BEYOND SECTION 21

Evidencing need and processing a model for change

Company Consultancy Project (CCP) on behalf of **The Lettings Industry Council Section 21 Working Group** in cooperation with

ARLA Propertymark
Landlord Action – Hamilton Fraser
Tenancy Deposit Scheme TDS
Walker Morris LLP
Training for Professionals
Residential Landlords Association
National Landlords Association
Savills (UK) Ltd - The Lettings Industry Council
ESCP Business School, London Campus

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I. Acknowledgment

The following report has been conducted as part of a company consulting project (***CCP***) of the MBA programme 2019/2020 at ESCP Business School, London Campus on behalf of **"The Lettings Industry Council Section 21 Working Group"** in cooperation with

- ARLA Propertymark
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- Training for Professionals
- Residential Landlords Association
- National Landlords Association, and
- Savills (UK) Ltd

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II. Executive Summary

1. Negative consequences of the abolition of Section 21

At first glance the Government's proposal to abolish Section 21 Housing Act 1988 (***Section 21***) can be seen as an easy and appropriate way to even out the opposing views of non-proportional relationship between tenants and landlords. However, the abolition of Section 21 will have many downsides and pitfalls, even for tenants.

Abolition of Section 21 will have a negative impact on the numbers of homes available (of up to 20 per cent)[1]. The percentage of homes available is expected to fall by 59 per cent because it will lead to an intense screening process of tenants.

Furthermore, the abolition of Section 21 will triple the court caseload. This will not only disproportionately delay repossession proceedings, but also challenge the functionality of the judicial system in general.

2. Four measures for a successful and balanced resetting of the rights and responsibilities between landlords and tenants

To avoid the above-mentioned negative impact of the abolition of Section 21, it is vital to strike a balance between the needs of tenants for long-time tenancy and legal certainty with the interests of the landlords to commercially use their properties. If the government proceeds with its proposal to abolish Section 21, the Group suggests implementing the following set of four measures:

- **Reviewing Section 8**
  If Section 21 is abolished, Section 8 Housing Act 1988 (***Section 8***) needs to be reformed. Additional mandatory grounds should be introduced, and some existing mandatory grounds should be widened. Rent arrears should become mandatory (in wider circumstances than are currently available). Moreover, a no-fault fall back option for eviction with four+ months' notice period should be introduced.

- **Implementation of a (voluntary) first stage mediation process**
  As many disputes between tenants and landlords arise out of miscommunication, a constructive mediation dialogue in an informal setting should be introduced. Mediators should be able to sign legally binding agreements to prevent costly court proceedings.

- **Court Reform**
  The financial implications of the proposed court reform can be assumed as follow:
    - The caseload will triple to a total of approx. 66,000 housing cases per year.
    - The initial one-off costs of local housing court will be GBP 78 million.
    - Ongoing court running costs will be approx. GBP 164 million

[1] A New Deal for Renting? The unintended consequences of abolishing Section 2. National Landlords Association & Capital Economics.

The current legal system/court process is not prepared for such a sharp increase in caseload as highlighted above. Therefore, a sophisticated court reform for establishing a specialised housing court is needed alongside review of Section 8. The court reform should be implemented by establishing several housing courts, mainly in densely populated areas. Through the establishment of a decentralised specialised housing court GBP 17 million operating expenses can be saved per year. Through the resulting decrease in costs per case, the one-time installment costs would be amortized after 5.2 years. Moreover, the court reform should be supported by a digitalisation initiative, to reduce costs and to accelerate the court process even further.

- **Bailiff Process Reform**
  The waiting time for an appointment with an enforcement agent is currently a large bottleneck in terms of law enforcement for the repossession after a judgement has already been made. An acceleration of this process would increase trust in legal enforcement and thus in legal certainty for both landlords and tenants.

3. Timing of the implementation of the four measures

Implementation of the measures listed above needs to be planned carefully and with sufficient foresight. A transitional period should be considered, as follows:

- Phase 1: Bailiff Process
- Phase 2: Court reform and mediation process
- Phase 3: Abolition of Section 21 and Reviewing of Section 8

While the mediation process and the bailiff process reform can be introduced on relatively short-term planning, court reform needs a long-term planning as it requires more sophisticated and elaborate preparation. Due to the triplication in case load abolishing Section 21 and reviewing Section 8 should be implemented as a last step.

Such step-by-step implementation will not only prevent a short peak increase in serving Section 21 notices but also give all relevant parties enough time to adapt to the change in legislation.

III. Options for change: A 5-Case Business Model

A. Strategic Dimension

Current market situation

At first sight, the government's proposal to abolish Section 21 can simply be seen as a good way to even out the disproportionate relationship between tenants and landlords. Removing Section 21 seems a laudable action as tenants in Assured Shorthold Tenancies (***AST***) will be given the certainty of their time of dwelling. It may look so on the surface, but the complexity and the history of how the Private Rented Sector (***PRS***) has been formed will mean that this action will do more harm than good.

The abolition of Section 21 is intended to improve tenants' rights and to benefit the PRS in total. However, it will have the opposite effect.
According to an evaluation made by members of the Group[2], the removal of Section 21 will have the **following negative impact** on the PRS:

- The private rented dwelling stock to rent in England would **fall by 20 percent**
- There would be a **59 percent reduction** in the private rented dwellings available to households **which claim local housing** allowance or universal credit (770,000 fewer dwellings)
- Around **600,000 homes** could see **rent increases** (13 percent of the sector)
- More risk averse approach to **the screening process** of tenants[3]

This shows that the already difficult process of renting a home would be exacerbated by the proposed abolition of Section 21.
A significant number of landlords have signaled that they would exit the PRS by either selling their property or allocating it to other market segments, for example short-term lets via platforms such as "airbnb".

We estimate there will therefore be an expected reduction of up to 20 percent of available homes in the PRS, which means a decline of 960,000 dwellings.

[2] A New Deal for Renting? The unintended consequences of abolishing Section 2. National Landlords Association & Capital Economics, page 4.
[3] Possession Reform in the Private Rented Sector: Ensuring Landlord Confidence. Nick Clay. July 2019. RLA PEARL, page 10.

The reason for landlords leaving the PRS without any further measures, would be mainly because without the no-fault eviction option of Section 21, landlords are only left with the current Section 8 regime. The Section 8 regime requires a court-hearing, a long repossession process as well as additional financial risk, due to the extra court and lawyer fees. Therefore, landlords will fear the restriction in their planning freedom and flexibility, especially their ability to react to changing situations when this is required.

For the reasons set out above, the announcement of abolishing Section 21 will make landlords carefully reconsider their current and future tenants. As a consequence, a surge in Section 21 notices being served is to be expected as landlords will make use of the possibility of serving Section 21 notices, while this regime still applies.

The shortage of housing stock supply in the PRS may further lead to an increase in rent levels.[4] This consequence will especially impact the people who rely on homes suitable for those with a lower income (placing further pressure on social housing) and may lead to standards of the homes reducing, which is contrary to what the government is currently trying to achieve.

Another downside is the potential emergence of a more risk averse approach to the screening of tenants. As a result, increased checks and references will be required. This will have a negative impact, especially for lower income groups and single parents seeking to find a home.[5]

It should not be left unsaid, that there are, of course, landlords, who are misusing Section 21. However, the introduction of the retaliatory eviction procedure introduced under the Deregulation Act 2015 is already tackling these issues. The problem instead should be solved by targeting those few criminal landlords directly rather than penalising the whole PRS. The attempt to penalise the few criminal landlords by abolishing Section 21 bears no relation to the negative side-effects to the whole PRS. Instead of nipping the problem in the bud, by expelling the small percent of criminal landlords, from the PRS, abolishing Section 21 without any counterbalancing measures disproportionately penalises all the stakeholders and weakens the PRS overall. This calls for more regulation on the landlords.

However, in order to maintain a well-functioning PRS, the government should not only focus on regulating landlords but also educate all players of the PRS, such as letting agencies. Even though there are already letting agencies that distinguish themselves by certain certifications, some agencies still lack the knowledge or awareness to function at a professional level.

To assure a safe and trustworthy PRS it is of utter importance to better regulate and inform all parties involved in the PRS as to what their obligations, rights and duties are.

[4] Possession Reform in the Private Rented Sector: Ensuring Landlord Confidence. Nick Clay. July 2019. RLA PEARL, page 10.

[5] Possession Reform in the Private Rented Sector: Ensuring Landlord Confidence. Nick Clay. July 2019. RLA PEARL, page 10.

While it is true that the PRS needs to be reformed, abolishing Section 21 alone will not accomplish the desired goal. The PRS has doubled from 2.8 million households at the turn of the century to 4.5[6] million dwellings in 2017 and is thus now a very important sector. Because of its size, changes to the current regulations in the PRS will have a huge impact on the life of millions of citizens. Therefore, the government must carefully consider the impact, before making a final decision on this.

[6] https://www.ons.gov.uk/economy/inflationandpriceindices/articles/ukprivaterentedsector/2018

B. Economic Dimension

The social cost of abolishing Section 21 lies in the economic effects it will release and how the market will react to it.

1. Consequences of the abolition of Section 21 without any further measures

The abolition of Section 21 without any further measures would have, inter alia, the following consequences, for both landlords and tenants:

a) Landlords

The removal of Section 21 would create an avalanche of notices being served, once the official announcement of its abolition is made. Landlords would lose confidence in a "non-functional" judicial system because they do not have faith in the current capabilities of Section 8 and are left with only a few options and mechanisms to resolve their disputes in a timely manner. As a result, landlords will withdraw their properties from the PRS or shift to other sectors of the market, such as short-term rental.

b) Tenants

As already mentioned above, not only 20% of the households will be taken of the market but also the proportion of homes available to tenants in receipt government housing benefit will fall by up to 59 percent.[7]

This is not a good indicator for tenants. As demand for housing will still continue, the reduction in available properties will drive prices up in the PRS. Introducing rent control laws may be seen as an obvious solution to the issue of controlling the increase of rents. However, such a measure would increase the number of landlords leaving the PRS even further and thus worsen the housing shortage, putting even more pressure on the UK housing market, especially for tenants with lower income. An intensive and more thorough screening process for tenants applying for houses will be a logical consequence. Tenants will fall into a harsh process of scrutiny to acquire a house. Due to the scarcity of housing supply (in many locations) and the associated increased market power, landlords will be incentivised to invest and renovate apartments in order to justify the high rent, unlike now.

2. Net value of intervention to society

In order to strike an optimum balance between costs, benefits and the risk to society, the Group proposes a combination of four actions as its preferred set of measures:

a) Reviewing Section 8

Reviewing Section 8 is a cost-neutral way to have an overall positive impact for all stakeholders and increase "legal certainty".

[7] A New Deal for Renting? The unintended consequences of abolishing Section 2. National Landlords Association & Capital Economics, page 4.

One key finding in the English Housing Survey (***EHS***) was that landlords often issue a Section 21 notice instead of Section 8, even though they are evicting tenants for good reason, such as rent arrears, damage to the property or anti-social behaviour. Although such situations would attract the availability of Section 8, Section 21 has been used as a mechanism to recover possession without having to incur the expenses and time delays that go with the Section 8 process. With the abolishment of Section 21, landlords will be left with no option but to resort to Section 8 in order to repossess their property. Hence a thorough review of the Section 8 process being necessary.
The goal of reviewing Section 8 is to use legislation already in place and complementing it with tools that aid the stakeholders within the PRS. A more clear set of procedures is needed to facilitate improved navigation of the currently complicated and ridged court processes. This will also enable both landlords and tenants to have a better understanding of their responsibilities, rights and duties from the outset when renting property in the PRS.

(1) Introducing additional mandatory grounds

Currently according to surveys undertaken by several members of the Group[8], landlords state the following reasons for using Section 21 notices:

1. Rent arrears (36.5 %),
2. Landlord wishing to sell the property (29.5%),
3. Landlord wants to move into the property (14.7%),
4. Anti-social behaviour (13.5%), and
5. Damage to the property (13.3%)

Out of these five most frequently used grounds for Section 21, four already constitute Section 8 grounds. In order to make sure the five most frequently used grounds are covered, the ground “selling the property” (currently missing in Section 8) should be introduced as an additional mandatory ground.

(2) Rent arrears

Section 8 needs to be reviewed for rent arrears and adjustments to the timing of proceedings concerning rent arrears should be made:

Currently, there are three grounds that can be used for a Section 8 notice in the case of rent arrears.

Whilst ground 10 and 11 of Section 8 are discretionary grounds[9] (ground 10 notice can be served the day after the first rent is not paid and ground 11 if the tenant has persistently failed to pay rent on time), ground 8 of Section 8 is a mandatory ground (and applies when 2 months’ rent is in

[8] Data consolidated from different sources, inter alia from Possession Reform in the Private Rented Sector: Ensuring Landlord Confidence.
[9] Mandatory means that if the landlord can prove the facts to be true, the judge must award possession. Discretionary on the other hand means that the judge has the right to decide whether to give possession or not, based on his own judgment.

arrears at both the date when the notice is served and also the date of the court hearing).

Because of its mandatory character landlords prefer to serve a ground 8 Section 8 notice as opposed to simply serving a Section 8 notice based on the discretionary grounds 10 and 11 of Section 8. As a result, landlords tend to wait until a ground 8 Section 8 notice can be served instead of serving a ground 10 (of 11 if applicable) Section 8 notice right away.

The pitfall of ground 8 however is the provision that there must be two months' rent owing not only at the date of the notice but also at the court hearing date. For possession on the basis of ground 8 the tenant has 14 days upon the receipt of the notice to resolve the arrears in order to avoid the landlord commencing court proceedings. The issue with the current process however is that the tenant can pay off some of the rent arrears shortly before the possession hearing and the landlord may lose mandatory ground 8. This on many occasions sends the case into the everlasting loop of the tenant repaying some of the rent shortly before the hearing, the landlord resorting to ground 10 and 11 of Section 8 and (if possession is not granted by the court) shifting back to ground 8 if further rent arrears accumulate as time proceeds and potentially a further possession claim having to be submitted.

As a conclusion, the current process bears the risk of dilatory motion and thus fails to provide the parties with legal certainty.

Therefore, rent arrears should be made purely mandatory and the possibility for the tenant to avoid repossession by repaying a small amount of the outstanding rent shortly before the possession hearing should be eliminated.

Instead there should be the possibility of serving the mandatory ground 8 notice after just two weeks of any rent arrears, giving the tenant the possibility of repaying the outstanding rent within one month of it falling due and where the tenant fails to do so, giving the landlord the option to proceed to court on a mandatory ground. The tenant benefits from an earlier warning that the landlord will proceed with legal action and at the same time the tenant benefits from a more simplified process and understanding that, without repaying the arrear this will proceed to a mandatory ground repossession application to the court. This may avoid the claim proceeding to court and further costs being incurred by both landlord and tenant.

(3) Damage to property and anti-social behaviour

Ground 13 which in essence covers a tenant causing damage to the property and ground 14 which would cover anti-social behaviour not already caught by ground 7A (or where the landlord is prevented from using 7A due to its very tight restrictions) are both currently discretionary grounds.
It is understood these should both discretionary as the circumstances will be individual to each case, however, statutory guidelines should be given to define what evidence is needed to improve legal certainty.

(4) Widening existing ground 1

Existing ground 1 needs to be widened to cover the landlord taking possession for habitation by "family members" as is not currently covered in Section 8 (landlords use Section 21 at present for this).

(5) No oral hearings for mandatory grounds

In order to accelerate the Section 8 process oral hearings for mandatory grounds should be removed. A written process (similar to the current section 21 accelerated possession procedure – which has worked well since introduced), in which it is ensured that tenants are given the opportunity to raise a defence to allow a judge to make a decision as to whether or not an oral hearing is necessary for a fair judgment to be made. Oral hearings are costly and time-consuming for all parties involved, i.e. judges, tenants and landlords. At the same time the benefit is rather marginal, if the underlying ground is mandatory. A judge has no margin of discretion and must make an order for possession unless further evidence is required for a decision is able to be made.

(6) Four months+ notice period for a no-fault eviction

A further option would be a no-fault fall back and be added as a mandatory ground. The landlord would be able to serve notice providing not less than a 4+ months-period which increases depending on the length of the tenancy (e.g. by two weeks every six months length, however capped at seven months). A four to seven months' notice period, will give tenants sufficient time to look for a new property and reduces the negative consequences (higher costs, more compromises on new housing etc.) tenants face, when are asked to move house on what they may feel is short notice. Simultaneously such notice period gives landlords flexibility and trust in the new regime. Landlords will have security that they will be able to repossess their property when needed and prevent them from leaving the PRS.

b) Mediation process

By introducing an informal first stage mediation process a good cost/benefit ratio for all stakeholders can be achieved by a simple and hands-on approach with "human touch".

A mediation process is beneficial to the landlord and the tenant. With its informal setting, a mediation will foster a constructive dialogue between the two parties and enable them to deal with problems, which can be solved without a court-involvement, and in a less costly and fast manner.

This mediation process does not necessarily need to be mandatory in order to meet its goal to resolve problems, that may be due to simple miscommunication, as the mediation process is for both sides a less costly option to resolve their issues. Instead of making the mediation process mandatory for the parties, parties can be incentivised to go into mediation by granting them prioritised and faster access court process, if they can prove that their mediation process has been attempted.

With regards to anti-social behaviour (which in the PRS is usually handled under the discretionary ground 14, the nuisance ground, due to limits that ground 7A impose) and rent arrears, a tailored process should be installed to properly guide concerned parties in resolving the problem.

The general mediation process would include a meeting between the tenant and the landlord (potentially each with a witness invited by the parties) supervised by a mediator. Despite the informal setting the mediation should be concluded with a document where the result of the mediation will be recorded and signed (even if the outcome is that the mediation failed). The mediator will not only be able to help the landlord and tenant to reach a peaceful and fair settlement of the dispute but will also have the capability to draw up agreements between the parties which can be referred to in legal proceedings should mediation fail or one of the parties fail to act in line with the agreement.

On top of the timesaving benefit, the first stage meditation can save parties approx. GBP 1,200 in a base case scenario (landlords and tenants combined, on average). For further see calculation as referred to in **Annex A, Exhibit A. 1**.

c) Court reform through a decentralised specialised housing court

Setting up a specialised housing court with several locally based courts is an effective long-term approach to satisfy all stakeholders.

In order to understand why a court reform is vital, we need to first take a closer look at the expected caseload after the abolition of Section 21.

(1) Caseload

While according to the Group, an estimated 90% of tenancies are ended by the tenant, only 10 % of tenancies are ended by the landlord (approx. 3.7% use the section 8 process; 6.3 % use the section 21 process).

Considering that there are approx. 4.5 million households in the PRS and the average tenancy time is four years, there should be approx. 1.1 million tenancies that end each year.[10] Approx. 110,000 tenancies are ended by landlords (10%) each year. However, according to the underlying governmental data[11], there are "only" approx. 30,000 Section 21 and approx. 20,000 Section 8 proceedings per year. This leads to the conclusion that there must be approximately 60,000 unrecorded cases (110.000 tenancies ended by landlords minus 50,000 cases (30.000,00 Section 21 and 20.000 Section 8 cases)).

[10] Overcoming the Barriers to Longer Tenancies in the Private Rented Sector. Ministry of Housing, Communities & Local Government. Government Response. April 2019.

[11] https://www.gov.uk/government/statistics/mortgage-and-landlord-possession-statistics-january-to-march-2019

Bearing this statistical shortage in mind, it can be assumed that the number of cases will increase after the abolition of Section 21. This can be explained as follows:

- Out of the 60,000 unrecorded cases an enhanced number of tenants are going to defend themselves after the abolition of Section 21. The reason behind this increase may be due to the tenant's awareness that section 8 carries less guarantee for the landlord and therefore has a higher confidence in their defence succeeding.

  The following table enumerates the number of additional cases giving different scenarios that could take place after the reform.

Scenario	**Status**	**No. of Additional cases**
Worst Case Scenario	All tenants now leaving without defending themselves will defend themselves after the reform	60,000
Base Case Scenario	1/4 out of the tenants now leaving without defending themselves, will do so after the reform, e.g. due to more awareness, better chances of winning; however not 50% because of costs and other circumstances	15,000
Best Case Scenario	None of the tenants now leaving without defending themselves will defend themselves after the reform	0

- Additionally, it can be assumed that all current Section 21 processes will be converted to Section 8 processes. It seems fair to estimate that all tenants proceeding under the current existing legal regime will do so under improved circumstances. This would lead to 30,000 additional cases[12]. As a result, the number of Section 8 processes will rise from 20,000 to 50,000 cases per year.

- Therefore, in a base case scenario, there will be a total number of 65,000 cases of per year, meaning that the caseload, as well as the eviction cost will triple.

For a more detailed overview of the above-mentioned explanation see **Annex A, Exhibit C** for further reference.

[12] Clarification on the conversion of Section 21 cases to Section 8 cases: The reasoning for counting the former Section 21 cases as "additional cases", even though they are already part of the current court statistics is the increase in time and effort of a Section 8 proceeding as opposed to a Section 21 proceeding.

(2) Infrastructural problems

With the current court system in place, courts often are not geographically accessible, as 200 courts & tribunals have closed since 2011, leading to increased cost in attending court hearings as reported by Shelter. This lack of court infrastructure calls for a court reform that ensures courts are user-friendly and maintain an adequate service standard, in order to prevent administrative delays, inefficiencies in court handling and poor communication.

(3) Solution

Bearing this in mind, the court reform should address the following:

- Due to the expected flood of oral hearings, after the abolition of Section 21, oral hearings should be limited to cases where an oral hearing is indispensable. With the first Stage mediation process in place, it cannot be argued, that eliminating court hearings for mandatory grounds, especially for rent arrears, is an unreasonable disadvantage for the parties, since they have had the possibility to communicate their issues and resolve their case through mediation.
- Introducing a first stage mediation process results in the possibility to resolve cases at an early stage, as proceedings, otherwise undertaken, can be prevented from reaching the court stage. This not only minimises the pressure on court systems in terms of caseload but also leads to the fees for legal representation and court fees will be reduced.
- Setting up a specialised housing court with several locally based courts supported by a digitization initiative will provide tenants and landlords quicker access to reliable justice. Instead of one centralized court, the specialised Housing court should be comprised of several locally based courts in order to decrease transportation cost. As transportation costs for both tenants and landlords can be estimated at approx. GBP 130 per oral hearing in one centralised court scenario, transportation costs in a decentralised locally based court scenario can be estimated at around GBP 27 per oral hearing. The costs benefit for landlords and tenants is thus approx. GBP 100 per oral hearing for each party. Besides the cost perspective, a decentralised court approach will give easier and greater accessibility for all parties involved.
- When it comes to accessibility of the locally based courts, redundant buildings should be taken into consideration, in order to make better use of existing infrastructure and decrease costs. Existing public buildings, such as town halls or community centres could be used for oral hearings, even after normal opening hours.
- Both landlords and tenants benefit from such establishment of the above. Landlords when enforcing their repossession cases and importantly tenants will benefit from this reform as they also suffer from court delays, especially when enforcing claims with respect to poor maintenance of their rental property in accordance with the Human Habitation Act. The specialised housing court will provide

tenants with a platform to resolve these issues and provide more opportunity for easier access to justice.

In short: The specialised housing court will not only speed up proceedings but will also provide more certainty and reliability of the legislation which is beneficial for both tenants and landlords.

- Landlords would benefit from the court reform, as they will be able to more efficiently deal with repossession issues and mitigate tenant disputes.

- For the tenant legal costs in cases that cannot be resolved through mediation will not change substantially with regards to court fees and legal representation unless the courts allow contractual costs to be awarded to the landlord, in which case mediation would most certainly be a better option for the tenant.

- Reform would require significant changes to tenancy agreements and other tenancy documentation, which will be of significant cost to landlords and others within the sector (agents etc) This can be illustrated as follows:

	Landlords	Tenants
Revision of tenancy agreements	• Lawyer costs: GBP 250/hour • Approx. 7 hours —> 7x250= GBP 1.750	——-
Legal costs (excl court fees, counsel fees and VAT)	Fix fees • GBP approx. 1000 • No substantial changes to current costs (as under sec. 8) expected Hourly rates • GBP approx. 250/hour • Approx. 10 hours —> GBP: 2.500	No substantial changes to current costs (as under sec. 8 procedures) expected
Transportation costs	• One centralised court: approx. GBP 130 per hearing • Many local courts: GBP 27 per hearing	

d) Bailiff process

The bailiff reform aims at accelerating the physical repossession process (after the Court Order has been made), for the sake of increasing trust in enforcement and thus in legal certainty. While there are several advantages of having a public bailiff process, such as government regulation and control, the revenue stream for the government (approx. GBP 7 million per year), trust by tenants (and landlords), the public bailiff process has proven to be slow, mainly due to lack of resources. Reforming the public bailiff process will require an initial investment (mainly allocated to labour costs) and might put additional pressure on the social housing market.

The use of a high court enforcement officer (under the current methods) if not requested in the court claim and hearing can be a very long process in order to

secure the Court's permission to user. In order to be able to make use of the many advantages of a private bailiff process, such as being faster and cost-efficient, the option of choosing a private bailiff officer should be given as standard.

To alleviate any concern relating to lack of regulation this can be easily overcome by extending the parameters of existing certified High Court Enforcement Officers licences to allow to carry out evictions with permission of the County Courts as well as the High Court.

C. Commercial Dimension

The purpose of this section is to demonstrate that the proposed set of measures will result in a viable procurement and a well-structured deal between the public sector and its service providers.

1. Reviewing Section 8

a) Government

With respect to timing, introduction of the new law should only be proceeded when other measures have already been implemented Abolition of Section 21 and the amendment of Section 8 should be avoided until a sufficient court infrastructure is set up to handle the expected threefold increase of caseload.

b) Landlords

Other players that need to be aware of the amendment of the Section 8 are the landlords. Landlords must ensure they comply with the new regulations and to issue orders and notices according to the new principles. To prevent a disproportionate increase in serving Section 21 notices before the implementation of the Section 8 reform, it should be ensured that landlords are informed about the change in legislation at an early stage and with sufficient forward planning. Government should provide sufficient material and information to the landlords, e.g. on their websites.

2. Mediation Process

a) Mediators

The introduction of a mediation process particularly needs a supply of adequate qualified mediators. The government should provide guidelines and clear standards as regards the qualification and/or education of the mediators. Mediators should be authorised to witness agreements between tenants and landlords. The remuneration of a mediator can be estimated to be at a minimum of GBP 200 per hour, to be paid by landlords and tenants equally or as agreed upon the parties in each individual case.

b) Administrative Staff

Besides the mediators, administrative staff will be needed to support and organise the mediation sessions. The government should consider hiring new staff or retrain existing employees in other fields of work that have free capacities. Costs of the administrative staff can be estimated at around GBP 30 per hour. Administrative staff should be in charge of organising the meetings, execution and distribution of the required documents and handling of the appointments. Costs of the administrative staff could be reduced through digitalisation and adequate digital infrastructure.

3. Court reform

a) Physical infrastructure

Government, particularly the Ministry of Justice, should provide sufficient infrastructure for proceeding and handling housing court cases. This would include sourcing of buildings and venues which can serve as workspace for judges and administrative staff and in which oral hearings can be held. To minimize costs the Government should also consider leveraging existing public buildings to make optimum use of their spare capacities. For example, court proceedings and oral hearings can be held in town halls or other public buildings that are not completely utilized, e.g. also outside their regular opening hours.

Moreover, government could rent spare capacities of private institutions, such as vacant commercial/industrial spaces or sub rent limited time slots, e.g. in pubs or offices outside their opening hours.

b) Human Resources

Government and/or the Ministry of Justice also need to be aware that further administrative and judiciary staff will be needed to handle the increased caseload with respect to the housing cases.

Besides providing sufficient funds for incurring additional costs, the government also should be aware that it sources, educates and trains staff in order to cope with the additional caseload at an early stage.

c) Virtual infrastructure (IT)

Further digitalisation of the court infrastructure could help to improve, automate and streamline court processes as well as could lead to time and cost savings. As part of a modern technology program the HM Courts and Tribunals Services and Ministry of Justice are already investing an additional approx. GBP 1 billion over the next 6 years in digitalization of court services[13], out of which (statistically) approx. GBP 74 million would be allocated to housing court proceedings. However, the government should consider increasing the current investment for the new housing courts to further improve and accelerate the court proceedings.

The virtual infrastructure initiative needs to provide "state of the art" technology and inter alia requires a system that identifies formal errors at an early stage in order to give parties sufficient time to correct formal errors to prevent delays.

Additionally, government could also consider outsourcing some part of the virtual infrastructure to private providers or using already existing platforms like "skype" to conduct oral hearings. In case of the latter, the government would need to purchase sufficient licenses for the use of the software, however, could benefit from larger economies of scale.

[13] HMCTS reform programme, https://www.gov.uk/guidance/the-hmcts-reform-programme

4. Bailiff Process

a) Public Bailiff Officers

The Ministry of Justice should also provide for sufficient public bailiff officers, also known as enforcement agents, in order to accelerate the law enforcement. Currently, especially in London, time of enforcement after receiving an order, is delayed through a lack of capacity of bailiff officers. This situation will be exacerbated if caseload tripled after the reform of Section 8. Unless no private bailiff officers will be allowed to the market (as further described below), the Ministry of Justice would need to ensure at an early stage to hire new bailiff officers, especially in densely populated areas like London, to deal with the increased caseload. At least three times the number of staff, currently engaged with the enforcement of evictions, will be needed after Section 8 has been reformed. To decrease the time span for the enforcement as compared to the status quo, even more, public bailiff officers need to be engaged.

b) Private Bailiff Officers

An alternative to the investment of the Ministry of Justice in the public bailiff process, outsourcing some part of the enforcement process to private bailiff officers could be an adequate way to decrease the time of the enforcement process and to minimize the additional costs for the government/Ministry of Justice at the same time. In such case it is to be proposed that the Ministry of Justice provides clear guidelines as regards qualification and certification of the private bailiff officers, in order to keep control of the law enforcement and to guarantee a certain level of certainty and standards.

Sourcing and hiring of adequate private bailiff officers would be done by private companies or respective service providers. Such companies should ensure that the bailiff officers comply with the regulations set by the Ministry of Justice.
To gain a revenue stream of the privatization of the bailiff process, the government could consider granting licences (against a licensing fee) to certified private bailiff providers.

D. Financial Dimension

The following section regarding the Financial Dimension for the project implementation of this proposal shall include discussions on the following financial impact on the public sector:

- Operational Expenses or Running Cost that should be incurred
- Capital Expenditure or One-time Investment Cost that should be spread in five (5) years
- Cost on Additional Caseloads

1. Operational Expenses (Running Costs)

Below outlines the Statement of Comprehensive Net Expenditure for the Year 2017 as reported by the HMCT Annual Report and Accounts. This expenditure shall form the basis of the estimated Running Cost or Operational Cost that the public sector shall incur for the project implementation. The following is to be noted:

- Staff and Judiciary Costs include wages and salaries, social security costs, employer's pension contributions, agency staff costs and voluntary early departures.

- Purchase of Goods and Services includes mainly rentals under operating leases, accommodation, maintenance and utilities, IT charges and PFI service charges among others.

- As reported by the Civil Justice Statistics Quarterly Report, total court activities for Year 2017 amounts to 2 million cases, wherein approximately 150,000 of those are attributed to housing cases (including mortgage possession and landlord possession actions). This translates to a 7.4% percentage of housing cases from overall cases. This percentage shall be used to extract the cost of housing cases from the reported financials of HMCTS[14].

[14] HM Courts and Tribunal Service Annual Report and Accounts 2016-17.

Overall Court Running Cost (Year 2017) in GBP

HMCTS staff expenditure	504,000,000
Judiciary Cost (Salaried and fee-paid judges)	484,000,000
Purchase of goods & services	634,000,000
Depreciation & Impairment Charges	149,000,000
Other non-cash	117,000,000
TOTAL	1,888,000,000
Percentage of Housing Cases	7.4%
Cost of Housing Court operations (Running cost per year)	139,700,000
Total Additional Cost Due to Additional Caseloads	41,000,000

a) Efficiency Rate

Through economies of scale it is assumed that a specialised locally based housing court would provide for an efficiency level (of at least) 90% for administrative staff and infrastructure.[15] This provides a 10% savings on cost. As regards the work of judges, an efficiency rate of 75% has been estimated in this report.[16] This provides for a 25% savings at costs of judiciary officers.

b) Total operating cost with synergies per year

Total resources required for housing cases after the reform would amount to GBP 181 million due to the increase in the number of staff, officers and infrastructure required to support the additional courts.

Savings, resulting from a 90% efficiency level for administrative staff and infrastructure and 75% for the work of judiciary officers, would lead to GBP 17 million savings.

Total operating cost including synergies for housing court cases should amount to approximately GBP 164 million per year.

See **Annex I, Exhibit A.3 to A.5** for detailed computation.

[15] The reasoning behind the assumption of an efficiency level of 90% for administrative staff and infrastructure is that – e.g. due to the pooling of resources - the workload can be handled 10% quicker and more efficient. However, as the work is still spread over many locally based buildings (unlike in one court scenario) some tasks and equipment will still need to be provided in each location individually and cannot be rationalised even further.

[16] The efficiency level of judges is assumed at a higher level of 75% as a specialised housing court would lead to a greater knowledge of judiciary officers which could accelerate handling of the cases by an estimated rate of 25%. This will apply regardless of whether judiciary officers are located in one specialised housing court or in many locally based courts.

c) Running costs for staff

Current staff expenditure with respect to the housing cases is approx. GBP 37 million. As demonstrated in the **Annex I, Exhibit A.3** in greater detail, the additional caseload will require 342 members of staff, rising the current costs by approx. GBP 11 million to GBP 48 million. Taking into account the possible efficiency rate, number of additional administrative staff could be reduced to 198. Total running costs for administrative staff per year would then amount to approx. GBP 42 million (savings of approx. GBP 6 million).

To cope with the increased caseload 196 additional judges would be required (extrapolating the current number of cases per judge to the increased caseload). Taking into the account the synergies as mentioned above, the number of additional judges could be reduced to 114. This would lead to total running costs for judicial staff of GBP 40 million as compared to costs of GBP 46 million without any synergies (savings of approx. GBP 6 million).

Summing up the above, approx. GBP 12 can be saved through synergies. Total running costs for administrative and judiciary staff will amount to approx. GBP 42 and 40 million respectively (per year).

See **Annex I, Exhibit A.4** for further calculation.

d) Running costs for buildings (rentals, accommodation, maintenance and utilities)

As referred to in **Annex I, Exhibit A.2,** currently (i.e. before the proposed court reform), running costs for buildings (rentals, accommodation, maintenance and utilities) and physical infrastructure with respect to housing court cases accumulate to approx. GBP 24 million. Additional costs due to the increased caseload will be approx. GBP 8 million. However, considering the 10% savings through synergies, total running costs for buildings would be approx. GBP 27 million.

e) Net Present Value

Net Present Value (NPV) of the running cost shall be spread over the course of 25 years to mitigate the financial burden required from the public sector. The discount rate used for the calculation of the NPV is at 3.5%, as suggested by the Green Book Appraisal Guide[17]. A schedule of the NPV for the running cost is detailed in **Annex I, Exhibit D.1**.

2. Capital Expenditure (One-time Investment Cost)

Below outlines the Statement of Financial Position on Non-Current Assets for Year 2017 as stated in the report by the HMCTS Annual Report and Accounts. These expenditures shall form the basis of the estimated capital expenditure or one-time investment cost that the public sector shall incur for the project implementation. This shall be spread out in five (5) years.

[17] The Green Book: Central Government Guidance on Appraisal and Evaluation.

Investment costs for establishment of a specialised housing court

Total Non-Current Assets in GBP	3,000,000,000[18]
2% of the non-current assets needed for the establishment of a specialised housing court due to increase in caseload for establishing a new housing court as calculated in **Annex I, Exhibit C.2**	69,000,000
25% of investment costs as additional costs (assumption)	17,000,000
One-time Investment Cost in GBP	86,000,000
Savings through Synergies	10%
Net One-time Investment Cost in GBP	**77,000,000**

a) Efficiency Rate

Due to the increase in caseload, the share of housing cases compared to the overall cases will increase by 2% points from 7.4% to 9.4%. Therefore, it can be assumed that the estimated capital expenditure needed to establish locally based courts requires an additional 2% of all non-current assets to cope with the increased caseload.

An additional 25% investment cost is assumed due to costs incurred in procuring the necessary assets.

Savings through synergies is assumed at a conservative rate of 10% for cost-mitigating purposes.

b) Net Present Value

NPV of the running cost shall be spread over the course of five years to mitigate the financial burden required from the public sector. The discount rate suggested by the Green Book Appraisal Guide is set at 3.5%. A schedule of the NPV for the running cost is detailed in **Annex I, Exhibit D.1**.

3. Cost on Additional Caseloads

As a result of the abolition of Section 21, an assumption of additional caseloads shall be placed. As shown above, potential caseloads after the reform in the base case scenario will increase by approx. 45,000 to approx. 60,000 cases.

Court running cost per year in 2017 as reported by the Law Society are 1,887,688,000 and the number of total cases per year is 2,050,000[19]. This gives an average of approx. GBP 920.00 cost per case. Given that the number of cases will increase by 45,000, the total additional costs are approx. GBP 41 million, as calculated in **Annex I, Exhibit C**.

[18] HM Courts and Tribunal Service Annual Report and Accounts 2016-17.

[19] Cost of a day in court - New Analysis by the Law Society

However, considering the expected synergies, costs per case could drop from an average of approx. GBP 920/case to approx. GBP 913/case, meaning savings of GBP 7 per case (if the savings of the housing cases are spread over all existing civil court cases). Taking into account the expected one-time investment costs for establishing the decentralised specialised housing court (GBP 77 million), amortisation time of the investment would be 5,2 years, as calculated in **Annex I, Exhibit D.2**.

4. Virtual housing court

As also seen in **Annex I, Exhibit A.2,** current yearly spending for IT infrastructure with respect to housing cases accumulates to approx. GBP 10 million[20]. The additional caseload would lead to an additional cost of approx. GBP 3 million per year.

[20] HM Courts and Tribunal Service Annual Report and Accounts 2016-17

E. Management Dimension

The implementation of the four measures shall be divided into three phases:

- Implementation of the bailiff process
- Court reform, including the mediation process
- Amendment of section 8 and abolition of Section 21

The Ministry of Justice shall be responsible for the execution of the project with a total budget of GBP 77.9 million allocated for the next five (5) years.

1. Phase 1: Bailiff Process

Phase 1 should comprise of the introduction of the bailiff process. The Ministry of Justice should provide a budget for this phase and should be implemented over the course of two years.

2. Phase 2: Court reform, including mediation process

Phase 2 should comprise of the court reform, including the mediation process. This entails the establishment of locally based courts, setting up an online platform and introduction of a mediation process, which is expected to take up the entire budget in a span of five years.

Establishment of locally based courts should be in heavily dense cities such as London, Manchester, South Hampshire, Norwich, Birmingham and other cities deemed necessary to provide fast access for most of the population.

Setting up an online platform is already an on-going project can be incorporated into this proposal.

As regards the introduction of a mediation process, this should include the establishment of mediation process guidelines and should take three years to be fully implemented.

3. Phase 3: Abolition of Section 21 and Strengthening of Section 8

Phase 3 should include reviewing of section 8 and abolition of section 21. This should pertain to the legislation agreed by the parliament and should entail approximately one year before fully enacted by the Ministry for public compliance.

Below outlines the timeline and milestones of the project implementation:

Management Dimension

Phase	Activity	Total Budget	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Phase 1: Bailiff Process	**>Provide public bailiff officers and outsource privatized ones**	Included in the OPEX	■	■				
Phase 2: Court Reform	**>Establishment of locally-based courts**	GBP 77.9 million (Capex)	■	■	■	■	■	
	Budget Allocation per Year		GBP 15.58 million	GBP 15.58 million	GBP 15.58 million	GBP 15.58 million	GBP 15.58 million	
	> Set up online platform	GBP 74 million*	■	■	■	■	■	
	*On-going implementation							
	> Mediation process	N/A	■	■	■			
Phase 3: Review Section 8	**>Revision of legislation by the Parliament and abolishment of Section 21**	N/A						■

F. Conclusion

If the abolition of Section 21 is beyond reverse, a set of four measures should be enforced in order to prevent the negative impact of the abolition of Section 21 to come into effect.

1. Reviewing Section 8

The proposal to review Section 8 arises from the need to create solutions to the multiple situations that can occur between tenant and landlord. Due to the broad variety of individual cases, an adjustment of Section 8 is necessary to enable the sector to keep running in ideal conditions for all parties concerned. This includes the following:

a) Rent arrears

Rent arrears are one of the main reasons why landlords use Section 21 to evict tenants.

After the abolition of Section 21, landlords are left with the provisions set out in Section 8 Ground 8, 10 and 11. Section 8 provides the tenants with the possibility of avoiding repossession by paying some of the rent shortly before the oral hearing. As a result, the current Section 8 process is inefficient as regards rent arrears and thus fails to provide both parties with legal certainty.
As a consequence, it is vital, that rent arrears grounds should be purely mandatory if made out and notice periods should be adjusted in order to balance the benefits between landlords and tenants more equally.

b) Additional mandatory grounds and widening of existing grounds

While four out of the five most frequently used grounds for a Section 21 notice are already listed in the Section 8 grounds, the ground "landlord wishing to sell the property" is not represented in Section 8 and thus should be introduced as an additional mandatory ground. Furthermore, the mandatory ground "repossession of the property by the landlord" should be widened to include "repossession for family members". Adding additional grounds and widening existing grounds will prevent landlords from leaving the PRS even after the abolition of Section 21, as it gives landlords back their rights to use their property when they deem it necessary. With more landlords willing to rent out their property the PRS will benefit as a whole.

c) No oral hearings for mandatory grounds

Without Section 21, landlords will have to spend a larger amount of money to cover court fees and legal counsel. Therefore, Section 8 must be adjusted to forego oral hearings for mandatory grounds. If a landlord needs to enforce one of the mandatory grounds, the process can be expedited because there is a cause that fits a specified reason. There is therefore no need for a court hearing as a judge can make the order for possession due to the claim meeting the mandatory ground.

d) Introduce no-fault eviction with a four months'+ period

As a "catch-all"- element, a no-fault eviction with a long-term notice should be introduced. The length of the notice period should increase according to the length of the tenancy to take into account longer tenancies, capped at 7 months. This would give the option to end the tenancy (but providing more than double the amount of time currently given under section 21), even if no particular Section 8 reason in this individual case applies. Through the long notice period, it will not likely be misused by landlords to evict unpopular tenants for no reason and will give tenants sufficient time to look for another home to stay. Moreover, such long grace period may give landlords and tenants the opportunity to solve a potential issue by mutual agreement and then withdraw such notice.

2. Mediation Process

The property rental sector involves unlike many other businesses a very personal interaction and to a great extent the relationship between tenant and landlord relies on the current personal situation of the parties involved. Personal circumstances of both landlords and tenants can change unexpectedly and therefore, prior agreements might need to be readjusted. Before engaging into any legal dispute, a voluntary mediation process between the parties could avoid court processes and legal fees. An agreement where the parties reach a resolution to avoid any litigation, would relieve court caseloads. To incentivise landlords and tenants to use the mediation process the Court could offer san an expedited possession process.

3. Court Reform

The intended court reform of a decentralised specialised housing court with many locally based centre should include the following set of measures:

- In order to cope with the expected flood of oral hearings, after the abolition of Section 21, oral hearings should be eliminated for mandatory grounds.
- The court reform should go hand-in-hand with the introduction of the first stage of the mediation process. This will provide the parties with a fair hearing (where applicable) and offer the possibility to resolve cases at an early stage and in a less timely and less costly manner.
- The court reform should be supported by a digitisation initiative that will make it easier for all parties involved to take legal action. Both landlords and tenants will benefit from the faster access to justice provided by a specialised housing court. Tenants will also be provided with a platform to defend the claim and if required counterclaim for any issues they might have.

4. Bailiff process

Last but not least the current bailiff process needs to be adjusted:

- The public process needs to be accelerated in order to cater to the often time-sensitive issue of physically repossessing a property, especially in cases of damage to property.
- To reduce investment of the government and to accelerate the process, parties should be given the possibility to choose from the very beginning of the legal

proceedings, whether a private or public bailiff officer should be appointed to the task, depending on the need of accelerating the physical repossession process.

5. Expected Outcome

As shown above the abolition of Section 21 will weaken the PRS as a whole, if no further adjustment to the current system is made. Therefore, the implementation of the above-mentioned set of four actions is crucial as it will prevent the negative impacts of the abolition of Section 21 to come into existence.

The four measures make sure that the tenants' need for long-term security regarding their tenancies is met while at the same time the landlords' right to use their property economically and according to their needs is respected.

Due to faster and easier access to justice, banning both criminal landlords and anti-social tenants from the PRS, as well as the improved communication between landlords and tenants through mediation, both parties trust in the PRS will increase. This increase in legal certainty will lead to further growth within the PRS, as more private landlords will be willing to rent out their properties to the private rented sector and an increased number of companies will invest in the PRS. Tenants will be provided with a broader range of properties they can choose from. This will have many positive impacts for all parties involved, such as:

- Extensive screening process of tenants are less likely to be applied.
- Low-income tenants, who otherwise would be forced to find a dwelling within the social housing sector, which is already struggling under shortage of supply in social housing might be given a fair chance to stay in the PRS.
- Quality of housing will be improved as landlords will be forced to invest in maintaining their properties' fitness not only due to increased governmental regulation but also because of a rise in competition between landlords.

As a conclusion, it is imperative that in case the abolition of Section 21 is inevitable, further measures are taken to counterbalance the negative impact such abolition has on the PRS and therefore prevent this negative impact to come into effect.

IV. ANNEX I - Calculation of relevant costs

1. Exhibit A. 1: First stage mediation process - cost/benefit analysis

First stage Mediation	
Rent	
Mediator (incl. travel), per hour in GBP	200
Mediation time	30 Min
Mediator per 30min	100
Mediation room	6,24
Overhead costs (25%)	26,56
TOTAL:	132,81

Costs/Benefit Mediation			
Szenario	Percentage of cases resolved in %	Overall costs	Delta mediation / no mediation
Best case	75	148.655,53	3.928
Base case	40	338.180,53	2.033
Worst case	10	488.810,86	527
Without mediation		541.500,00	0

2. Exhibit A.2: Expenses Attributed to Housing Court Activities

Item	Expenses Reported by HMCTS	Current costs allocated for housing court activities (=7.4%)	Percentage of overall costs	Percentage of overall costs distributed to additional costs
Staff Expenditure	503,963,000.00	37,293,262.00	26.70%	10,936,427.31
Judiciary Cost	483,997,000.00	35,815,778.00	26%	10,503,148.07
Purchase of Goods & Services	633,820,000.00	46,902,680.00	34%	13,754,435.07
Rentals, Accommodation, Maintenance, Utilities	320,336,000.00	23,704,864.00		6,951,564.66
PFI (Private Finance Initiatives) Service Charge	24,834,000.00	1,837,716.00		538,919.00
IT	136,248,000.00	10,082,352.00		2,956,697.91
Others	152,402,000.00	11,277,748.00		3,307,253.50
Depreciation & Impairment Charges	148,515,000.00	10,990,110.00	8%	3,222,902.28
Other non-cash	117,393,000.00	8,687,082.00	6%	2,547,528.31
Total	**1,887,688,000.00**	**139,688,912.00**	100%	**40,964,441.04**

3. **Exhibit A.3:** Additional required resources after abolition

Details of distribution of current costs	Overall Number* (Status Quo)	Cost per Staff/ Officer/ Building	Additional Number of Units Needed	7% Staff/ Officers/ Buildings reserved for housing cases (Status Quo)	Total number of people/buildings dealing with housing cases after abolishment
Administrative Staff	15,749	31,999.68	342	1,102.43	1,444.20
Judicial Officers	9000	53,777.44	196	630.00	826.00
Buildings	386	829,886.01	9	27.02	36.02
Others					
Depreciation & Impairment Charges		22,423,520.00			
Other non-cash					
Total					

4. **Exhibit A.4:** Total Opex to be incurred after abolition

Item	Additional costs due to increased caseload without any synergies	Total costs for housing due to increase of caseload without efficiency synergies	Total overall costs after reform without synergies
Staff Expenditure	10,936,427.31	48,229,689.31	514,899,427.31
Judiciary Cost	10,540,379.11	46,356,157.11	494,537,379.11
Purchase of Goods & Services			
Rentals, Accommodation, Maintenance, Utilitie	7,468,974.09	31,173,838.09	327,804,974.09
PFI (Private Finance Initiatives) Service Charge			
IT			
Others	6,285,460.97	30,000,686.41	320,286,870.41
Depreciation & Impairment Charges	3,222,902.28	14,213,012.28	151,737,902.28
Other non-cash	2,547,528.31	11,234,610.31	119,940,528.31
Total	**41,001,672.08**	**181,207,993.52**	**1,929,207,081.52**

5. **Exhibit A.5:** Net Opex to be incurred after abolition considering synergies

	Costs for a specialised housing court		
	OPEX for Locally-based Housing Courts with 90% efficiency level		*90%*
Details of distribution of current costs	**Number of people/buildings dealing with housing cases**	**Total running costs for housing court activities**	**DELTA Savings through court reform**
Administrative Staff	1,299.78	41,592,453.58	- **6,637,235.73**
Judicial Officers	743.40	39,978,152.20	- **6,378,004.91**
Buildings	32.42	26,903,244.68	- **4,270,593.41**
Others		30,000,686.41	
Depreciation & Impairment Charges		14,213,012.28	
Other non-cash		11,234,610.31	
Total		**163,922,159.47**	- **17,285,834.05**

6. **Exhibit B.1: Net CAPEX Required to Implement the Proposal**

Non-Current Assets for CAPEX Reported by HMCTS	
PPE	3,293,784,000.00
Intangible assets	169,060,000.00
Trade and Other Receivables	5,000.00
Total Non Current Assets	**3,462,849,000.00**

Investment costs for establishment of a specialised housing court	
Total Non-Current Assets	3,462,849,000.00
2% of the non current assets needed for the estbalishemnt of a specialsed housing court due to incrase in caseload for establishing a new housing court	69,256,980.00
25% of investment costs as additional costs (assumption)	17,314,245.00
One-time Investment Cost	**86,571,225.00**
Savings through synergies	**10%**
Net One-time investment costs	**77,914,102.50**

7. Exhibit C.1: Cost of additional caseloads

Number of cases / oral hearings after the reform	
section 8 eviction (processed)	21,730.00
section 21 evictions (processed)	29,059.00
worst case scenario	61,711.00
base case scenario	15,427.75
best case scenario	-
Potential caseload after the reform (Abolishment of Sec. 21), base case	66,216.75
Total number of additional cases after the reform (Abolishment of Sec. 21)	44,486.75

Conclusion: Caseload will tripple (3 times more cases) in a base case scenario

Court running costs per year (England and Wales, 2018) in GBP	1,887,688,000.00
Number of total cases per year	2,050,000.00
Amount per case in GBP	**920.82**

Number of cases before the reform	
section 8 evictions	21,730.00
per case	920.82
Total eviction costs before reform	**20,009,492.80**

Number of cases after the reform (base case scenario)	
numbers of cases after reform	66,216.75
per case	920.82
Total eviction costs after reform	**60,973,933.84**

DELTA	
Total eviction costs after reform	60,973,933.84
Total eviction costs before reform	20,009,492.80
Total additional costs	**40,964,441.04**

8. Exhibit C.2: Calculation of 2% Increase in Housing Cases

Extraction: Housing court activities after reform

Total Court Activities (Year 2017)	2,050,000.00
Total Number of housing cases before the reform	152,479.00
Additional caseload after the reform	44,486.75
Total Number of housing cases after the reform	196,965.75
Total Number of cases after the reform	2,094,486.75
Percentage Housing Cases over total cases after reform	**9.4%**
Increase in percentage of housing cases to overall cases	**2%**

9. Exhibit D.1: Net Present Value of Capex and Running Cost

Net Present Value			
Discount Rate			3.50%
Year	CAPEX	Running Cost	Total Cost
1	77,914,102.50	163,922,159.47	241,836,261.97
2	75,279,326.09	158,378,898.04	233,658,224.12
3	72,733,648.39	153,023,089.89	225,756,738.28
4	70,274,056.42	147,848,396.03	218,122,452.45
5	67,897,639.05	142,848,691.82	210,746,330.87
6		138,018,059.73	138,018,059.73
7		133,350,782.34	133,350,782.34
8		128,841,335.60	128,841,335.60
9		124,484,382.22	124,484,382.22
10		120,274,765.43	120,274,765.43
11		116,207,502.83	116,207,502.83
12		112,277,780.51	112,277,780.51
13		108,480,947.36	108,480,947.36
14		104,812,509.52	104,812,509.52
15		101,268,125.14	101,268,125.14
16		97,843,599.17	97,843,599.17
17		94,534,878.43	94,534,878.43
18		91,338,046.79	91,338,046.79
19		88,249,320.57	88,249,320.57
20		85,265,044.03	85,265,044.03
21		82,381,685.05	82,381,685.05
22		79,595,830.97	79,595,830.97
23		76,904,184.51	76,904,184.51
24		74,303,559.91	74,303,559.91
25		71,790,879.14	71,790,879.14

10. Exhibit D.2: Calculation of amortization time of one-time investment

Total running costs without synergies	1.929.207.081,52
Saving through synergies per year	17.285.834,05
Total running costs with synergies	**1.911.921.247,47**
Number of all court cases after the reform	2.094.486,75
Costs per case	**912,84**
Savings per case (against GBP 920)	**7,16**
One time investment costs	77.914.102,50
Amortization in number of cases	10.874.579,37
Amortization in years	**5,19**

V. ANNEX II - Wales

The underlying data used for the calculation as referred in the report above and as further demonstrated in the respective Annex 1, present the consolidated data for England and Wales.[21]

Extracting the respective data for Wales can - in a simplified way[22] - be undertaken by using the percentage of the population of Wales compared the combined population of England and Wales:

Population England (in million)	55.98
Population Wales (in million)	3.139
Percentage Wales/(Wales+England)	5% (rounded)

Therefore, the data as referred to in the report above and the respective **Annex 1**, could be applied to Wales as follows:

Number of cases before the reform & respective eviction costs		**WALES**	**WALES ROUNDED**
21.730,00	Section 8 evictions	1,086.50	
920,82	GBP per case	920.82	
20.009.492,80	**Total eviction costs before reform (in GBP)**	1,000,474.64	**1.0 million** (750,000)[23]

Number of cases after the reform & respective eviction costs - base case szenario		**WALES**	**WALES ROUNDED**
66.216,75	Numbers of cases after reform	3,310.84	
920,82	GBP per case	920,82	
60.973.933,84	**Total eviction costs after reform (in GBP)**	3,048,696.69	**3.0 million** (225,000)

[21] Data used: HM Courts & Tribunals Service, Annual Report and Accounts 2016-17

[22] Assuming a similar size of the PRS for the whole UK, even though size of the PRS of Wales (15%) and England (17%) vary, according to "The UK private rented sector, Office for national statistics, 2018"

[23] Considering the share of the PRS Wales (15%) compared to UK (20%): 75 * 5% = 3,75%, applying for all other numbers in brackets.

DELTA - Total additional costs		WALES	WALES ROUNDED
60,973,933.84	Total eviction costs after reform (in GBP)	3,048,696.69	
20,009,492.80	Total eviction costs before reform (in GBP)	1,000,474.64	
40,964,441.04	**Total additional costs (in GBP)**	2,048,222.05	**2.0 million** (1.5 million)

Investment costs for establishment of a specialised housing court (CAPEX)		WALES	WALES ROUNDED
Total Non-Current Assets (CAPEX status quo) (in GBP)	3,462,849,000	173,142,450	**170,000** (127,000)
2% of the non-current assets needed for the establishment of a specialised housing court due to increase in caseload for establishing a new housing court	69,256,980	3,462,849	
25% of investment costs as additional costs (assumption) (in GBP)	17,314,245	865,712	
One-time Investment Cost (in GBP)	**86,571,225.00**	4,328,561.25	**4.3 million** (3.2 million)
Savings through synergies	10%		
TOAL one-time investment costs (in GBP)	77,914,103	3,895,705.13	**3.9 million** (2.9 million)

Running costs court reform (OPEX)			
Item	**Total overall running costs after reform without synergies (housing cases only) in GBP**	**Total running costs for housing court activities in GBP**	**DELTA Savings through court reform in GBP**
Staff Expenditure	514,899,427.31	41,592,453.58	- **6,637,235.73**
Judiciary Cost	494,537,379.11	39,978,152.20	- **6,378,004.91**
Rentals, Accommodation, Maintenance, Utilities	327,804,974.09	26,903,244.68	- **4,270,593.41**
Others	320,286,870.41	30,000,686.41	
Depreciation & Impairment Charges	151,737,902.28	14,213,012.28	

Other non-cash expenditures	119,940,528.31	11,234,610.31	
Total (in GBP)	**1,929,207,081.52**	**163,922,159.47**	- **17,285,834.05**
WALES (5%) in GBP	96,460,354.08	8,196,10,97	- 864,291.70
WALES ROUNDED in GBP	**96.5 million** (72.4 million)	**8.2 million** (6.2 million)	- **0.9 million** - (675,000)

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