt from the new requirements, due to the overwhelming presence of SMBs in the sector. Building upon the point made above, regarding the improvements through consider the acute issues facing SMB landlords, the IA would be further strengthened through discussing what mitigation may be implemented to support any SMB landlords disproportionately affected by the reforms (either some or all), to ensure they are able to comply and not leave the PRS.

Medium-sized business (MSB) exemption

The IA does not include an assessment of the impacts upon MSBs. The Department, in line with recent government guidance⁸, should have undertaken an assessment of the scale of impact upon MSBs and discussed whether an exemption for such businesses is possible.

Rationale and options

Rationale

The Department clearly set out the issues facing both landlords and tenants in the PRS, including appropriate evidence to support the establishment of the current state of the PRS and the arguments made. In addition, the IA articulates what the objectives of the Bill, and the respective interventions, are. The rationale for intervention could have been strengthened through the inclusion of evidence and learnings from other countries facing similar issues in the PRS and/or where similar reforms have been made.

Options

The IA does well to discuss the policy development process that has been undertaken for the various interventions, as well as outlining the commitments made in the relevant White Paper. The Department has included a non-regulatory option and provides some discussion as to why this option has not been taken forward, although does note that some non-regulatory interventions shall be implemented alongside the regulatory reforms.

Cost-benefit analysis

Evidence

The IA draws upon a range of evidence sources to inform the analysis, as well as to establish the size and scope of the PRS market. Sources used include prior consultation and engagement, as well as the latest findings from the English Housing Survey.

⁸ <https://www.gov.uk/government/publications/better-regulation-framework/medium-sized-business-regulatory-exemption-assessment-supplementary-guidance>

Methodology and analysis

While the IA does consider some scenarios where the costs are either passed onto tenants by landlords, or absorbed by landlords, it does not include any substantial elasticity analysis that seeks to explore or estimate how many landlords may opt to exit the market if the cost of compliance is too high (particularly as a result of no longer being able to utilise section 21 evictions). Nor does it take into consideration the rate at which this may already be occurring, as a result of current regulatory requirements and costs faced. A combination of passed-on costs or landlords exiting the market, could result in significant marginal impacts and unintended consequences. Furthermore, the IA has not adequately considered the potential costs, as well as impact upon the quality of private rental housing, of making the PRS market more illiquid. For example, if landlords are less able to evict tenants (as a result of the abolishment of section 21 evictions), as well as less able to invest in the quality of the property to compete in the market and attract higher rents, then it is likely that these landlords would only invest to the minimum regulatory standard and quality of the rental housing stock could fall, which must be considered alongside the growing need for new, in particular affordable, housing. However, it should be noted that these impacts would most likely be indirect and therefore would not factor into the EANDCB of the Bill IA.

The Department's approach to estimate the scale of impact upon landlords is through considering the average effect felt across the entirety of the PRS. However, given the impacts are likely to be borne by a subset of the PRS market as opposed to the entirety of it, the expected impacts would be more substantial for this smaller number of properties. Therefore, the IA should consider the marginal effect on those that will be the target of the interventions. Additionally, the IA would be further improved by considering whether the same landlords will be affected by all of the proposed measures, or whether different measures will predominantly affect separate cohorts of landlords.

Assumptions, risk and sensitivity

The Department make use of many assumptions throughout the IA, however not all assumptions are clearly explained. For example, the Department does not fully explain the direct applicability of the National Residential Landlords Association's (NRLA's) landlord fundamentals course as a proxy for the familiarisation costs to landlords. While it appears sensible to utilise this source of evidence, the IA would be strengthened through including further discussion of how the content of the reforms relates to that of the course, as well as what engagement with affected landlords has been undertaken to test this assumption.

In the section presenting the overall monetised impact for the measures in the Bill (including enacting and enabling policies), the Department include some sensitivity analysis exploring the effect on the social NPV from different levels of success, with respect to the increase in newly safe homes in the PRS. Additionally, the IA notes the uncertainty surrounding some of the evidence used in the analysis, such as the level of housing stock in the PRS.

Wider impacts

Innovation

The IA has not considered whether there would be any impact upon innovation. For instance, the Department should consider whether the reforms may limit potential innovation in the development of new rental contracts, or whether additional requirements upon landlords may stifle improvements in housing stock efficiency.

Competition

The Department has not included an assessment of the impact upon competition. The IA would be strengthened by considering whether the reforms introduced by the Bill may place additional barriers to entry for landlords (and what impact this may have on PRS supply).

International trade and investment

The IA notes that the landlords in the PRS vary from those renting out a single property, to large businesses with extensive property portfolio. However, the IA does not consider the impact of the reforms on the attractiveness to investors who may be looking to enter the industry.

Equity/distributional impacts

The Department has included a detailed assessment of the impacts upon various groups with protected characteristics, both from a landlord and tenant perspective. Additionally, the IA includes figures highlighting the regional variation in the PRS. The IA would have been improved by discussing the potential impact upon landlords who may own properties in one or more of the devolved administrations in addition to include, and whether the reforms represent a deviation from the PRS policy landscape there.

Public sector

In addition to the impact upon business, the IA has considered the impact to the public sector, such as the costs to local authorities and the to be established ombudsman. The IA would be improved by considering whether the social housing sector would benefit from the expected improvements in the PRS as a result of the reforms.

Monitoring and evaluation plan

While the Department has not formally committed to undertaking a PIR, they do clarify that there is a commitment to ensure that the PRS reforms are appropriately monitored and evaluated. The IA notes that the approach to M&E will mirror that set out in the Department's own evaluation strategy, and will comprise of impact, process and value-for-money (VFM) evaluations. In addition, the IA includes a brief list of outcomes that they will likely assess the success in achieving, as well as providing an indication of likely evidence sources they will utilise.

Regulatory Policy Committee

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