

<b>Item No.</b>

## City of Westminster

<b>Report to</b>	<b>Date</b>	<b>Title of Report</b>
<b>Cabinet Urgency Committee</b>	<b>19 June 2003</b>	<b>Dolphin Square – Rental Policy</b>
<b>Classification: For General Release</b>		<b>Report of</b> <b>Director of Environment &amp; Leisure</b>
<b>Wards involved</b>	Tachbrook	
<b>Policy context</b>	Prudent asset management, contributing to a low Council Tax.	
<b>Financial Summary</b>	There are no financial implications in this report.	
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## Basis for Urgency

This provisionally agreed settlement needs to be ratified quickly, so that any delay in renewing residential leases in Dolphin Square is minimised.

### 1. Summary

- 1.1 At their meeting on 5<sup>th</sup> February 2001 the former Policy and Resources Committee approved a revised rental policy put forward by the Trust. At that time, although the Committee approved the use of fair rents as a “floor” below which new tenants’ rents and those then paying more than fair rent would not fall, it did not agree to fair rents being established as a “ceiling” for those long standing tenants then paying less than fair rents. Subsequently, however, the Cabinet agreed (at their meetings in November 2001 and January 2002) that the Trust could operate the fair rent “ceiling” pending the determination of a new rental policy should this occur in due course, and in respect of pre de-registration tenants only.
- 1.2 Originally, the fair rent “floor” and “ceiling” was set on the basis of an assessment by the Rent Officer. However, for the reasons explained below, this has become increasingly problematic for the Trust. Accordingly, in December 2002, the Trust proposed a revision to the rental policy whereby the fair rent “floor” and “ceiling” would be calculated as a fixed percentage of market/restricted rent levels for Dolphin Square. This was in line with their rental policy proposals for the option B lease under the proposed restructuring. This revision requires the City Council’s approval.

- 1.3 Westminster's and the Trust's valuation advisors held differing views, as to the appropriate levels for these rental thresholds and so the proposal was initially rejected at the Cabinet's meeting on 20<sup>th</sup> January 2003. However, after detailed discussions, revised thresholds have now been provisionally agreed.

## **2. Proposed Decision**

- 2.1 To approve the new levels of restricted rent and fair rent for the purposes of current rental policy, as set out in paragraph 5.2

## **3. Details**

- 3.1 In connection with the detailed proposals for the Option B (Dolphin Square equivalent lease) under the proposed restructuring, Dolphin Square Trust have proposed new methods of calculating Restricted Rent and Fair Rent for the purposes of residential leases.
- 3.2 Previously Restricted Rent had been set at approximately 10% below market rent, and Fair Rent was assessed by bi-annual reference to the Rent Officer. In considering arrangements for longer-term leases these parameters are impractical for the following reasons:
  - 3.3 The Trust have previously had difficulty, in a small number of cases, fixing rental increments at the beginning of a three-year lease, given that the level of a possible fair rent ceiling may not be known for the second and third years. This has been less of a problem in the past because few rents in practice were close to fair rent level. However, as incremental increases gradually move the lower rents upwards, a few more rents converge on the fair rent threshold each year.
  - 3.4 The role of the Rent Officer service in setting fair rents is largely restricted to a small number of old regulated tenancies still in existence. This number declines each year. Registered social landlords operating secure tenancies have a different rental regime, and the overwhelming majority of private lettings are now under assured or assured shorthold tenancies. In this situation it is doubtful that the Rent Officer service will have a significant role in setting rents in the foreseeable future. This may be a handicap given that the term of the Option B leases is likely, in some cases, to be up to 30 years.
  - 3.5 Dolphin Square Trust are also keen to harmonise current letting policies as far as possible with those that will be on offer on the new Option B leases. This will help to contribute to a seamless transfer from current management arrangements to new arrangements. To this end, the Trust have formally requested that the new definitions proposed for Restricted Rent and Fair Rent be also applied as part of current rental policy. This requires the Council's agreement.

#### **4. Restricted Rent**

- 4.1 Restricted rent is the level of rent at which new residents are admitted to Dolphin Square. This is intended to reflect the restrictions placed on Dolphin Square residents by the Trust's letting policies. For example, new residents must need to live in Central London by reference to their trade or profession and must not have any other property in the Greater London area. Traditionally, restricted rent has been set at 10% below market rent. The application of Dolphin Square Trust's incremental policies has eroded the difference between Restricted Rent and Market Value somewhat in recent years.
- 4.2 The Council's valuers, Savills, have considered the restrictions placed on residents and in practice consider this would make a difference of only 5% in rental values. After discussions with the Trust's valuers, Knight Frank, a figure of 5% has been provisionally agreed.

#### **5. Fair Rent**

- 5.1 Fair rent forms the 'ceiling' for incremental rent rises for rents below fair rent level. This applies both to current practice and to the proposed Option B lease.
- 5.2 Dolphin Square Trust were proposing a fair rent level set at 30% below restricted rent. This was based on analysis of past rent officer assessments of Dolphin Square. Savills, acting for the City Council, came to the view that a wider analysis comparing market values and fair rents across Central London indicated that an overall level of fair rents closer to 70% of market rent was appropriate. Again, after discussions with the Trust's valuers, Knight Frank, a figure was provisionally agreed equal to a 27.5% discount relative to restricted rent. This gives a fair rent level of 68.8% of market rent. A worked example showing the operation of the three rental levels is as follows:-

Assume market rent = 100, Restricted Rent equals 95, Fair Rent equals 68.8.

These rental levels are recommended to be accepted by the City Council.

#### **6. Ward Member Consultation**

- 6.1 The Ward Members have been sent a copy of this report.

#### **7. Proposed Reason for Decision**

- 7.1 Following the negotiations between valuers it is felt that the provisionally agreed levels of fair rent and restricted rent are now realistic and acceptable. This applies both to the forthcoming Option B lease and also to current practice.

**8. For Completion by Chief Officer**

Signed: .....

Designation: .....

Decision: .....

Date: .....

Time: .....

IF YOU HAVE ANY QUERIES ABOUT THIS REPORT OR WISH TO INSPECT ANY OF THE BACKGROUND PAPERS, PLEASE CONTACT DEREK BARNDEN ON 020 7641 2694; EMAIL ADDRESS [dbarnden@westminster.gov.uk](mailto:dbarnden@westminster.gov.uk); FAX NUMBER 020 7641 2658.

**BACKGROUND PAPERS**

- \*Report to Cabinet on 24 March 2003
- \*Report to Cabinet on 20 January 2003
- \*Report to Cabinet on 18 November 2002
- Report to Cabinet on 23 September 2002
- \*Report to Cabinet on 25 Feb 2002
- \*Report to Cabinet on 21 Jan 2002
- \*Report to Cabinet on 19 November 2001
- \*Letters received from Dolphin Square residents in response to the Leader's letter dated 1 February 2002.
- \*2 letters from Dolphin Square Trust dated 20 December 2002.

(\*None of these documents are available for public inspection: Paras 7, 9 and 12 of Schedule 12A to the Local Government Act 1972 – Information relating to the financial affairs of particular persons, terms proposed in respect of a potential sale of land, and legal advice).