

Should Social Landlords Think Twice About Passing on the Bedroom Tax?



Peter Hall
Managing Director, PHHS

Albert Einstein said "If at first the idea is not absurd, then there is no hope for it". The idea of social landlords reducing rents by reclassifying properties for those to be hit by the bedroom tax may seem absurd, but do the maths; think of the social and economic consequences for existing tenants and the areas they live in, and it becomes less absurd, and more of a rational response. In this article, a version of which was first published in [The Guardian](#), we examine the maths and the wider context for whether landlords should pass on the bedroom tax to under occupying tenants.

When the housing benefit cap was introduced in the private sector last year, there was a grace period for existing tenants until their claim was reviewed, while new claimants faced the cap from the outset. No such grace period for existing working age social housing tenants – other than 12 months for landlords to identify, inform, and work with the 670,000 households and individuals who will be affected from next April.

Yet we know there aren't enough alternative 1 bed properties for the 400,000 of those who only qualify for them, and there are only 60,000 relets of existing 1 bed properties per year. Even if all 1 beds were only allocated to under occupiers ad infinitum from now on, some would wait for 7 years while being 'charged' as much as £25 a week from an income of as little as £75 from next April. Add on council tax, utilities, other bills and existing debts, and it clearly becomes an impossible and unaffordable situation for many.

Impact in the North

The impact will be worst in the North – hit by higher levels of underoccupation and by other benefit cuts already made or yet to be felt such as changes to ESA, tax credits, incapacity benefit and council tax. Recent estimates are that working age households will face an additional £4.50 per week in council tax, while across the North East, 50,000 under occupiers will need to pay an additional £30m p.a. in rent. The government's Discretionary Housing Payments (DHP) funding currently stands at a possible £1.25m p.a. - leaving a shortfall of at least £28m in potential help for under occupiers. This won't improve much even when the promised DHP increases kick in next year. Durham County Council recently estimated the impact of welfare reform as a whole on the local economy in 2013 at £150m – worse in following years. That's £150m less money going into local pockets, businesses and services when it already has the highest worklessness and the lowest job creation rates in the country.

Why make a bad situation worse?

The recently published draft HB regulations clarify proposals for landlords to define how many bedrooms a property has, and for local authorities to interpret that. Landlords also have legislative and regulatory flexibility to charge lower rents. Target rents define a 'maximum' rent, and the HCA's Value for Money regulatory standard expects all landlords to take 'a view in the round of the optimum sustainable performance of all

their assets – including for example financial, social and environmental returns - in the context of meeting their organisation's purpose and objective's'. There is clearly scope to review whether full rents for under occupiers from next April is a sustainable option delivering social returns which meet organisations purpose and objectives. And let's face it, the differential between rents for a 1 bed and 3 bed property are fairly marginal across the sector – probably less than the £14 per bedroom which is intended to be deducted from tenants.

Some will be in a better position than others to consider this. The housing association sector as whole recorded a surplus of £1.1bn last year (c.f. the estimated £480m of extra payments to be collected from under occupiers), but there are widespread variations in 'profitability'. Loan covenants and self financing assumptions for councils may also prevent some from even considering it – together with fears surrounding further loss of income from Universal Credit Direct Payments.

Some tenants will undoubtedly pay their additional bedroom tax contributions. A recent survey suggested that as many as 50% will. But many won't or won't be able to, leaving landlords in a difficult predicament. Take them to court for non payment, or write off the arrears on a case by case basis? A significant increase in court cases will lead to an impasse for the court system, and how will judges interpret compliance with the Civil Procedure Rules when there are no alternatives other than homelessness for some long standing tenants who have previously paid their rent?

Do the Maths

Landlords need to start doing the maths – at least for year one of the changes. The average extra cost per under occupying tenant will be £676 per year based on an average of £14 per week additional payments. Once the extent of underoccupation is known (and many haven't got that far yet) , work out the potential loss of income from non payment , versus the additional costs in collecting rents, enforcing non payment, incentivising downsizing (costing some up to £10,000) and supporting tenants through the options etc. If the additional costs are more than £676 per affected property, think rationally about the alternatives – at least for year one of the changes.

For some, reclassifying property sizes and therefore reducing the rents charged will be a rational business decision which will also have direct positive social and economic impacts for affected tenants and their wider communities. Liverpool Mutual Homes is the first of what may be many to do so - planning to pay the bedroom tax for under occupying tenants who complete training programmes or voluntary activities on its estates on a 'something for something' basis.

At its simplest and most transparent, reclassification could be on a universal time limited basis –putting money back into customers and communities hands while alternatives are worked through for them and reviewed annually. In the North, with 20% turnover of

tenancies a year in some areas, a 'normal' position could be reached by year 5. At the very least, reclassification could be income based: for example, based on the individual contributions required as a % of income.

Objectives, Purpose & Values?

Whatever housing organisation's objectives, purpose and values are, they should think twice about whether any existing plans for new homes, improving stock or investment in communities will deliver more benefits for the local economy than what will be taken out via the bedroom tax. The recent NHF Building Futures report identifies £500m per year spent on investing in communities - helping people manage their money and get out of debt, job skills classes, youth enterprise projects, apprenticeships and skills training programmes etc. That's roughly the same amount that will be taken out of existing tenant's pockets nationally via the bedroom tax.

Loan covenant and business plan assumptions may also not be breached if any loss in income through reclassification is matched by reduced expenditure or operating costs elsewhere to compensate for it - ideally prioritised with all tenants in the spirit of the value for money standard.

Black Hole or New Dawn?

Underoccupation charges across social housing could be a social and economic black hole or a new dawn. Evaluating the social and economic consequences of passing on underoccupation charges is a rational response to an absurd 'big bang' policy change. The principle of reducing rents may seem like an anathema to many, but so did developing without grant and publishing all expenditure over £500 until recently.