

HOUSING BENEFIT SIZE CRITERIA: IMPACTS FOR SOCIAL SECTOR TENANTS AND OPTIONS FOR REFORM

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This report examines the impact of the Housing Benefit size criteria - also known as the 'spare room subsidy' or 'bedroom tax' - in its first year of operation.

It finds that the policy has:

- lowered expected savings to the public purse of £425 million to £330 million;
- raised concerns about the three-fifths of households with at least one registered disabled resident (as reflected in tribunal decisions);
- revealed regional inconsistency in the application of Discretionary Housing Benefit and Disability Living Allowance;
- lacked a definition of a bedroom or minimum size, leading to the use by appeals tribunals of statutory overcrowding legislation to reach decisions;
- led to increased costs to landlords.

The report has a rising scale of recommendations, from tweaking guidance to local authorities, to moving to a Local Housing Allowance regime to allow landlords to adapt their rents in response to demand.

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EXECUTIVE SUMMARY

As part of its wider programme of welfare reform aimed at reducing expenditure, in April 2013 the government introduced reductions in Housing Benefit payments to working-age tenants of social sector housing. These reductions are based on the number of people occupying the dwelling in relation to the number of bedrooms. This policy has been variously referred to as 'the spare room subsidy', 'under-occupancy charge' and 'bedroom tax', but this study uses the more neutral term 'Housing Benefit size criteria', or simply 'size criteria'.

This report evaluates the initial impacts of the legislation, drawing on a wide range of government and other data and reports, as well as original research. After assessing these initial impacts, including the forecast costs and savings, we outline a number of options for reform to mitigate its adverse impacts.

Context

The size criteria policy has two primary objectives – to reduce expenditure on Housing Benefit, and to reduce under-occupation within the social sector housing stock in order to release dwellings for people who are homeless or living in overcrowded conditions. A related stated aim is to increase work incentives for tenant households. To achieve these aims, the policy makes a percentage deduction from the rent eligible for Housing Benefit for those households with more bedrooms than they are deemed to require by the size criteria.¹

The size criteria provide for one bedroom each for:

- couples;
- single adults aged 16 or over;
- two children of the same gender up to age 15;
- two children of either gender up to age 9;
- any (other) single child;
- an overnight carer (where required).

In contrast to statutory overcrowding regulations, the size criteria do not define a bedroom, nor specify minimum space standards for either single or shared bedrooms. The calculation of the number of bedrooms is broadly based on the criteria used to establish levels of Local Housing Allowance available to households in the private rented sector, which in turn were broadly based on a 'bedroom standard' adopted in 1960.

However, this bedroom standard is largely out of step with current social norms and expectations: of all UK households, almost three-quarters live in homes with more bedrooms than specified by the bedroom standard.

Scope, and projected costs and savings

While over-occupancy (as measured by the bedroom standard) is the norm in both the owner-occupied and private-sector tenancy sectors, with 85% and 60% of these households respectively having one or more additional bedroom(s), only about 4% are occupied by the target group of working-age social housing tenants in receipt of Housing Benefit. However, within this overall picture of occupational density sit wide variations across tenures, and across the regions and countries of the UK (discussed in Section 2).

DWP's principal impact assessment of June 2012 estimated that some 660,000 households would be subject to the size criteria, and on this basis forecast projected savings of £480 million in 2013/14, rising to £500 million in 2014/15. The forecast savings represent just over 2% of the government's overall welfare budget cuts of £19 billion.

Against these projected savings must be set the direct costs to DWP of Discretionary Housing Payments (DHPs) awarded by local authorities to help claimants adjust to the new arrangements. Initial DHP provision was £35 million; to this was later added a £20 million bid fund. Taking this into account, DWP's initial estimated net savings of £445 million was reduced to £425 million.

In practice, the numbers of affected households have been lower than predicted. By May 2013, close to 560,000 social housing households were subject to the Housing Benefit size criteria, falling to just under 500,000 by November, an 11% decline. This brings forecast net savings down to £330 million in the policy's first year, £95 million below the DWP's revised forecast that took into account the increased DHP budget.

There are several reasons for the lower outturn numbers, but primarily it is simply that the outturn numbers are lower than the survey based estimates. A further factor is that DWP had calculated that 40,000 households would be 'floated off' benefits as a result of the imposition of size criteria, although in contradiction to this estimate, there was a marginal increase in social sector Housing Benefit claimants between March and May 2013. A 5% reduction in the numbers of working-age job claimants (in all tenures) between February and August 2013 will also have contributed to the fall in numbers of affected households, as will landlords' action to reclassify dwellings on the basis of the size criteria, and actions by tenants to remove themselves from the scope of the legislation. These matters are discussed in Section 4.

Tenant actions and impacts

In spite of the intended incentives to encourage tenants to move, the response has been small, with only 6% of affected tenants moving in the first half year. This reflects both preferences, and constraints on the availability of suitable alternative accommodation; the evidence suggests that this latter is heavily influenced by regional variations in housing stock.

In addition to moving, tenant actions include increasing income through employment (1% of all initially affected tenants), but also a small number of households accommodating the drop in income by taking in a lodger or non-dependent family member in order to meet the occupation requirements.

Short-term actions, such as drawing on savings or financial support from other family members, borrowing, or selling meagre assets, while not recorded in the data, are all strategies that are likely to diminish over time as the capacity for households to endure the hardships resulting from their reduced incomes decreases.

However, while there is evidence of an increase in transfers and mutual exchanges within the sector since the policy's inception, by November 2013, 22% of those affected by the legislation were still awaiting either a transfer or mutual exchange.

Where tenants do secure alternative, smaller accommodation, the consequences can include the release of larger homes for homeless or overcrowded families, but this is typical only of high-demand areas (including London), and is accompanied by a fall in the availability of smaller homes for new applicants. In areas of low demand for larger homes, downsizing transfers have led to more properties staying empty longer before being re-let.

Issues

Disabled claimants

DWP's initial equality impact assessment found that more than three-fifths of affected households would contain one or more registered disabled persons. This includes some 370,000 households where a longstanding illness or disability leads to significant difficulties in one or more areas of an individual's life.

The presence of a disabled person can make room-sharing inappropriate, and concerns have also been expressed in cases where a dwelling has been adapted to the requirements of a disabled member, including the use of a room to store essential equipment.

Where these problems cause hardship, claimants have largely been referred to DHPs, but there is widespread variation in their application. Some councils take Disability Living Allowance (DLA) into account in income assessments, and this can mean claimants do not then meet the hardship requirements for DHPs. There are also concerns about the typically short-term nature of DHPs, particularly for tenants with longstanding health or disability issues.

Bedroom size

Since the size criteria specifically do not define a bedroom or specify minimum size requirements, the statutory overcrowding regulations have come into play, in particular in the case of appeals against the imposition of the size criteria. There have been a number of cases where tribunals have referred to the overcrowding regulations to rule that some rooms are too small to be considered a bedroom. Other decisions have also ruled that rooms customarily used to store disability equipment cannot be considered bedrooms, and that bedrooms are required for children who are part-time residents with a divorced or separated parent.

Rent arrears

The evidence on rent arrears broadly suggests that about half of affected households are in rent arrears. While some of these households had previous arrears, the majority had arrears solely attributable to the income

reductions associated with the size criteria, despite some making payments to partially cover the costs of the deduction.

A comprehensive survey accounting for 63% of social housing tenancies in Scotland has estimated that nearly £3.5 million arrears arose directly from the size criteria at the end of September 2013 – equivalent to a quarter of the size criteria deductions over that period. Section 4 examines the evidence on rent arrears.

After six months of operation, landlord evictions due to rent arrears are still exceptional, although they may well be a contributory factor for households that were already in arrears before size-criteria deductions led to a further deterioration in a household's arrears levels. More time needs to pass before the full effect on rent arrears and subsequent evictions can be assessed. Certainly the portents are not good: a substantial rise in the level of social landlord possession actions were seen in the last two quarters of 2013, but to what extent this is down to the size-criteria deductions or more wider welfare cuts is as yet unclear.

Supply and demand

In broad terms, the evidence suggests that at the end of September 2013, over 100,000 affected tenants were still seeking a move to a smaller dwelling, including some 87,000 people in England alone. This contrasts with just 27,000 lettings of one-bedroom dwellings to transferring tenants in 2012/13, and just some 7,700 allocations to households downsizing from accommodation they considered too large. These figures are indicative of substantial constraints in meeting downsizing transfer requests.

The current mismatch between demand and supply for transfers to smaller dwellings is acute in some areas, and it will be years rather than months before all the tenants affected by the size-criteria deductions who are seeking to downsize can be suitably rehoused. Moreover, the extent of the mismatch varies across regions. The issues arising from the shortage of lettings that meet the demands of downsizing tenants are discussed in Section 6.

Increased costs for landlords

Social landlords have increased their investment in welfare support and advice for tenants. While this has had a beneficial effect in containing overall rent arrears, these actions have also added to landlords' administrative costs. Further costs to landlords are associated with managing the increased number of transfers and mutual exchanges, with the former in particular representing a loss of rental income before vacated properties can be re-let. In areas of low demand for larger homes, such as Wales and Merseyside, this can be particularly problematic.

Options for reform

The report concludes with a range of minor and more far-reaching reforms that could mitigate the damaging impacts of the size criteria policy. These include:

- permitting an additional bedroom for households where someone claims a higher rate DLA;
- making clearer provisions for households with carers and those with shared responsibilities for children;
- issuing stronger guidance about the treatment of DLA awards in the income assessments for DHPs;
- reforming the DHP regime to encourage longer-term awards for households whose circumstances are not transitional;
- introducing minimum sizes for single and double bedrooms, based on the statutory overcrowding provisions;
- increasing the bedroom standard to one bedroom above the current standard;
- requiring landlords to offer suitable alternative accommodation before the size criteria is applied;
- moving towards a Local Housing Allowance style regime, like that currently operating in the private rented sector, thus allowing social landlords to adapt their rents in response to changing needs.

These options for reform, along with where possible the estimated costs and timescales, are discussed in Section 6.

1 INTRODUCTION

In April 2013, the UK² government introduced cuts in the Housing Benefit given to tenants of social housing by imposing Housing Benefit size criteria³. The current size criteria are based on the number of bedrooms relative to the number of occupants in individual households, and they apply to all working-age households claiming Housing Benefit in the social rented sector. This report assesses the initial impacts of this policy, and in the light of that assessment, outlines a number of options for reform.

The report draws on both government reports and statistics, and a wide range of reports published by a variety of authors since the policy's inception. It also draws on two surveys undertaken as part of this project; one of social landlords, and the other of local authorities with specific reference to their application of Discretionary Housing Payments (DHPs) for households affected by the size criteria. In addition, this report has been particularly informed by a related JRF project examining a tenant perspective on this and other welfare reform policies introduced by the current government.

We begin by setting this new policy in the context of the government's wider welfare reforms and cutbacks, and the broader issue of household space standards for occupying dwellings and prevailing levels of 'under-occupation'. We then outline the main points from the DWP's impact assessments of the policy and the outturn statistics on its actual impact in the months following its introduction in April 2013 to November 2013.

The following sections draw on all the available evidence (including our own survey) to consider the main dimensions of the impacts of the policy, and the responses to it from social landlords, local authorities in their capacity as distributors of DHPs, and tenants themselves.

In conclusion, this is followed by a discussion of the more problematic issues involved in the operation of the policy, and consideration of a range of options for its reform.

2 THE CONTEXT FOR THE SIZE CRITERIA POLICY

Summary

The Housing Benefit size criteria are a relatively small component of the government's wider welfare reforms and budget cutbacks.

Survey data for England shows that working-age social sector tenants in receipt of Housing Benefit comprise only some 4% of all households occupying dwellings above the bedroom standard.

The size criteria, with minor variations, are based on the bedroom standard established in the social survey of 1960. This standard is out of step with contemporary social norms. Almost three-quarters of all households in the UK occupy dwellings with more bedrooms than are set by this bedroom standard, and the social norm is now the bedroom standard plus one.

The size criteria regulations do not define a bedroom, nor in contrast to the statutory overcrowding provisions do they specify any minimum space standards for either single or shared bedrooms.

This section sets the context for evaluation of the size criteria policy, first by outlining the government's wider welfare reforms, many of which are to various degrees beginning to have an impact over the same period as the introduction of the size criteria policy. We then look at both the history of the 'bedroom standard' on which the policy is based, and the current distribution of over-occupation against that standard in all tenures.

The size criteria policy has two primary objectives – to reduce levels of Housing Benefit expenditure, and to reduce levels of under-occupation by working age households within the social sector housing stock. A related stated objective, which is a factor in several welfare reforms, is to increase work incentives for tenant households (the size criteria apply only to working-age households). The policy operates by making a percentage deduction from the rent eligible for Housing Benefit for those households with more bedrooms than they are deemed to require by the size criteria.

The wider welfare policy context

The Housing Benefit size criteria are just one small part of the government's programme of welfare reforms, which include cuts to tax credits and welfare budgets. Overall, it is estimated that this programme will reduce benefit expenditure by some £19 billion a year by 2014/15⁴. Of that, the size criteria were forecast to generate gross savings to DWP of £480 million in 2013/14, and £500 million in 2014/15. However, against that, DWP made provision for expenditure on Discretionary Housing Payments (DHPs) in 2013/14 – initially at £35 million, but subsequently increased to £55 million. Taking this into account, the forecast net saving to DWP in 2013/14 was £425 million.

While the size criteria in themselves were forecast (net) to provide only just over 2% of the overall welfare savings to central government, the wider cuts and reforms, such as council tax benefit reforms (in England), and freezing or under-indexation of many other benefits, set the context within which households have to deal with the advent of the size criteria.

The bedroom standard

The size criteria are broadly based on the criteria already used for the purposes of determining levels of Local Housing Allowance (LHA) available to households in the private rented sector. These in turn are derived from the 'bedroom standard' that was introduced as part of a government social survey in 1960⁵.

The 'bedroom standard' was set out as follows:

- i) Each married couple was given one bedroom.
- ii) Any other persons aged 21 or over were each given a bedroom.
- iii) Persons aged 10 to 20 years inclusive of the same sex were paired off and a bedroom was given to each pair.
- iv) Any person aged 10 to 20 years left over after this was paired with a child under 10 of the same sex. If no pairing of the latter kind was possible, such a person was given a separate bedroom.
- v) Any remaining children under 10 years were paired and a bedroom was given to each pair. Any remaining child was given an additional room.

The standard was based on the normative judgements of the survey authors. In making those judgements they did, however, note that 'the standard described ... makes no allowance for the needs of growing families, who might reasonably be expected to require at least one spare room'. The 1960 survey found that half of all households in England and Wales occupied dwellings with more bedrooms than was set down by the bedroom standard, although that proportion was quite a bit lower in London. It also found that of those occupying dwellings with one more bedroom than was specified by the standard, just 13% of those in London and 11% in the rest of England and Wales felt that their accommodation was larger than was really needed. In other words, even at its inception the standard lagged behind consensual social values.

Subsequently, the bedroom standard measure has been widely used both in social surveys and in the Census. These have shown how, over the decades since 1960, an increasing proportion of households in Great Britain – in

all tenures – have come to occupy dwellings with more bedrooms than are set down by the bedroom standard of 1960 (see Table 1). By 2010, almost three-quarters of all households occupied dwellings with more bedrooms than set down by the standard; almost two-fifths occupied dwellings with two or more bedrooms above the bedroom standard.

Table 1 Occupational density relative to the bedroom standard over the decades

Percentages					
Households space relative to the bedroom standard	1971	1980	1990	2000	2010
Below the standard	7	5	3	2	3
Equal to the standard	34	32	29	27	24
One more than the standard	38	40	39	37	35
Two (+) above the standard	21	24	30	34	38
Total	100	100	100	100	100

Source: General Household Survey, General Lifestyle Survey (2010)

Reflecting the increasing proportion of households occupying accommodation with more bedrooms than set down by the bedroom standard, further reports have continued to show that the great majority of households consider that they require more bedrooms than the standard suggests. A survey undertaken in 1990, for example, found that just 7% of social sector tenants occupying a dwelling with one bedroom more than set down by the standard considered that they had too many bedrooms.⁶ A more recent report also raised questions about the age at which it is considered appropriate for children to share a bedroom.⁷

Within the overall picture of occupational densities there are marked variations both between tenures, and between the countries and regions of Great Britain. The 2011 Census shows that in London, just under half (49.4%) of all households occupied dwellings with one or more rooms above the level of the bedroom standard. In Scotland and Wales and all the other regions of England, more than 70% of all households occupied dwellings with one or more rooms above the level of the bedroom standard.

Table 2 shows that over-occupation relative to the bedroom standard is highest, by far, in the owner-occupied sector, where 85% of all households occupy dwellings with more bedrooms than set down by the standard, including half that occupy dwellings with two or more bedrooms over the number set by the standard. In contrast, just under three fifths of private sector tenants occupy dwellings with more bedrooms than set down by the standard, and only just over two fifths of all households in the social rented sector. In short, under-occupation relative to the bedroom standard is far less prevalent in the social rented sector than in the private housing market (both rented and owner-occupied). Put another way, social sector tenants account for just 11% of all 'over-occupied' households when measured by the bedroom standard.

Table 2 Occupational density relative to the bedroom standard (BS) by tenure, 2011

Percentages					
Tenure	Below BS	Equal to BS	BS + 1	BS + 2(+)	Total
All home owners	1	13	35	50	100
Owned outright	1	8	30	61	100
With mortgage	2	18	40	40	100
All social sector tenants	7	50	33	10	100
Council	7	50	32	11	100
Housing association	6	50	34	10	100
Private renters	3	39	39	19	100
All households	3	24	35	38	100

Source: General Lifestyle Survey 2011. Due to rounding percentages do not always total to 100.

Moreover, some three quarters of all the social tenants with dwellings above the standard have just one bedroom above the standard. In contrast, nearly three fifth of all home owners with dwellings above the standard have two or more additional bedrooms. An analysis of recent data for England shows social sector tenants account for just 7% of all the bedrooms occupied above the standard.

The same data also showed that just over a third of all the social sector tenants with accommodation above the bedroom standard were aged 65 or over, and that social sector tenants with accommodation above the bedroom standard, aged under 65 and in receipt of Housing Benefit, represented some 15% of all tenants in the sector, or just 4% of all the households with accommodation above the bedroom standard in all tenures.⁸

The bedroom standard and Housing Benefit regulations

A bedroom standard has since 1996 been part of the criteria for establishing eligible rents for Housing Benefit in the private rented sector. Initially this applied under the regime where rent officers made determinations for eligible rents, and in so doing made assessments based on the size of dwellings that households were deemed to require, rather than just the actual dwellings that households occupied.⁹

More recently, the same criteria have been carried forward into the Local Housing Allowance (LHA) regime introduced in 2008, which sets out flat rate allowance levels by market area and the size of dwelling that a household is deemed to require. Under that regime, the eligible rent for Housing Benefit is now the lower of either the LHA rate, or the contractual rent for the dwelling occupied by the tenant.

The size criteria are very similar to those set down by the 1960 bedroom standard, but with two important differences. The LHA size criteria allow that any adult aged 16 and over is entitled to a separate bedroom, whereas the bedroom standard only makes provision for a separate bedroom for adults aged 21 and over. The LHA size criteria also make provision for an extra bedroom for overnight carer(s) where they are required.¹⁰

It is these same size criteria that have from April 2013 been applied to set limits on rents eligible for Housing Benefit in the social rented sector. The administrative application of the size criteria in the social rented sector

is, however, quite different. Under-occupation relative to the size criteria leads to a percentage reduction from the contractual social sector rent to determine the maximum rent that is eligible for Housing Benefit. The reduction is 14% for under-occupation by one bedroom, and 25% for under-occupation by two or more bedrooms.¹¹

Like the bedroom standard, the Housing Benefit size criteria make no provisions in respect of the size of bedrooms, whether for sole occupation or shared use. The circular on the application of the size criteria to the social rented sector is very clear on this point:

'We will not be defining what we mean by a bedroom in legislation and there is no definition of a minimum bedroom size set out in regulations. It will be up to the landlord to accurately describe the property in line with the actual rent charged.'

Statutory overcrowding space standards

The 1935 statutory overcrowding space standard takes into account all living rooms, including kitchens, and is in that sense far less generous than the bedroom standard. Against that, however, it takes account of the size of rooms when considering whether they can be shared by children or adults.¹²

The overcrowding space standard disregards rooms of less than 50 square feet, and children below the age of one. A child aged between the ages of one and ten is counted as a 'half person'. On that basis, rooms are assessed by size in terms of the numbers of persons that they can provide for:

50 to less than 70 square feet = half a person
70 to less than 90 square feet = one person
90 to less than 110 square feet = one and a half persons
110 square feet or larger = two persons.

The lack of any equivalent provisions within the bedroom standard can be traced back to the impracticality of obtaining data on room sizes as part of a social survey response. Indeed, there is limited data on room sizes even within specialist house condition surveys. However, while a broad-brush indifference to bedroom sizes might be tolerated in the context of a social survey, it is quite a different proposition to ignore bedroom sizes in the operational context of setting occupational standards for social sector tenants in receipt of housing benefit. This issue has now been raised in a number of appeals against determinations based on the DWP size criteria.

3 THE IMPACT OF THE SIZE CRITERIA: DWP ASSESSMENTS AND OUTTURN DATA

Summary

The savings to DWP from the size criteria limits will be considerably lower than forecast. Net of provision for Discretionary Housing Payments they look set to be some £330 million in 2013/14, and to decline in future years. This is £115 million lower than the initial DWP forecast, and £95 million below the revised DWP forecast following the increased budget provision for DHPs.

The DWP impact assessments estimated that 660,000 households would be impacted by the size criteria limits, at an average cost of £14 per week per household.

On that basis DWP forecast gross savings on housing benefit expenditure of £480 million in 2013/14 and £500 million in 2014/15. Against that DWP made initial provision for DHPs for size criteria cases of £35 million in 2013/14; but subsequently increased that to £55 million.

Outturn numbers of impacted tenants have been lower than anticipated and declined by 11% between May and November 2013 to just under 500,000. In contrast, half-year data suggests that the DWP £55 million provision for DHPs in size criteria cases is likely to be, more or less, fully applied. Taking that downward trend in numbers into account, average direct savings to DWP in 2013/14, net of provision for DHPs, look set to be around £330 million.

A number of tribunal decisions have raised questions about the interpretation of the DWP size criteria, including concerns about the minimum size for a room to be considered as a bedroom.

Ahead of the introduction of the size criteria, the government published a number of impact assessments, and subsequently have published some outturn data both on the numbers of households affected by the size criteria, and the use of Discretionary Housing Payments (DHPs) to provide selective assistance to some households adversely affected by the size criteria. This section provides a summary of the findings of the impact assessments and the DWP outturn data.

The impact assessments

Updated versions of the principal impact assessment for the size criteria¹³ and the equality impact assessment¹⁴ were both published in June 2012. Following these, some minor revisions were made to the scope of the policy and the size criteria, but clearly those revisions could not have been reflected in the earlier initial impact assessments. The later revisions made provisions for additional rooms for approved foster carers, children placed with claimants ahead of an adoption, adult children who are in the armed forces and on deployment who continue to live with their parents¹⁵, and disabled children who require their own bedroom.¹⁶

The principal impact assessment estimated that some 660,000 households would be subject to the size criteria, of which 540,000 were deemed to under-occupy by one bedroom, and 120,000 by two or more bedrooms. The average estimated deductions for those households were £12 and £22 per week respectively. It was also estimated that some 40,000 of affected households would, as a result of the deductions, cease to be eligible for Housing Benefit altogether.

The impact assessment also estimated that there would be a marked national and regional variation in the impact of the policy (see Table 3). While only some one-fifth of working-age social sector tenants were estimated to be affected in London and the south of England, more than two-fifths were estimated to be affected in Wales and the North West and Yorkshire & Humberside regions of England.

Table 3 Country and regional impact of Housing Benefit (HB) size criteria

Region	Number of claimants affected	Affected claimants as a percentage of all working-age social sector claimants	Average weekly loss in HB per affected claimant
North East	50,000	37%	£13
North West	110,000	43%	£14
Yorkshire & Humberside	80,000	43%	£13
East Midlands	40,000	27%	£12
West Midlands	60,000	31%	£13
Eastern	50,000	30%	£15
London	80,000	22%	£21
South East	40,000	22%	£15
South West	30,000	20%	£15
Wales	40,000	46%	£12
Scotland	80,000	33%	£12
Great Britain	660,000	31%	£14

Source: DWP Impact Assessment 2012

The impact assessment also expected some 50,000 of the householders affected to be aged 60 and over, although below the qualifying age for state pension credit. Almost half (320,000) of the householders expected to be affected were single people aged under 60, while 80,000 were couples without children, and 220,000 families with children.

The equality impact assessment also found that 340,000 of the affected households were headed by single women, including 150,000 lone parents aged under 60. The same assessment also found that black and minority ethnic households were slightly less likely to be affected than white households, but that where they were affected, they would on average be subject to larger deductions (due to the higher proportion of black and minority ethnic households living in London).

A particularly striking finding from the equality impact assessment was that more than three-fifths of those expected to be affected would be disabled, based on the claimant or partner reporting a disability recognised by the Disability Discrimination Act. While this includes some cases where the disability does not present current difficulties with daily activities, it also includes some 370,000 households reporting a longstanding illness, disability or infirmity that leads to a significant difficulty with one or more areas of the individual's life.

It should also be noted that these estimates do not include households where neither the claimant nor their partner is disabled, but there is a disabled child. Against that, the estimate takes no account of the policy provision for non-resident carers providing overnight care.

Estimated financial impacts

The principal impact assessment suggested an annual saving to DWP of £480 million in 2013/14, rising to £500 million in 2014/15. This is essentially the direct savings based on Housing Benefit deductions for 660,000 claimants at an average of £14 per week. The impact assessment discussed a range of potential landlord and claimant behavioural responses to the size criteria, but none of those potential responses impacted on the central savings forecast. Rather the impact assessment suggested that none of the possible behavioural responses would result in a variation in the savings forecast of more than £30 million.

Against those estimated savings must be placed the direct costs to DWP of the budgetary provision for Discretionary Housing Payments (DHPs) awarded to claimants affected by the size criteria. The initial provision for DHPs in 2013/14 was £35 million, but subsequently an additional £20 million fund was provided, for which authorities could bid if they could show that their initial DHP allocation was insufficient. Taking this into account, DWP had initially estimated net savings of £445 million in the first year of operation, an estimate reduced to £425 million after additional DHP provision.

A fuller financial evaluation of the size criteria measures also requires an estimation of the costs incurred by landlords and affected tenants and the knock-on consequences of their behavioural responses for further DWP costs and savings. That topic is addressed in Section 4 of this report.

Outturn data on direct impacts of the size criteria

DWP have now published administrative figures of the numbers of claimants affected by the size criteria in the first eight months of 2013/14. It should be noted that the May returns were not complete, with four authorities failing to submit a return, and six others providing incomplete initial figures. The regional figures and average levels of deduction for May, August and November 2013 are shown in Table 4. The May numbers have been adjusted

(based on the complete returns for the following months) for the ten authorities that did not provide any, or full, data for that month. This adds just over 11,600 to the May national totals shown in the official dataset.

The adjusted administrative figures show close to 560,000 households subject to the size criteria in May 2013, falling to just under 525,000 in August 2013, and just under 500,000 in November 2013. This represents an 11% reduction in the number of size criteria cases over the period. Regionally, the rate of reductions ranged from the highest level of 12.8% in London, down to 9.3% in Wales, and 9% in North East England. Suggested reasons for regional variations are discussed in Section 4.

Table 4 Average levels of deduction by country and region for May, August and November 2013

Region	May 2013		August 2013		November 2013	
	Numbers with deduction	Average weekly deduction	Numbers with deduction	Average weekly deduction	Numbers with deduction	Average weekly deduction
North East	41,271	£13.22	38,663	£12.90	37,549	£12.85
North West	89,027	£14.08	82,944	£13.97	78,836	£13.92
Yorkshire & Humberside	54,763	£13.10	50,953	£12.99	49,046	£12.92
East Midlands	37,462	£13.57	35,257	£13.46	33,522	£13.34
West Midlands	55,680	£14.70	52,234	£14.57	49,364	£14.54
Eastern	36,123	£15.97	33,829	£15.87	32,230	£15.78
London	59,881	£20.38	55,219	£20.22	52,196	£20.12
South East	39,496	£17.54	36,904	£17.38	35,107	£17.35
South West	29,427	£15.00	27,366	£14.93	26,253	£14.90
England	443,130	£15.29	413,357	£15.14	394,121	£15.06
Wales	35,714	£13.23	33,876	£13.11	32,385	£13.08
Scotland	80,122	£11.61	75,662	£11.50	71,682	£11.32
Great Britain	558,972	£14.63	522,905	£14.48	498,174	£14.40

Source: DWP Statistics November 2013 and February 2014. Adjusted figures shown in italics. Average deduction figures for England and Great Britain have been adjusted based on the adjusted regional and national counts.

By definition, the figures in Table 4 do not include those cases previously in receipt of modest levels of partial Housing Benefit where the size criteria mean that households no longer qualify for any Housing Benefit.

A first point to note is that these numbers are rather lower than estimated by the impact assessment, even allowing for the estimate of 40,000 households that would be 'floated off' Housing Benefits as a result of the imposition of size criteria reductions.¹⁷ That there is a difference between the survey-based estimates and outturn administrative data is not surprising, given the inevitable degree of uncertainty involved in any survey-based estimates. There are also some small differences in definition between the bedroom standard measured in the impact assessments, and the actual standard applied, following amendments to the scheme before introduction.

It is also likely that tenant movements ahead of the introduction of the size criteria, whether within the social sector or into the private rented sector, will have made some contribution to the lower outturn administrative numbers, as will have decisions by landlords to reclassify the number of

bedrooms in a dwelling. However, the limited available evidence does not suggest that either of these factors applied on a substantial scale, as is discussed further in Section 4.

Whilst between May and November 2013 the number of households subject to size criteria fell by some 60,000, it should be noted that over the same period, total Housing Benefit claimants in the social rented sector also fell by just over 48,000. In contrast, there was a continuing slow rise in the number of social rented sector Housing Benefit claimants over the year before the size criteria were introduced. This suggests that the size criteria may have contributed to that wider reduction in the number of Housing Benefit claimants in a number of ways (see Section 4).

Caution in interpreting the decline in social sector tenants in receipt of Housing Benefit between May and November 2013 is also appropriate as there was also a fairly sharp reduction (5%) in the numbers of working-age job claimants (in all tenures) over the period from February to August 2013¹⁸ as the UK economy began to recover.

One further observation is that the total number of social sector Housing Benefit claimants rose marginally between March and May 2013, and this is very difficult to square with the estimated 40,000 claimants who would be floated off Housing Benefit as a result of the introduction of the size criteria.

In contrast, the outturn figures on the average levels of size criteria deductions are very close to those shown in the impact studies, as is the distribution between those households subject to a deduction for one bedroom in excess of the limit, and those with a deduction for two or more bedrooms in excess of the limit. It is notable, however, that there was a slight decline in the level of average deductions between May and November 2013; this corresponds with a small decline in the proportion of households subject to a deduction for two or more bedrooms in excess of the limit – from 18.6% in May to 17.2% in November.

Taking an average of the August and November 2013 figures as a mid-year base, this would suggest annual direct savings to DWP in terms of reduced Housing Benefit costs of some £384 million. That, rather than the impact assessment figures, would now seem to be a more appropriate starting point for a wider evaluation of the net direct and indirect savings and costs of the size criteria policy in its first year of operation.

However, in practice, the net outturn savings to DWP in 2013/14 are likely to be somewhat lower, as a result of the confusion over the technical failure of the size criteria regulations to apply to households with a longstanding and continuous claim for Housing Benefit. That unintended omission is now being rectified by the government, but benefit reductions based on the size criteria that have mistakenly been applied to those households in the intervening period will have to be reversed. While officially the numbers of households involved is estimated at around 5,000, local authority and other agencies have suggested that the numbers could be quite a bit higher. Depending on outturn numbers, this omission is likely to further reduce net savings to DWP by upwards of £4 million in 2013/14, but naturally should have no impact on savings in future years.

Discretionary Housing Payments

DWP have also published figures on the application of Discretionary Housing Payments (DHPs) in the first half of 2013/14. These show that DHPs related to the size criteria have resulted in committed expenditure of £27.8 million in the first half of the year, based on the 85% of authorities

that submitted returns in time to be included in the statistical report.¹⁹ This represented 93% of the size criteria DHP allocations to the authorities, for authorities that completed the statistical returns. However, this calculation is based on the firm budget of £35 million for DHPs in 2013/14, and does not take account of the additional £20 million available on the basis of local authority bids for supplementary size criteria DHP funding.

A further point to note is that it is not clear whether authorities provided data on the basis of commitments, as requested, or instead provided data on the basis of actual spend in the first half of the year. DWP hope to provide more clarity on this point with their next publication of DHP data, which will cover the period to the end of the financial year.

With those caveats, it is notable that size criteria cases accounted for some two-thirds of all DHPs in the first half of the year, while (even including the £20 million bid fund) size criteria budgeted provision was rather less than a third of the overall budgets. In contrast, the proportion of committed expenditure against DWP budgets was far lower for other areas of provision, reaching only some 30% for Local Housing Allowance cases and just 12% for Benefit Cap cases.

It was also notable that overall DHP expenditure levels against budgets were markedly higher in Scotland, where the Scottish Government have acted to provide an additional £20 million to top up the £12.3 million DWP provision. Similarly, the Welsh Government have approved a more modest programme of just over £1 million to assist local authorities with additional DHP funding in 2013/14.²⁰ However, in England it has been left entirely to individual local authorities to decide whether they wish to top up the funding available for DHPs from their own resources.

The Scottish Government have also now published an analysis of DHP expenditure and commitments in Scotland as at the end of December 2013. This found that total DHP awards in Scotland at that point had already reached £18.6 million, well in excess of the total UK government funding (including DWP reserve fund awards for ten Scottish authorities) for the year.

While at a local level the position is clearly subject to marked variations, the broad conclusion at this stage is that total expenditure on size criteria DHPs may over the full year reach or even exceed the level of budgeted DWP provision, even if in practice some part of the total expenditure is covered by the Scottish and Welsh governments rather than DWP funding. In contrast, DHP expenditure on other areas of provision looks set to fall well below full use of the DWP budgeted provisions.

Net initial DWP savings

In terms of evaluating the overall net savings and costs of the size criteria, it would seem appropriate at this stage to consider the full £55 million DWP provision for size criteria DHPs as a likely direct cost. Taking the broad outturn estimate of some £384 million direct savings to DWP from the size criteria, this leaves a net direct first-year saving to DWP of some £330 million in 2013/14. This is £115 million lower than the initial DWP forecast, and £95 million below the revised DWP forecast following the additional £20 million budget provision for DHPs.

Savings are set to be lower in 2014/15 as the numbers of affected tenants continue to decline. At this stage it is difficult to forecast the rate of that decline, or to have a firm basis on which to begin to take account of the

potential costs of affected tenants moving into the more expensive private rented sector.

Another factor is that the government have, following the 2013 Autumn Statement, made a commitment to provide £60 million for size criteria DHPs in 2014/15 and 2015/16.²¹

The direct savings to DWP as a result of the size criteria are one dimension of the overall costs and savings associated with the policy. Indirect savings or costs to DWP arising from landlord and tenant responses to the size criteria, and costs to local authorities, social landlords and their tenants, are considered in Sections 4 and 5.

Appeals against size criteria determinations

There have been a number of First Tier Tribunal (FTT) appeals against size criteria decisions, where tribunals have found that some rooms are too small to be considered bedrooms.²² Such FTT decisions have frequently made reference to the space standards embedded in the 1935 statutory overcrowding criteria (see Section 2).

As well as holding that some rooms are not of sufficient size to be considered bedrooms, in other cases, FTT decisions have held that rooms that have not customarily been used as bedrooms (for example, where they have been used to store disability-related equipment), should also not be considered bedrooms. In other cases, tribunals have upheld appeals against size criteria decisions on the grounds that the household's circumstances militate against a bedroom being shared, or that bedrooms are required for children who are resident with a divorced or separated parent for only part of the time.

While continuing to steer clear of setting a minimum bedroom size in a September 2013 bulletin, following an FTT case where the judge held that a room could not be considered a bedroom on the grounds that it did not meet the minimum size criteria under the statutory overcrowding provisions (see Section 2), DWP have in effect issued a rider to their initial guidance:

*'In determining whether or not a room is a bedroom the landlord may consider a number of factors, but one of those must be whether or not a room is large enough to accommodate at least a single bed. Where this is not the case, the landlord should reassess whether or not that room should be classified as a bedroom and ensure that the rent correctly reflects the size of the property.'*²³

4 IMPACTS AND RESPONSES TO THE SIZE CRITERIA POLICY

Summary

Caution is required in assessing the impacts of the size-criteria deductions as mediated by tenants and social landlords. The size criteria policy is only one component of wider welfare reforms in a changing economic context, and household circumstances are in any event fluid rather than fixed.

Staying put

The overwhelming majority of tenants do not agree that they have more accommodation than they need, and want to stay put. In the first six months, just 6% of the initially affected households had moved. A further 6% of affected households have since been lifted from the impact of the benefit reductions due to a change in circumstances, including 1% who increased their income from employment. A small proportion ceased to be affected either as a result of taking in a lodger, or having a non-dependent member join the household.

Paying the rent

The evidence on rent arrears broadly suggests that about half of the affected households have rent arrears based on the impact of the size-criteria deductions. While some of these households had previous arrears, the majority had arrears solely attributable to the income reductions associated with the size criteria, despite some making payments to partially cover the costs of those deductions.

In the first six months, very few cases had led to landlord evictions, but these look set to grow as arrears levels mount over time. There are questions both as to how affected tenants paying the rent can continue to do so over time, and evidence of considerable hardship as their rent payments reduce the available income needed to meet essential living costs.

Discretionary Housing Payments

The DWP budgetary provision for Discretionary Housing Payments of £55 million would be sufficient to cover some one in seven size criteria cases. In most areas, those budgets will be heavily used. There are problems with local variations in implementation, income assessments that restrict eligibility based on Disability Living Allowance (DLA), and the short-term and discretionary nature of the DHP awards.

Moving

Just 6% of those initially affected in April had moved, putting themselves beyond the size-criteria deductions, some six months on from the policy's inception. Of those, the overwhelming majority moved into smaller accommodation in the social rented sector, but one in ten moved into the (typically more costly) private rented sector.

Levels of mutual exchanges have increased and landlords have been active in supporting both transfers and mutual exchanges. Some have offered financial support for 'downsizing' transfers, and a substantial majority now prioritise downsizing transfers in their allocations policies. However, only just over one in five of the remaining affected households have registered a request for a downsizing move.

In many areas, the availability of smaller social sector dwellings for downsizing moves is severely constrained. Bedsit and one-bedroom dwellings comprise just 27% of the total general needs social sector stock. In London they comprise a third of that stock, but the proportion is far lower in other areas – Wales (17.6%), North East England (21.8%) and North West England (23.6%).

Too many factors are at play in an evolving situation to permit a robust estimate of how long it might take to accommodate all those affected tenants seeking a move to a smaller social sector dwelling. But even allowing for increased levels of mutual exchanges, and allocation policies prioritising downsizing transfers, it will clearly take years rather than months to satisfy the demand for such moves, and far longer where the stock of smaller social sector dwellings is limited.

Only a very small minority of affected tenants have opted to move into the private rented sector. These numbers may well increase over time, both as a result of frustrations in securing a suitable transfer or exchange and potentially as financial pressures on tenants grow, particularly in respect of social landlord evictions.

There is insufficient evidence to clearly identify either the proportion of tenant actions that can be appropriately attributed to the size criteria policy, or the extent to which those actions have led to further net costs or savings in DWP benefit costs. In any event, any further net costs or savings to DWP will be small, and will not change the conclusion that the savings to DWP from the size criteria will be considerably lower than forecast

Neither landlords nor tenants are entirely passive recipients of the impacts of the size criteria policy. These impacts have been mediated and influenced by their own decisions and actions, as well as those of local authorities in their operation of the provisions for DHPs. This section of the report examines the key dimensions of those impacts and responses by all the key actors.

We begin by examining the position for the proportion of affected tenants that have remained in their existing accommodation, looking at how they have responded to the size criteria policy, and the extent to which they

have been able to continue to pay their rent. We then examine experiences with DHPs, which have been an important factor in enabling a proportion of the affected households to 'stay and pay'. This section concludes with an examination of the position both for those tenants who have moved in response to the size criteria, and those who have indicated a desire to move, but had not yet been able to do so. Throughout, we draw on a wide range of official and other published reports dealing, as well as the sample survey undertaken directly as a part of this project.

Two general cautions are required in examining household actions following the introduction of the size criteria. The first is that the size criteria did not occur in isolation, but alongside other changes in welfare benefits. The second is that households' circumstances are in any event fluid rather than fixed, and a measure of social and economic change over even relatively short periods of time is normal. Taken together, these factors suggest that considerable caution is required before presuming that changes in the circumstances of affected households can be wholly interpreted as responses to the size criteria policy alone.

Staying put

In the short term, the overwhelming majority of affected tenants have stayed put, predominantly as a matter of preference, but in some cases due to constraints on the availability of suitable alternative accommodation.

The administrative data in Table 4 (above) shows an 11% reduction in the numbers affected by the size criteria between mid-May and mid-November. However, that reduction is a net result of some households moving out of the scope of the size criteria during the period, while other households, either as a result of new allocations or changing household circumstances, moved into the scope of the size criteria during the period.

The largest independent survey that covers the period up to the end of September 2013 was undertaken by Ipsos MORI for the National Housing Federation.²⁴ This survey covered about a quarter of all housing associations in England, but because this included most of the larger housing associations, accounted for about two-thirds of the sector's stock.

The survey examines changes over roughly the same length of time as the administrative data in Table 4, but for a period starting some six weeks earlier. From that survey, the authors found a similar reduction (10%) in the numbers of claimants affected by the size criteria. They also found that this net reduction in numbers involved 12% of the initially affected households ceasing to be affected some six months later, while some 3% of the smaller number of tenants affected by the policy at the time of their survey had not fallen within the scope of the policy when it was introduced in April.

Taking into account the newly affected households, this in turn suggests that some 88% of the claimants affected by the size criteria when they were first introduced had not moved, experienced changes of household circumstances, or taken any other action to remove themselves from the impact of the size criteria reductions. The survey also found that for roughly half of those that ceased to be affected, this was the result of a move, predominantly to a smaller social sector dwelling. This leaves some 94% of the initially affected tenants staying put in the face of the size criteria reductions six months after their introduction.

Some 15% of those that stayed put but ceased to be affected by the size criteria had increased their income through employment. However, these households represented just 1% of all the tenants initially affected by the

limits, and this occurred over a period when overall employment in the UK also rose by 1%, and claimant unemployment fell by 12%.²⁵ Perhaps more importantly, a pattern of cycling in and out of periods of typically insecure and low-paid work is an established dynamic among a proportion of social sector tenants.²⁶ Particular caution is therefore required before attributing the increased work activity of these households to the influence of the size criteria policy.

It has also been suggested that affected tenants could mitigate the impact of the size criteria by taking in a lodger. However, the Ipsos MORI survey found that this had applied to just 2% of those that ceased to be affected by the limits (or 0.25% of all those initially affected).

There is, however, a suggestion that the size criteria may have led to an increase in the numbers of non-dependants living in the homes of those households it affected. While this should be seen in the wider context of a rising proportion of single adults continuing to live with their parents (or returning to live with their parents),²⁷ there has nevertheless been a marked increase in the numbers of households in the social rented sector in receipt of Housing Benefit with non-dependent household members.

Between March and November 2013, the numbers of households with non-dependants in receipt of Housing Benefit in the social rented sector rose by just over 13,000 (3%), while numbers in the private rented sector rose at the slower rate of 1.8%.²⁸

While other factors may of course be involved, the higher rate of increase in the numbers of households in the social rented sector with non-dependent members could be linked to the impact of the size criteria. Even allowing that a proportion of the households with non-dependants will involve pension-age households exempt from the size criteria, this rise is likely to have been a more significant factor than lodgers in removing households from the scope of the size criteria.

The desire to stay put by affected households reflects in part the mismatch between contemporary households' views on adequate space standards, and the very limited bedroom standard on which the size criteria are based. As seen in Section 1, survey evidence as far back as 1990 showed that 93% of social sector tenants with one bedroom over the standard did not agree that they had more space than they required. Households where grown children have left the family home (at least for the time being) may also understandably wish to remain in their 'family home'. And as was noted above, when the bedroom standard was first conceived, it made no provision for households' changing circumstances, such as a growing family, or – increasingly significant in more recent years – the possibility of grown children returning to the family home following a change in circumstances.

As well as the broader social views on adequate space standards, there are also particular issues around dwellings with very small rooms, or bedrooms that are big enough for one child but not for two children. These issues are considered further in Section 5.

As well as the small proportion of households that did remove themselves from the impact of the size criteria by moving, a larger – but still modest – proportion of affected households clearly wished to move, but had not been able to do so during the first six months' operation of the new policy. These are discussed further below.

Paying the rent

However, whether affected households have remained in their existing homes out of choice, or because they have not been able to secure a move to smaller accommodation, there are then issues about how they have fared in terms of paying their rent and in making good the impact of the size criteria deductions on their household budgets.

The Ipsos MORI survey found that of those tenants staying put and still subject to the size criteria deductions, about two-thirds were in arrears at the time of the survey. The majority of these tenants were already in arrears before the size criteria were introduced, and a proportion had not increased their arrears in the period following their introduction. If those are excluded, this leaves just under 30% of affected tenants newly falling into arrears, and just over 20% of affected tenants seeing existing arrears increase following the introduction of the size criteria. In round terms, it might be said that around half of all tenants are to some degree in arrears as a result of the introduction of size criteria.

This follows an earlier National Housing Federation (NHF) survey of 51 member associations which showed that, at the end of June 2013, about a half of affected tenants were in rent arrears, of which in turn a half were in arrears for the first time.²⁹ Our own survey found a slightly lower proportion paying their rent in full (44%), while a further 45% were paying something towards covering the deduction imposed by the size criteria, and just 11% were not making any payment in respect of the shortfall. In contrast with the NHF survey, however, our survey found a higher proportion of affected tenants in arrears in September having had no arrears before the introduction of size criteria.

These findings broadly correspond with a number of surveys by other organisations. An early survey of local authorities by False Economy found that after just four months of the policy's operation, an average of 31% of affected tenants had fallen into arrears.³⁰ A similarly early survey of local authorities (including those with arms' length management organisations, or ALMOs) found that by the end of June, 62% of all affected tenants were in arrears, compared with 35% at the end of March before the size criteria policy was introduced.³¹ This implies a minimum of 38% of affected tenants paying their rents in full. The total percentage figure paying their rents in full from April would, however, be higher as this does not include the proportion of those previously in arrears but whose arrears did not increase following the introduction of the limits. While this particular point was not covered by this early local authority survey, its findings otherwise closely correspond with the results of the Ipsos MORI survey.

More recently, a fairly comprehensive survey of the impact of the size criteria on rent arrears for social landlords in Scotland has been published by the Scottish Housing Regulator.³² This provides an estimate of nearly £3.5 million arrears arising directly from the size criteria policy at the end of September 2013, based on data from 113 social landlords, which accounts for 63% of all social housing tenancies in Scotland.

If those landlords are representative, this would suggest almost £5.5 million in arrears for all social landlords in Scotland. Taking the average of the August and November DWP outturn figures on the numbers and level of size-criteria deductions in Scotland, this would equate to an average level of arrears per affected tenant of £74, or roughly a quarter of the total level of the deductions. The Scottish Regulator's report does not, however, provide any data on the extent to which those arrears arose from affected tenants making rent payments to cover some or none of the size-criteria deductions.

It should, however, be noted that two factors will have helped to contain levels of size criteria rent arrears in Scotland. The first is the Scottish Government's decision to provide local councils with an additional £20 million for their DHP budgets. The second, which also applies in Wales, is the continuation of the council tax rebate scheme, without the budget cuts and scheme variations that have been introduced in England. This removes one factor from the wider welfare squeeze as households manage their response to the size criteria policy.

After six months of operation, the consequences of size criteria arrears levels are only exceptionally leading to landlord evictions, although they may well be a contributory factor for households that were already in arrears before the limits led to a further deterioration in their arrears levels.

However, this will clearly be a far more significant factor going forward as size criteria arrears continue to mount. In our survey, of those few landlords able to provide the information, court orders for possession had been sought against just 4% of those not fully covering the size-criteria deductions. An assessment of the impact of the limits on eviction levels and the subsequent knock-on effects for not just the households concerned, but also for social landlords, local authorities and DWP, will only begin to be possible after at least a full year of the policy's operation.

If the portents from the administrative data, which show a substantial rise in the levels of social landlord possession actions in England and Wales in the last two quarters of the 2013 calendar year, are not encouraging,³³ there is insufficient evidence at this stage to suggest that size criteria cases are a significant factor in that rise.

Similarly, there are questions about the extent to which affected tenants will continue to be able to 'pay and stay' over a longer period. In part this relates to the continuing availability of DHPs (see below), but more widely will depend on the extent to which affected tenants who have so far managed to avoid falling into rent arrears are able to continue to do so. The potential for households to accommodate the size-criteria deductions by drawing on savings, receiving financial support from other family members, borrowing from other sources or selling meagre assets, are all likely to diminish over time, as is the capacity for households to endure the hardships resulting from their reduced incomes.

All these issues are highlighted in a survey of tenants undertaken as part of a wider JRF project on the impacts of welfare reform, within which the size criteria policy impacted on just over one in five of the tenants interviewed.³⁴

Discretionary Housing Payments

One of the factors enabling a proportion of affected tenants to stay put and pay their rent in spite of any deductions is the availability of DHPs. However, not all of the allocated funds for DHPs have gone to tenants without rent arrears arising from the size criteria, as authorities responding to our survey have indicated that it initially took a while for applications to build up, and in many cases it was only as tenants ran into financial difficulties that they made an application for a DHP.

It is also clear from the seven authorities in our sample DHP survey that over half of DHP awards were granted on an explicitly temporary basis, primarily in order to give the tenants concerned time to seek alternative accommodation. A third of the explicitly temporary DHPs given by one authority were to cover other short-term circumstances, where within a short period either a new child was expected, an existing child would have a birthday which would increase the family's bedroom entitlement, or a birthday would

take the tenant to pensionable age, putting them beyond the scope of the size criteria policy.

Even where not explicitly provided to cover transitional circumstances, DHPs are all provided for a fixed period, as local authorities need to manage their DHP budgets which are set annually. It was only in January 2014 that authorities were advised of the levels of government funding to be made available for DHPs in 2014/15. Overall provision will be £165 million, of which £60 million has been distributed on the basis of the estimated impact of size criteria cases, with some enhancement for the most sparsely populated areas.

DHPs are clearly only intended to cover, or contribute to, the costs of size-criteria deductions in a minority of cases. For example, given that the average cost of supporting a single size criteria case over a full year would be some £750, then this year's DWP total funding of £55 million for size criteria cases would support just over 73,000 households – or about one in seven of the number of affected tenants midway through the policy's first year.

Our sample survey found that of those DHP awards not given on an explicitly temporary basis, just over two-fifths were identified as being related to households with persons with disabilities, including just over a third being awarded to households where their current dwelling had been specifically adapted to meet their needs. Other cases included provision for cases where health factors meant that it was considered inappropriate for either couples or a child to share a bedroom, for visiting children, and where a bedroom was too small to be appropriate for sharing.

Independent surveys have also raised a number of issues about the operation of DHPs. A general theme is the lack of certainty arising from reliance on short-term, discretionary sources of income. Marked variations in practice and in the use of DHP budgets, for example between one local authority area and another, are also a source of uncertainty. DWP half-year data, for example, showed that while on average authorities in the UK had committed 40% of the DWP DHP budgets by that time, 10% of authorities had committed less than half that.³⁵

Particular concerns have been raised about the impact of the size criteria on households with a disabled family member. As seen above, the DWP impact assessments estimated that just over three-fifths of all those expected to be impacted by the size criteria were households where either the claimant or their partner had a disability, before taking account of those households with a disabled child.³⁶

While DWP guidance makes it clear that assistance to households with a disabled family member, and in particular those living in significantly adapted dwellings, should be a priority for DHPs, there is some evidence to suggest that support is not always reaching all the households for which it was intended.

The Papworth Trust found that altogether one in three disabled people were being refused a DHP, and that a half of those living in adapted properties were being refused a DHP. The refusals were primarily on the grounds of the household's income, and that they did not meet the 'hardship' test for DHPs. The Papworth Trust relates this largely to the inclusion of income from Disability Living Allowance (DLA) in the income assessment for DHPs.³⁷

While local authorities have a measure of discretion in the operation of DHPs, the guidance does require them to consider whether properties are 'significantly adapted', and also to consider whether the households are experiencing hardship. While local authorities have been advised that they may decide to disregard income from disability-related benefits such as DLA, this still leaves the ultimate decision on this point with local authorities in a context where most of them are under pressure to manage demand for DHPs against the limited budgets.

The requirements of households with a disabled member have been raised in a number of appeals against size-criteria deductions, both on the grounds that the disability involved makes it inappropriate for the disabled household

member(s) to share a bedroom, or that a room required for disability equipment should not be considered a bedroom.³⁸

The Papworth Trust argues for the exclusion of all adapted properties from the size criteria regulations, and for stronger advice to local authorities in respect of disregarding income from DLAs in the assessment for DHP awards. These and other options for reform are discussed in the Section 6.

Moving

There is clearer evidence on the extent to which tenants have responded to the size criteria reductions either by moving to smaller accommodation, or attempting to move to smaller accommodation. These downsizing moves may be achieved by mutual exchanges or transfers within the social housing sector, which is highly dependent on the supply of suitable-sized dwellings, or by moving to the (typically more expensive) private sector.

A large survey of housing associations undertaken by Ipsos MORI for NHF³⁹ found that 6% of tenants initially affected in April 2013 had moved to smaller accommodation by the time the survey was undertaken in October (and early November). While social landlords did begin to prepare for the size criteria deductions and engage with affected tenants ahead of April 2013, data for England in 2012/13 showed only a small increase in the numbers of lettings made to previously under-occupying households.⁴⁰

Those moving in the first half of 2013/14 accounted for half of all those that ceased to be affected by the size-criteria deductions at the end of the period. While the overwhelming majority of those moves were into smaller dwellings in the social rented sector, one in ten of were into the typically more expensive private rented sector.

Our own sample survey found a sharp rise (30%) in the numbers of transfers and mutual exchanges made in the six months from April 2013, compared with the rate during the previous financial year. Within that, the most significant rise related to mutual exchanges. While in the previous year they were running at about three-fifths the level of transfers, in the six months from April 2013, mutual exchanges ran at virtually the same level as transfers.

Our survey also found an increase in the proportion of transfers and mutual exchanges involving a tenant moving to a smaller dwelling. Although downsizing moves were identified as a factor in only one in four of all transfers and mutual exchanges, caution is required as not all the landlords in our survey were able to separately identify downsizing moves, and this finding is based on the smaller number of landlords able to provide this information.

Nonetheless, it is not an entirely surprising finding, given that bedsit or one-bedroom dwellings comprise barely more than a quarter of the general needs social rented stock in Great Britain (Table 5). This is slightly lower than the overall proportion of one-bedroom dwellings in the social rented sector shown by 2011 Census data for England and Wales (30%), but that figure includes supported housing reserved for elderly households, and other households with special needs. However, it is also a little higher than the proportion (23.5%) among the landlords in our own sample survey.

Table 5 Size distribution of general needs social rented dwellings⁴¹

Region	Bedsits	One bedroom	Two bedrooms	Three bedrooms	Four(+) bedrooms	All sizes
London	4.1	29.3	36.0	25.5	4.9	100.0
South East	2.6	24.6	34.6	23.0	15.2	100.0
South West	1.4	21.9	38.0	35.7	2.9	100.0
East Midlands	1.5	23.9	33.4	37.2	4.0	100.0
East of England	2.4	22.9	34.2	37.6	2.9	100.0
West Midlands	1.3	24.1	33.8	37.9	2.8	100.0
Yorkshire & Humberside	0.9	26.9	35.7	33.7	2.7	100.0
North East	0.8	21.0	38.3	35.7	4.1	100.0
North West	0.8	22.8	33.6	39.5	3.3	100.0
England	2.0	24.8	35.2	34.5	3.5	100.0
Scotland	1.9	26.2	45.3	23.3	3.2	100.0
Wales	0.6	17.0	34.6	45.3	2.5	100.0
Great Britain	1.9	24.7	36.5	33.5	3.4	100.0

Note: Percentages do not always add to 100.0 due to rounding.

Table 5 also shows the significant variations in the size distribution of dwellings between Scotland, Wales and the regions of England. In London, bedsit and one-bedroom dwellings comprise a third of the total general needs social sector stock. Everywhere else, the proportion is less than 30%, and the proportion is particularly low in Wales (17.6%), the North East (21.8%), the South West (23.3%) and the North West (23.6%).

Lettings of smaller dwellings as a proportion of total lettings are, however, slightly more than pro rata to stock distribution. CORE data for 2012/13 shows that there were some 89,000 lettings of one-bedroom dwellings, and that they comprised 38% of all lettings of general needs stock in England in the year.⁴² Within that, 'transfers' (ie lettings to existing social sector tenants) of one-bedroom dwellings ran at just 27,000, or 30% of all one-bedroom lettings in the year. Only a minority of those transfers were for existing tenants downsizing from larger accommodation. Altogether, total downsizing allocations made during the year by households moving from accommodation they considered to be too large were just over 7,700.⁴³ This was, however, some 2,600 more than in the previous year.

Provisional figures for the first three-quarters of 2013/14 do not show any increase in the proportions of one-bedroom lettings, or in the proportions being allocated to existing social sector tenants. That said, if the increase in mutual exchanges is sustained, the potential for downsizing moves will still be rather higher than suggested by previous years' lettings figures, which do not include mutual exchanges.

The rise in levels of mutual exchanges was a result of both landlord and tenant responses to the impact of the size criteria policy. If ultimately such exchanges are based on voluntary moves by tenants' households, it is clear that social landlords have also acted (in varying degrees) to encourage tenants to look at the options available through mutual exchanges, and to

provide practical assistance to enable them to do so. One of the Southern-based housing associations in our survey actively supports an online mutual exchange service (House Exchange), and this has reported both a substantial increase in the numbers of tenants seeking a mutual exchange, and within that an increase in enquiries from tenants seeking a move to smaller accommodation.

One of our local authority respondents in Northern England also uses the House Exchange scheme and held an open day matching event in October to which all tenants affected by the size criteria were invited. Most of the landlords we surveyed reported some form of activity to support tenants seeking exchanges, including grants to assist with the costs of moving home. Some had also revised their allocations policies to give a higher priority to tenants seeking a move to smaller dwellings, and also relaxed in those cases restrictions on households with rent arrears receiving a transfer offer. The Ipsos MORI survey found that almost half of all responding landlords had increased the priority in their allocations policy for tenants seeking to move to a smaller dwelling.

A number of independent reports have stressed that, particularly in some parts of Great Britain, the demand for transfers to smaller accommodation far outstrips the available supply. In addition to those that had moved, our sample survey found that of those still affected by the size criteria in September 2013, just 18% had registered for a transfer to a smaller dwelling. The larger Ipsos MORI survey had a similar finding, with 22% of affected households registered for a transfer to a smaller dwelling.

In broad terms this suggests that at the end of September 2013, over 100,000 affected tenants were still seeking a move to a smaller dwelling, including some 87,000 people in England alone. As seen above, this contrasts with just 27,000 lettings of one-bedroom dwellings to transferring tenants in 2012/13, and just some 7,700 allocations to households downsizing from accommodation they considered too large.

While these figures are indicative of substantial and widespread constraints in meeting downsizing transfer requests, they cannot provide the basis for a precise calculation of how long it would take for lettings to satisfy all the requirements for downsizing moves. On the one hand, account needs to be taken of the increasingly important impact of mutual exchanges and the potential for changed priorities to see an increase in the proportion of smaller lettings made to transfer applicants, even if this is not yet apparent in the CORE data. On the other hand, the demand for transfers could well increase as affected tenants find it more difficult over time to 'stay and pay'.

It is, however, clear that the current mismatch between the demand and supply for transfers to smaller dwellings is substantial, and that it will be years rather than months before all the tenants affected by the size-criteria deductions who are seeking transfer to a smaller dwelling can be suitably rehoused. The extent of the mismatch varies greatly both between localities and regions, and the time required to deal with transfer requests to smaller dwellings will be far greater in those areas with the most acute mismatch.

Tenants also have the option of moving into suitable accommodation in the private rented sector, but so far this option has so far been exercised only by a very small minority of affected tenants. Numbers may well increase over time, both as a result of frustration in securing a transfer or exchange to a smaller social sector dwelling, and also potentially as financial pressures on tenants grow as a result of an increase in levels of arrears and social landlord evictions.

The potential for moves into the private rented sector will also vary depending on the characteristics of the sector in different areas. There is also a possible policy interaction in low-demand areas where private landlords might be more likely to reduce rents in response to downward pressures on Local Housing Allowance levels.

The issues arising from the short- and medium-term shortages in the availability of lettings to meet the demand from affected tenants seeking to downsize are discussed further in the concluding section of this report.

Impacts of tenant actions on DWP costs

As seen above, tenant circumstances are in any event fluid rather than fixed, and the size criteria reductions were introduced at a time of falling claimant unemployment, and other changes to the welfare system. Caution is therefore required before attributing all of the actions by affected tenants solely to the impact of the size criteria.

At the same time it is highly likely that at least some of the actions of tenants, and in particular the *increase* in levels of mutual exchanges, and any *increase* in the numbers of downsizing transfers, can be considered to be responses to the size criteria. The net impacts of those additional transfers and exchanges depends on the use then made of the consequential vacancies of larger dwellings. Where these dwellings are let to overcrowded or homeless families, that represents a gain in terms of more efficient use of the housing stock. However, if those lettings are to families in receipt of Housing Benefit, there is no net financial gain to DWP.

Conversely where, in areas of low demand, lettings of larger dwellings are made to single people or childless couples not in receipt of Housing Benefit, there will be a net financial gain to DWP, but without any improvement in the efficient use of the housing stock.

There is insufficient evidence at this stage to assess the proportions of the additional exchanges and transfers that will have provided further net benefit savings to DWP. Moreover, against any such savings must be set any increased costs arising from tenant moves into the private rented sector. In any event the net further costs or savings to DWP attributable to tenant actions will be small, and will not change the conclusion that the savings to DWP from the size criteria will be considerably lower than forecast.

5 LANDLORD ACTIONS AND FINANCIAL IMPACTS

Summary

Social landlords have actively responded to the introduction of the size criteria policy by providing more support for tenants seeking transfers or mutual exchanges, and providing welfare and financial advice to tenants.

Landlords have taken short-term, small-scale actions to adjust the size distribution of their stock. These include reclassifying rooms in some dwellings to reduce the number of bedrooms, and purchasing additional small dwellings. It will take some time before a further rebalancing of landlords' stock portfolios can be achieved through future developments.

Landlords' capacity to balance the supply and demand for smaller and larger dwellings in their stock varied. The majority of landlords we surveyed considered their task of balancing supply and demand had been made more difficult, both in terms of meeting transfer requests for smaller dwellings, and in some areas in letting larger dwellings.

In addition to rent arrears, landlords incurred substantial costs in managing the introduction of the size criteria: increased costs for rent collection and arrears management services, management of transfers and mutual exchanges, and repair and void costs associated with the increased turnover of lettings.

Taken with increased levels of rent arrears, those costs are equivalent to a substantial proportion of the net savings to DWP. However, both the costs to landlords and the savings to DWP will change over time and it is too early to make a definitive assessment of the balance between those costs and savings. Nonetheless the costs to social landlords will clearly have implications for their capacity to finance other activities, including the development of new social housing.

Social landlords have been active in assisting tenants with mutual exchanges, and in many cases have increased their priority and support for tenants seeking to move to smaller accommodation. More generally, many have increased their investment in providing welfare and financial advice to tenants, partly in anticipation of the potential impact of the size criteria policy and other welfare reforms on levels of rent arrears.

Bedroom classifications

Landlords have also been reviewing the match between local housing needs and their stock holdings in the light of the new policy. One dimension of that has been the selective reclassification of the number of bedrooms in a dwelling.

The evidence from the NHF survey, our own survey, and other sources, all confirm that while some reclassification is happening, it is taking place on a very small scale, and very selectively. Most frequently this has involved very small rooms being reclassified as box rooms or studies rather than bedrooms.

That approach may have been reinforced (or even caused in some cases) by a number of First Tier Tribunal (FTT) appeals against size criteria decisions, where tribunals have found that some rooms are too small to be considered bedrooms (see Sections 2 & 3).

Factors other than the size of bedrooms have led to selective reclassifications by some landlords. Leeds Council, for example, took into account the design and layout of its dwellings, reclassifying a total of 848 dwellings.⁴⁴ Factors taken into account were where rooms were accessed through living rooms or other bedrooms rather than hallways, and the distinction between living rooms and bedrooms in some larger dwellings that had previously been classified as having five bedrooms.

One of the landlords in our survey also raised the issue of bedrooms that are too small to be appropriate for sharing. While data on the overall size distribution of bedrooms within the social sector stock is not available, it has been a matter of policy for several decades that new dwellings have been built to different space specifications to meet changing needs. So, for example, two-bedroom dwellings may have been designed as either three- or four-bedroom dwellings, while three-bedroom dwellings may have been designed to be four-, five- or six-bedroom properties. However, as outlined in Section 2 above, these distinctions are not recognised by the size criteria which, based on the bedroom standard, presume that any bedroom can be considered to be available for sharing regardless of its size.

While these bedroom reclassifications will have produced some further net savings to DWP, those savings will be modest given the low numbers involved. Moreover, under the English rent restructuring policy, a reduction of one bedroom in the classification of a dwelling will typically result in a 7% drop in the rent; ie, only about a half of the size criteria benefit reduction of a tenant deemed to have one bedroom too many.

Portfolio management

A number of the landlords in our survey indicated that the introduction of the size criteria will impact on their future development programmes, with a move to developing more smaller dwellings. One also indicated that they would be focusing on increasing their supply of dwellings with double bedrooms. However this will take time before it begins to influence the availability of smaller dwellings for households currently affected by the size criteria.

The NHF survey found that a third of surveyed associations intended to increase the focus of their development programme on smaller dwellings. However, the majority did not have that intention, as the short- to medium-term issues around the introduction of the size criteria did not alter their longer term view of their future stock requirements.

In the short term some landlords have taken actions to more immediately increase their supply of smaller dwellings, most notable Glasgow Housing Association, which purchased several hundred smaller dwellings from the private sector.

A further factor for social landlords' development plans is the impact of the size criteria on their financial position and as a result their capacity to fund future developments. This is discussed further below.

Capacity to balance supply and local needs

The landlords in our survey reported that the size criteria had a mixed impact on their capacity to balance their supply of social housing with local housing needs. While the size criteria clearly prompted greater demand for smaller dwellings and reduced pressure for larger dwellings, for a quarter of the landlords in our sample survey this was broadly manageable.

However, for others the size criteria had made their task in balancing supply and demand far more difficult, both in terms of meeting transfer requests for smaller dwellings and in terms of letting larger dwellings in some areas. For two of our landlords, transfer requests for smaller dwellings were equivalent to more than 50% of their total stock of one-bedroom dwellings.

Particular mention was made of difficulties in letting two-bedroom flats, which in some cases were not considered appropriate for family living, and more generally securing lettings in areas of relatively low demand for social housing. There was also a broader concern about letting larger family dwellings, but as an issue this varied considerably from one area to another.

Within that mixed picture there are particular issues for landlords whose stock is wholly concentrated in areas of low demand and that for historic reasons have a relatively small proportion of smaller dwellings within their housing stock. Merseyside is clearly one such area, but there are many others, particularly in Northern England, Scotland and Wales. In this context several of the landlords in our survey were highly critical of the size criteria policy and thought it should be scrapped.

Other landlords suggested that the policy should have been phased in, that the space standard should permit one bedroom above the current limits, and that there should be greater clarity around excluding households with a disabled member from the scope of the policy. While some landlords felt that they could manage the operation of the policy, none volunteered any positive comments on it.

Costs to social landlords

A number of reports have already highlighted the costs to social landlords in responding to the introduction of the size criteria policy, showing that they go well wide of the immediate impact in terms of levels of rents arrears. Those reports have typically argued that the costs to landlords more than outweigh the savings to DWP arising from the size criteria limits.⁴⁶

There have been increased costs in rent collection and arrears management, welfare advice and support to tenants, management of transfers and exchanges, repair and short-term voids costs associated with increased turnover of lettings, medium-term voids before re-letting low-demand stock, and other related costs. The SFHA argued that those overall costs, together with the additional funding for DHPs provided by the

Scottish Government, would more than outweigh the net savings to DWP from the size criteria policy.

The Ipsos MORI survey report estimated additional landlord costs at some £100,000 per landlord in 2013/14, which grosses up to a figure of some £27 million for the social housing sector in England. While these costs are in addition to the direct costs of rent arrears, the Ipsos MORI survey findings on arrears were inconclusive. It did show overall social sector housing rent arrears to have increased by some 12% in the first half of 2013/14, and grossed up this amounts to some £30 million for the whole sector in England. However this still left arrears lower than in December 2012, and arrears in the first half of the 2013/14 financial year were affected by factors other than the size criteria, including the containing impact of landlords' actions in providing additional welfare and financial management support to tenants.

Landlords in our survey were fairly evenly divided between those that anticipated that arrears will continue to rise, and those that expected them to be contained or reduced over time, either as a result of future downsizing moves or landlords' legal actions. Of the landlords able to provide information on the administrative and other costs arising from the size criteria policy, those expenditures were considerably higher than the direct costs arising from rent arrears. However, while indicative, these results should be treated with caution due to the small number of landlords in our survey able to provide this information.

These costs can be seen against the estimated first-year savings to DWP of some £150 million for the whole social housing sector in England. Even after allowing for DWP costs with DHPs, unless arrears levels rise sharply in the second half of the year, the net savings to DWP are set to exceed these estimated sector costs for England. However even without any significant change in the rate at which rent arrears accumulate in the second half of the year, total sector landlord costs will still represent a very substantial proportion of the savings achieved by DWP.

More generally it should also be recognised that the costs to landlords of the size criteria policy have knock-on effects, in particular in terms of their financial capacity for future investment. It is, however, premature at this stage to try to reach an overall assessment of the financial impacts of the policy solely on the basis of the experience in the first six months of operation.

While some of the savings to DWP, and the costs to landlords, will be transitional over time as more tenants move to smaller accommodation, other costs may increase. In particular there is a potential for net DWP savings to fall in the event of a rise in the numbers of tenants moving into the typically more expensive private rented sector.

This section has set out the costs to landlords resulting from the size criteria policy. Information on the costs to tenants, and the resulting hardships, are detailed in a related report for the JRF.⁴⁶

6 ISSUES AND OPTIONS FOR REFORM

Summary

The reform options considered include:

- making clearer provisions for households with carers and those with shared responsibilities for children; and issuing stronger guidance about the treatment of DLA awards in the income assessments for DHPs
- reforming the DHP regime to encourage longer term awards for households whose circumstances are not transitional
- permitting an additional bedroom for households involving someone with a higher rate DLA
- introducing minimum sizes for single and double bedrooms, based on the statutory overcrowding provisions
- increasing the bedroom standard to one bedroom above the current standard
- requiring offers of suitable alternative accommodation before the size criteria limits are applied.
- A final option would be to abandon the current policy, and to take a fresh look at how to structure the Housing Benefit system for social sector tenants so that it better relates to their housing needs. One long-term option would be to introduce a LHA-style policy regime along similar lines to the regime currently operating for private tenants.

The size criteria policy was introduced as one part of a wide range of welfare reforms aimed at both reducing levels of welfare expenditure, and also in various ways to influence claimant behaviour. While contributing only a relatively small part of the overall savings in welfare expenditure, the size criteria policy also aimed to reduce levels of under-occupation by working-age social sector tenants in receipt of Housing Benefit.

The evidence of the early impacts of the policy outlined in this report has shown that there have been some modest savings to the DWP budget, but that these savings have been less than forecast and are set to decline over time. Against those savings to DWP must be set the high proportion of costs transferred to social landlords, and hardships for tenants affected by the new policy.

There has so far been a very limited response by affected tenants making a move to smaller accommodation, and while in some high-demand areas this has created vacancies for over-crowded and homeless families, in other areas it has led to difficulties in re-letting properties for which there is little demand.

In this context both our and other surveys have indicated a number of problems related to the operation of the size criteria policy and the manner in which it has been introduced. There are particular concerns about the overly rigid application of the size criteria, and in particular the impact on households that reasonably require larger accommodation than specified by the policy, or that are unable to transfer to a smaller dwelling due to lack of supply.

In this concluding section of the report, the possible options for reform are outlined in turn below, beginning with relative modest reforms and moving through to more extensive and radical reforms. Wherever practical, a broad estimate of potential costs to the DWP budget is included against each reform option, but all such reforms will also lead to reduced costs for social landlords, and less distress and hardship for tenants.

Modest detailed reforms

Even if the substance of the current policy continues there are detailed issues where minor amendments would lessen some of its most problematic impacts. These would include making clearer provisions for households with carers and those with shared responsibilities for children, and stronger guidance in respect of the treatment of DLA awards for households with disabilities in the income assessments for DHPs.

If wider reforms are not adopted it should be recognised that there will be a continuing substantial requirement for financial support for DHPs, for those disabled and other households where the bedroom standard as it is currently structured is too restrictive. The government has now gone some way towards making budgetary provisions for DHPs in 2014/15 and 2015/16 in respect of the size criteria. This should also lead to awards being made on a longer term basis for households whose circumstances are not expected to change.

Additional room for households with disabilities

One possible reform to the standard would involve making automatic provision for an additional room for households where a member of the household has a disability. To do this for all households with a recognised disability would involve substantial costs. Based on the DWP assessment that some two-thirds of the households affected by the size criteria have a disabled member, this would suggest an annual cost of some £180 million for a full year, net of savings from a substantial related reduction in the budgeted provision for DHPs.

A more modest reform would be to only make provisions for an additional room for those households involving someone awarded a higher rate DLA. These comprise about a quarter of all DLA recipients, and if this is applied pro rata to tenants in the social rented sector, would involve direct costs to DWP of some £45 million, but again with the potential for a substantial reduction in provision for DHPs. Taken together, the net costs of such a reform could be quite modest.

Space standards for bedrooms

A further reform option would be to require more explicit space standards for bedroom sizes, both in terms of rooms large enough to be considered a bedroom, and for bedrooms large enough to be considered available for two children to share. The costs of this are difficult to estimate. Overall, families with children were estimated in the DWP impact assessment to constitute a third of those that would be subject to the size criteria, but of those about a half were either families with a single dependent child, or were assessed to have more bedrooms than required without any assumption about children sharing a bedroom.

This leaves some one in six of affected families where the size criteria are being applied on an assumption that one or more bedrooms can be shared. However we do not have any data on the distribution of bedroom sizes within the social sector stock with which to make an assessment of the extent to which inappropriate assumptions are being made about the availability of small single bedrooms for shared use. If, for example, that inappropriate assumption applied to around half of all the cases concerned, then introducing minimum size criteria for single and double bedrooms would cost DWP some £40 million over a year, based on the November 2013 outturn figures.

The obvious space standards for bedrooms to apply in this context would be those of the 1935 statutory overcrowding criteria, as have already been applied in the context of appeals to First Tier Tribunals.

The bedroom standard

A broader reform would be to rebase the policy on 'the bedroom standard plus one'. Not only would this be simple to operate, it would remove many of the controversies around the application of the policy, to both disabled and other households, and would very significantly reduce any requirements for DHPs. This policy would also be more in touch with contemporary social expectations and norms, and would reduce the requirement for transfers to smaller dwellings to far more manageable proportions.

It would also, however, have a clear direct Housing Benefit cost for DWP. Taking the November 2013 figures as a base, this would involve an annual cost of just under £270 million for a full year, albeit that by the time any such reform could be implemented the costs would be considerably lower. There would also be additional costs if a reduction in the level of deductions was applied to those households currently occupying two rooms above the current standard. Against that, DWP should be able to very significantly reduce its expenditure from the current £60 million planned for 2014/15.

Such a policy would raise questions about the application of the size criteria in setting LHA entitlements for households in the private rented sector. If a similar change were made to the size criteria for private tenants' LHA rates, the costs to DWP would be greater still.

Offers of alternative accommodation

A further issue is the evident limited availability of smaller dwellings that would enable affected households to downsize, a problem that is particularly acute in some localities, regions and countries of Great Britain. One reform, suggested in many quarters, would be that the size criteria should only apply once a household has been made an offer of suitable alternative accommodation.

The costs of such a reform would initially be substantial, but would clearly reduce over time as affected tenants were offered alternative accommodation, and either moved or declined to move. It is difficult, however, to prejudge the extent to which tenants would accept or decline offers of a move, although the current limited demand for transfers from affected tenants suggests that only a minority might accept an offer and that this would lead to a more rapid reduction in DWP Housing Benefit costs over time.

A possible limitation of this policy is that it would not provide any direct incentive on landlords to offer alternative accommodation outside those areas where it would assist them in meeting a high level of demand from families for larger accommodation. It would, however, be possible to provide regulatory and/or financial incentives to encourage landlords to offer alternative accommodation, and to assist with rebalancing the size distribution of their stock.

A fresh start?

A final option would be to abandon the current policy in the light of the evidence of the widespread difficulties for landlords and tenants that have been the result, and to take a fresh look at how to structure the Housing Benefit system so that it better relates to households' housing needs.

This would clearly involve a complete loss of the size criteria savings to DWP. And while there would be corresponding savings to landlords and tenants, there would also be a loss of family-size lettings to overcrowded and homeless households in areas of high demand.

But whether the current policy is reformed or abandoned in the short term, in the longer term there is a case for considering a move towards a Local Housing Allowance style regime, like that currently operating in the private rented sector.

While this raises all the issues discussed above about the specification of the bedroom standard, it has significant advantages over the current size criteria regime. In particular, it would allow social landlords to adapt their rents in response to changing patterns of demand. Currently they can reclassify the size of their stock, but there is no purpose in reducing the rents as this then simply becomes the new level from which the size criteria are applied.

Indeed, when rent restructuring for social sector rents in England was introduced at the beginning of the millennium, it was envisaged that once a more coherent rent structure had been achieved, then a switch to an LHA-style Housing Benefit regime would be possible, and policies to directly regulate social sector rents would then no longer be required.

This is not, however, a short-term option. In England, social sector rents are now diverging between social and 'affordable' rents; in Wales a rent policy to achieve the gradual convergence of rents between (and within) the local authority and housing association sectors has only just been introduced, while Scotland has no consistent policy for rents in the local authority and housing association sectors.

The options for both modest and more radical reforms presented here all aim to lessen some of the more problematic impacts of the size criteria policy. While decisions as to which reforms to adopt can be informed by this evaluation of the impacts of the current policy, ultimately they will also reflect policy choices in terms of political orientation and wider social and economic objectives, as well as narrower concerns about the direct implications for DWP benefit expenditure.

NOTES

- 1 The regulations deduct 14% for one additional extra bedroom and 25% for two or more additional bedrooms.
- 2 The policy does not yet apply in Northern Ireland, which has the power to make its own welfare benefit policies, albeit that it generally follows DWP policies for the UK. However, the financial support it receives is based on DWP policies, with the Northern Ireland Government having to meet the costs of any deviations from DWP policy. See Fitzpatrick, S, Pawson, H, Bramley, G, Wilcox, S & Watts, B (forthcoming), *The homeless monitor: Northern Ireland 2013*, London: Crisis.
- 3 This report uses the neutral term 'Housing Benefit size criteria' (abbreviated to 'size criteria'), but this policy is also referred to variously as the 'removal of the spare room subsidy', 'bedroom tax' or 'under-occupancy charge', depending on the perspective of the speaker.
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- 17 However, claimants who moved into smaller accommodation in the social rented sector after April 2013 are unlikely to be floated off Housing Benefit as a result, as this could only occur if the difference in the rent levels between their new and former dwelling was greater than the level of the size criteria reductions.
 - 18 DWP (2014), *DWP Quarterly Statistical Summary, February 2014*, London: Department for Work and Pensions. However, part of the reduction in working-age claimants over the period can also be attributed to an increase in sanctions applied to Jobseekers' Allowance (JSA) and Employment Support Allowance (ESA) claimants. Department for Work and Pensions (2014), *Job Seekers Allowance and Employment and Support Allowance: Decisions made to September 2013*, London: Department for Work and Pensions.
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