Landlord Allowances

Background

1. The rating system here has its basis in the long established principle of occupier-based liability reflecting its origin as a charge for regional and local services. There is an underlying democratic accountability around the whole process, because occupiers have a vote.

2. The rented sector (particularly the private rented sector) has tended to be less settled and more mobile than owner occupiers, which makes it more difficult to collect rates. For this reason and for nearly the past 90 years, landlords in lower value properties have been required to collect rates from their tenants and are given allowances for managing this process.

3. A landlord who is made liable to pay rates to LPS under legislation is legally entitled to recoup that payment through the rent, where there is a tenancy agreement in place.

4. The allowance mechanism, through which a landlord receives a discount for rates if paid before a certain date, is intended to compensate a landlord for the risk of default and for any costs associated with collecting the relevant amounts. It is recognised however, that landlords will also already be collecting rents along with rates from their tenants and in many cases will receive a direct payment of Housing Benefit including an element for rates. Therefore a balance must be struck between any cost and any allowance.

5. There has historically been a lack of evidence on the additional costs actually incurred by landlords in undertaking this task. At the same time the total cost to the Department of landlord allowance across all sectors in 2014/15 was £10.7million.

Policy Proposal

6. When the allowance was reduced to 10% in 2015 a number of landlord groups indicated that their costs outweighed the discount. The Landlords Association of Northern Ireland also commented on this issue during this year’s consultation (2016), noting that many landlords appoint an agent who charges a fee.

7. There has been no reliable factual analysis provided to the Department on what cost this represents to the average landlord. Indeed, costs will vary significantly between landlords depending on the character and size of their property portfolio; which can range from student lettings to single family households and from one to hundreds of properties. The Department has to set the landlord allowance at a level to apply universally.

8. The Department is also mindful that the allowance is paid to landlords alongside the rent and in many cases the payment arrangement with LPS is
made through other means adding little additional cost to landlords in subsequent years.

9. There are also issues with the ongoing payment of an allowance to the Northern Ireland Housing Executive and Housing Associations - both these housing sectors have a high number of tenants receiving full and partial housing benefit. Those receiving full housing benefit will have their rates paid directly to LPS which will largely bypass the administrative systems of NIHE or the relevant housing association. In fact the Department’s assessment is that actual collection costs for this sector are even lower that the private rented sector in term of administrative issues.

10. NIHE received £3.9M in landlord allowance in 2014/15 and housing associations received £1.7M. The Department is considering the value for money of continuing to award the current level of landlord allowance to this sector. It will be undertaking further research to establish the wider funding implications of reducing it.

11. In the interim, and subject to any empirical evidence being provided to the contrary, the Department will be taking legislative steps to reduce the compulsory and voluntary landlord allowance down to 5% with effect from April 2018.

Questions for Consultees

- Do you agree with the proposal to reduce landlord allowances to 5%?
- What impact do you think this will have?
- Do you agree that the cut in allowance should be applied universally across all sectors?