
**Helping home businesses - Amendment to the
Landlord and Tenant Act 1954**
Department for Communities and Local Government
RPC rating: Fit for purpose

Description of proposal

The Government proposes to amend the Landlord and Tenant Act 1954 to reassure landlords that if a home business (defined as a business of a kind which might reasonably be carried on at home) is established or run in a rented dwelling, the tenancy will remain as a residential tenancy rather than converted to a business tenancy. The proposal will ensure that landlords have the security of knowing that should they agree to their tenants running a business from home, that decision will not mean that the tenant will enjoy the greater security of tenure provided to a business, subject to the property remaining for residential use.

Impacts of proposal

The proposal would be beneficial to landlords, as indicated above, and to tenants, where they are currently prevented by their landlord from running a business at home. It will involve a familiarisation cost to landlords.

The Department estimates that 443,560 landlords will need to spend 5 additional minutes to become familiar with the policy. Using an hourly wage rate for a landlord of £13.35, the Department estimates the total costs of the policy to be £0.49 million (in present value terms). This results in an Equivalent Annual Net Cost to Business of £0.04 million.

The proposal will remove the existing legislative ambiguity regarding tenancy rights for home businesses and the associated disincentive for landlords to agree to tenants running a business from home. In doing so, the Department expects that it would generate wider benefits through encouraging the creation of more home businesses by tenants. Businesses that would have been started in another location could now be done from home, removing those costs and allowing them to invest more in the business. In turn, landlords may also in benefit from a wider pool of tenants if they are more amenable to a residential home containing some business use. However, these benefits are not monetised as the Department has been unable to estimate how many new small businesses will arise specifically because of this legislation and their associated value to both businesses and landlords.

Quality of submission

The Department identifies and quantifies the costs to business. Where assumptions have been used, for example in calculating the expected number of landlords to be affected by the proposal, the Department sets out how these have been developed and why the Department believes they should be considered sufficiently robust.

The Department estimates that it would take landlords 15 minutes to familiarise themselves with proposals introducing new regulation in the private rented sector. The Department argues that a similar assumption is less relevant for this proposal because the amendment simply prevents domestic tenants from gaining additional rights by operating a business in the home. They have, therefore, assumed that any familiarisation cost will be minimal and certainly less than if a new and costly policy was being introduced. The Department has, therefore, included an additional familiarisation cost of 5 minutes to reflect that some landlords may wish to clarify their understanding of the change. This appears to be reasonable.

The Department has carried out sensitivity testing by increasing the familiarisation time for each affected landlord to 10 minutes. As expected, this results in a doubling of the familiarisation cost to £0.98 million, or an EANCB of £0.08 million.

Although not required, the SaMBA is sufficient. The Department explains that the legislation has not exempted small and micro businesses because they account for a large proportion of the private rented sector landlords. Data from the Office for National Statistics suggests that 87% of landlords are small and micro businesses. Private Landlord Survey data also suggest that 74% of all landlords own one property and 95% of all landlords own between 1 and 4 properties. Therefore, the Department argues that if small and micro businesses were exempt, a large proportion of the benefits of this policy would not be achieved.

Initial departmental assessment

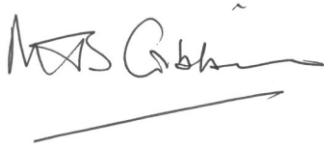
Classification	In scope
Equivalent annual net cost to business (EANCB)	£0.04 million
Business net present value	-£0.49 million
Societal net present value	-£0.49 million

RPC assessment

Classification	In scope
EANCB – RPC validated	£0.04 million

Opinion: Validation
Origin: Domestic
RPC reference number: RPC-2202(3)-CLG
Date of implementation: 1 October 2015

Small and micro-business assessment	Sufficient
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Michael Gibbons CBE, Chairman