

**POLICY AND
RESOURCES
COMMITTEE
REPORT
01/06/2026**

POLICY AND RESOURCES COMMITTEE

PART II

HMO ARTICLE 4 DIRECTION – FINANCIAL IMPLICATIONS (DoF)

This report is NOT FOR PUBLICATION because it deals with information relating to the financial or business affairs of any particular person (including the authority holding that information).

1 Summary

1.1 This report sets out the potential cost of implementing an immediate Article 4 direction on HMOs. As a result of the potential costs from compensation claims, the Council's section 151 officer advice is that an immediate Article 4 direction would put the Council at considerable financial risk and could result in the Council not being financially sustainable.

1.2 It does not take into account any additional resource requirements that may be required should the Council receive a high number of applications such that planning fee income does not cover the cost of processing additional applications. This will be the same for both an immediate and non-immediate Article 4 direction.

2 Recommendation

2.1 That:

- The Council does not adopt an immediate Article 4 direction due to the financial risk to the Council's ongoing sustainability.
- That public access to the report be denied until issue resolved, including any compensation period should the recommendation not be accepted.

3 Financial Implications

3.1 A non-immediate Article 4 Direction takes effect after a notice period (at least 12 months) and is confirmed following consultation and before the specified effective date. Non-immediate Article 4 Directions are not subject to compensation claims but take a longer period to take effect.

3.2 Immediate Article 4 Directions take effect immediately upon being made (including prior to the consultation) and are primarily implemented when there is an immediate threat to local amenity. Compensation claims (relating to planning fees, loss of land value etc) as a result of immediate Article 4 Directions are payable by the council if planning permission for development (previously permitted under the GPDO) is refused or granted conditionally within 12 months of the direction taking effect.

3.3 Within the first 12 months that an immediate Article 4 Direction takes effect, the council would be liable to pay compensation for any planning applications that were refused or subject to more stringent conditions as a result of the Article 4 Direction. This may also include abortive expenditure (costs already incurred in preparing for development) or other loss or damage directly attributable to the withdrawal of permitted development rights, such as loss of value of the land,

loss of profit from existing contracts and costs of planning applications and appeals. It must be noted that if the council cannot agree a compensation figure, it can be referred to the Upper Tribunal and the council could also be liable for these legal costs.

- 3.4 It is not possible to quantify the cost of any potential claims with any degree of certainty. Whilst early immediate Article 4 Directions did not receive a significant level of compensation claims, the current increase in the number of directions is increasing awareness of the potential to claim compensation and an increase in the number of articles highlighting the ability to claim compensation and firms of solicitors offering to provide advice and act for potential claimants.
- 3.5 The Council has already received a formal notice of statutory reliance under section 108 of the Town and Country Planning Act 1990, following the report to Committee in January. The notice quoted the following cost:
- A capital commitment of over £315,000 to the project.
 - A completed asset value of £900,000+, a £200,000 increase on the current asset value.

The potential claimant confirmed that they would claim for the £200,000 diminution of land value and the abortive costs of £315,000 should an immediate Article 4 Direction be implemented. These figures relate to a standard three bedroomed semi in Abbots Langley.

Number of Potential Claims

- 3.6 The council currently has 4 pending HMO licenses and there are at least 6 (and potentially more) properties that the council is aware have interest in converting to HMOs, this does not take into account any that are in the pipeline not known to the council or smaller HMOs that do not require licensing.
- 3.7 There is also the risk of homeowners within the district who had no previous intention of converting their property to a HMO taking advantage of the compensation claims. For example, if someone owned a property in Three Rivers and never had any previous intention of converting it to a HMO but saw that an immediate Article 4 Direction had been introduced, they could spend a few hundred pounds on plans, submit a planning application (which they probably know would be refused or in the unlikely event of it being approved have restrictive conditions) and claim a potential loss of land value as a result of them not being able to convert to a HMO (as generally HMOs have a higher value).

Diminution of Value

- 3.8 It is difficult to confirm the average percentage increase in land value or sales price of a property following conversion to a HMO, however, research from investment firm Excellion Capital found that the average licensed HMO in England sells for 13% above the average house price of similar houses in the area. However, this percentage can vary drastically depending on local circumstances, with figures of 50% higher not being unusual given the high rental return from HMOs.
- 3.9 A Residential Landlord Association 2013 report, backs up these differential values:

- A property which could only be used as a single dwelling, because of planning restrictions, would be worth up to a third less than a similar adjoining property which can be used as a single HMO.
- Furthermore, at least 15-20 per cent, or as much as $\frac{1}{3}$, would be shaved off the value of properties which could not legally be occupied as a small HMO because of planning rules.

3.10 A desktop review of rents within the district has been carried out to compare income levels from an HMO compared to rental as an entire property. This gives rental uplifts of between 20% and 39%.

	Rickmansworth	Abbots Langley	South Oxhey/ Carpenders Park	Croxley Green
House Share cost per room	1000	750	800	900
2 bed house - upper end of rental range	2200	1800	2000	2200
3 bed house - upper end of rental range	3000	2500	2300	3000
2 bed house - uplift for 3 person HMO	36%	25%	20%	23%
3 bed house - uplift for 4 person HMO	33%	20%	39%	20%

3.11 According to the Office for National Statistics (ONS), the average house price in Three Rivers is £594,000. The recent purchases by the Council of properties under the Local Authority Housing Fund programme gave an average purchase cost of £550,000.

3.12 Based on the evidence above it would be reasonable to assume an uplift in value for an HMO of between 10% and 30%. In the exemplification a figure for the purpose of establishing potential diminution of value of between £60,000 and £200,000 has been used with the risk that actual values could be higher.

Abortive Costs

3.13 A desktop exercise has been carried out to assess the potential cost of abortive works for the conversion to an HMO. This has been done based on nationally available cost information, adjusted to reflect prices within the southeast. This gives a conversion cost of between £92,800 and £215,566 for HMOs in the pipeline.

3.14 For future HMOs, not in the process of conversion prior to the article 4, the costs are more likely to be those of property acquisition and design work to get to planning application stage. These costs can be broken down as follows:

- Architectural drawings - £2,500 - £7,500
- Planning consultant fees - £2,500 - £10,000
- Planning Fees (conversion) - £600
- Survey costs - £2,500 - £7,500
- Legal fees & search costs (Acquisition) - £5,000
- Mortgage arrangement costs £2,000
- Valuation fees - £1,250 - £2,500
- Stamp Duty - £40,000 - £65,000

This gives an indicative range of between £56,350 and £100,100.

3.15 A range has therefore been used of between £50,000 and £200,000 for abortive costs.

Total Costs

- 3.16 Based on the cost ranges identified below, the table below shows the potential costs for the 9 properties we are aware of in the pipeline, plus an exemplification based on twenty properties.

	Cost Ranges		Total Cost – 10 pipeline Claims		Total Cost – 10 Claims	
	Lower Estimate	Upper Estimate	Lower Estimate	Upper Estimate	Lower Estimate	Upper Estimate
Diminution of Value	£40k	£200k		£2.0M	£0.4M	£2.0M
Claimable Costs	£50k	£200k		£2.0M	£0.5M	£2.0M
Total				£4.0M	£0.9M	£4.0M

- 3.17 It should be noted that the upper estimate for the cost range is below the notice of claim already received, giving an average settlement cost of 20% below that claim for the large HMOs we are aware of within the pipeline. Even at this level the potential compensation cost is £4.0M before any existing small HMOs or additional large HMOs in the pipeline are taken into account or new claims.

- 3.18 In order to assess the potential total bill, a number of scenarios are outlined below:

10 pipeline claims plus 20 claims lower claimable costs and diminution of value (smaller HMOs)	Total Cost £5.8M
10 pipeline claims plus 2 claims at upper estimate of diminution of value plus claimable costs (currently in pipeline but not known) 10 claims at lower estimate of diminution of value plus claimable costs (smaller HMOs)	Total Cost £5.7M
10 pipeline claims plus 10 claims at the lower claimable costs and diminution of value (smaller HMOs) 10 claims lower claimable costs plus higher diminution of value (larger HMOs here conversion has not started)	Total Cost £7.4M
10 pipeline claims plus 10 additional claims at higher claimable costs plus diminution of value. 10 additional claims at lower claimable costs plus diminution of value.	Total Cost £8.9M

The costs outlined above do not include the costs of defending claims which will include both legal costs and professional fees to assess the validity of claims.

- 3.19 Forecast unearmarked reserves in the current approved Medium Term Financial Strategy are £5.5M. This includes both the General Fund and the Economic Impact Reserve. All the scenarios set out, including the potential claims arising from known pipeline HMOs, would result in reserves falling below the minimum recommended level and, in all but one case, exhausting reserves completely.
- 3.20 The Council has a legal duty to set a balanced budget. Where expenditure is likely to exceed forecast resources plus reserves this pushes a Council firmly into s.114 territory requiring significant cuts to services and Exceptional Financial Support. A number of those authorities that have entered Exceptional Financial Support have also been subject to intervention and the appointment of external Commissioners.

