

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting	Cabinet Member for Safe and Attractive Neighbourhoods
2.	Date	20th May 2013
3.	Title	Review of Council Home Size in response to Bedroom Tax
4.	Directorate	Neighbourhoods and Adult Services

5. Summary

The 'bedroom tax', introduced by the Welfare Reform Act 2012, was implemented on 1st April 2013. Social housing tenants who under-occupy their home by one bedroom will lose 14% of their housing benefit, and will lose 25% if they under-occupy by two or more bedrooms. This will affect 3612 Council tenants in Rotherham. RMBC is taking a number of proactive steps to support tenants who will be affected.

A further option is to reclassify some properties as having fewer bedrooms. This decision was taken by Knowsley Housing Trust, in order to deal with low demand of a specific property type, and to avoid blight through empty homes and therefore further costs. There are no similar pockets of low demand properties in Rotherham, however we have carefully considered the option as we want to explore every possible opportunity to mitigate the effects of welfare reform on our residents. This report sets out the advantages and disadvantages of reviewing Council home sizes, and concludes that this would not be a recommended approach in Rotherham for reasons including the following:

- RMBC does not have any pockets of low demand properties, and no downstairs rooms are classed as bedrooms
- To only review the size of properties where the tenants are affected by bedroom tax would create an unfairness across the borough where people would be paying different rent levels for the same type of accommodation
- The amount of rental income would reduce – limiting opportunities for other investment options

6. Recommendations

1. Agree that we should not look to alter the property sizes for the reasons set out in section 7.3

2. Note that the following actions will be taken to support Council tenants in financial hardship as a result of the bedroom tax:

- **Devise and implement a new Downsizing Policy**
- **Review the rent arrears policy to include specific provisions regarding people affected by the bedroom tax**

- **Develop a clear procedure and guidance / advice on taking in lodgers, as this will be one of the key ways of helping to reduce the financial impact on tenants**
- **Continue to provide excellent money management and income maximisation advice**
- **Ensure Council new build programme reflects the need for more one and two bedroom properties**

7. Proposals and details

7.1 Introduction

The 'bedroom tax', introduced by the Welfare Reform Act 2012, was implemented on 1st April 2013. Social housing tenants who under-occupy their home by one bedroom will lose 14% of their housing benefit, and will lose 25% if they under-occupy by two or more bedrooms. This will affect 4,384 households in Rotherham, of whom approximately 3,600 are council tenants, and the poorest will be hit the hardest.

Tenants will have to decide whether they will try to make up the shortfall or fall into rent arrears, and whether to stay in their home or try to move to a smaller property. RMBC will need to monitor trends closely, be flexible and react to the changes, but we are also taking a number of proactive steps (see 7.4). Another option that is available to social landlords is to reclassify properties as having fewer bedrooms.

Despite the results of a recent Inside Housing survey suggesting that some of the larger landlords were considering this option (albeit a small percentage), to date only one has publicly announced its plans to reclassify some of its homes. Knowsley Housing Trust (KHT) has decided to reclassify 566 (4%) of its 14,000 homes down from having two or three bedrooms to one or two bedrooms. This will cost the housing association £250K rental income per year (approx £8.50 per property per week), but KHT has made it clear that its primary objective is to deal with low demand of a specific property type, and to avoid blight through empty homes and therefore further costs. This appears to be a decision grounded on business / financial reasons, that would not be replicable in Rotherham as there are no similar pockets of low demand properties. Nor does RMBC classify any of its downstairs rooms as bedrooms, which could be another possible reason why some social landlords may wish to consider reclassification.

However, KHT's actions have been much discussed in the media and this has prompted questions about whether RMBC will exercise its right to review some of its properties, particularly in relation to bedroom dimensions. Although some properties have a smaller bedroom, they are still correctly classed as bedrooms, and rent is chargeable on them. It should be noted that this is completely separate from Housing Act legislation on overcrowding – even if a room is under 50 square feet - and the two issues should not be confused as the scope and remit of overcrowding legislation is different (for example reception rooms can be classed as bedrooms).

This report considers the advantages and disadvantages of reclassifying properties as having fewer bedrooms. On balance this approach is not recommended, however a range of other measures can be implemented to provide support to our Council tenants who will be hit the hardest, and reduce the financial impact to RMBC – please see section 7.4.

7.2 Advantages of reviewing the number of bedrooms

- Possible reduction of Council rent arrears (we expect that the bedroom tax will add £136K to ongoing rent arrears) and the cost of collecting arrears

- Possible reduction of evictions and homelessness
- More people will be able to remain in their home, therefore the costs associated with tenants transferring to new properties will be reduced
- Some tenants will view this as a positive step taken by the Council to reduce the impact of Welfare Reform on Rotherham's residents

7.3 Disadvantages of reviewing the number of bedrooms

- We would collect less rent. This affects the HRA business plan and will have implications for debt management as well as reducing our resources to invest in our current stock and build and / or acquire new Council homes of the right size to meet changing demographic needs.
- We currently do not hold data on bedroom dimensions so there would be a significant time and cost implication associated with analysing the various property archetypes to produce this data.
- Many people who are not under-occupying their homes are using smaller rooms as bedrooms and are paying rent; if we only removed the rental charge for people affected by the bedroom tax, this would create an unfair system. If we were to reduce the rental charge for all properties with a smaller bedroom, this would result in an even greater loss of income to the HRA, and would potentially lead to people claiming for refunds on rent paid in the past.
- If we re-classify homes as having fewer bedrooms this will be a major exercise – and may be very difficult if not impossible to reverse in the future if the policy changes. It will imply a shift in the Council's stock to having far fewer family sized homes, which would result in households on the housing register having to wait longer for suitable larger accommodation, exacerbating overcrowding problems.
- The review of bedroom sizes is one potential reactive measure that will not deal with all of the problems caused by bedroom tax. It would be better for the Council to implement a clear rent arrears policy that takes these into account and sets out the specific circumstances in which we would want to apply discretion.
- Government has made a number of recent amendments to the social housing size criteria rules and it is possible that further changes will be made, both in the short term (arising from continuing pressure from campaigns, and issues that may only come to light following implementation), and in the medium to longer term as Government continues to cut its spending on benefits. It would not be prudent to undertake an exercise as major as stock classification, when the policy environment is so fluid.
- Whilst affected tenants benefiting from this may see this as a positive move, non-affected tenants and those in small private accommodation may feel that RMBC is operating double standards; declassifying small public sector bedrooms, whilst similar rooms in the private sector are common place.

- There is a concern that taking this approach may encourage DCLG to revisit the self-financing settlement.

7.4 Conclusions and recommended next steps

We should not look to review property sizes for the reasons set out above. However we will take the following actions, which will support Council tenants in financial hardship and reduce the financial impact on the Council. These are considered in more detail in a separate report to Cabinet Member.

(a) Devise and implement a new Downsizing Policy

(b) Review the rent arrears policy to include specific provisions regarding people affected by the bedroom tax

(c) Lodgers – develop a clear procedure and guidance / advice on taking in lodgers, as this will be one of the key ways of helping to reduce the financial impact on tenants

(d) Consider a range of other measures which may assist tenants to manage within the new benefits system, for example offering time limited support to those tenants currently affected who will (by virtue of retirement for example) shortly become exempt from the spare room subsidy system

(e) Continue to provide excellent money management and income maximisation advice and support, possibly in conjunction with other forms of advice and counselling.

(f) Ensure Council new build programme reflects the need for more one and two bedroom properties

8. Finance

Our rent arrears profiling indicates that in 2013/14 an additional £1.7m will be added to collectable income as a result of the bedroom tax. Assuming a bad debt ratio of 8%, then this will add £136K to ongoing rent arrears.

(8% is a realistic estimate based on two assumptions; firstly tenants coming off housing benefit will find budgeting more difficult than the current level of self payers, and secondly the results of the Government's Demonstrator Projects piloting Universal Credit have reported increased arrears, with collection rates falling to 92%).

But to reclassify homes would result in significant decreases in rental income to the Council, which would affect the HRA business plan and reduce our capacity to build new Council homes.

9. Risks and Uncertainties

Risks associated with reviewing the size of properties can be summarised as follows:

- Loss of rental income
- Reduced ability to build new Council homes
- Lack of data on bedroom dimensions – therefore significant time and cost implication associated with analysing the various property types to produce this data
- It would create inequity as people would be charged different rent for the same property type
- Change to the Council's stock profile that would be difficult to reverse and therefore lead to an apparent reduction of family sized accommodation, meaning families on the Housing Register would have to wait longer to be rehoused
- There may be further changes to Government policy

10. Policy and Performance Agenda Implications

Rotherham's Housing Strategy sets out (under Commitment 6: 'We will help people to access the support they need') how we will support people who are in financial difficulty and at risk of homelessness.

11. Background Papers and Consultation

Separate Cabinet Member report on tackling the effects of Welfare Reform, 20th May 2013

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