

<b>TITLE OF REPORT:</b>	<b>Reclassification of residential Council property descriptions</b>
<b>REPORT OF:</b>	<b>David Bunce, Strategic Director, Community Based Services</b>

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### **Purpose of the Report**

1. This report seeks approval, subject to consultation to reclassify two-bedroom flats at Redheugh Court and Eslington Court, Teams as one-bedroom flats at a lower rent, in order to address a decline in demand and an increase in numbers of vacant flats, and as part of an overall marketing initiative to increase demand generally in the two blocks.

### **Proposal**

2. It is proposed that 164 x two bedroom flats within the blocks of Redheugh and Eslington Courts are reclassified as "large one bedroom flats with flexible living space". No physical alterations are proposed, and the additional room could be used as a study or dining room.
3. The change will enable the Council to tackle current sustainability issues brought about by a lack of demand for two bedroom flats and ensure the continued viability of the future of these multi-storey blocks.
4. The resulting one bedroom flats will also increase housing options for current tenants needing to "downsize" to a smaller home.
5. The Department for Communities and Local Government (DCLG) has confirmed that property reclassification is acceptable as a response to a wider sustainability review.
6. A sustainability review of multi-storey blocks of flats showed that Redheugh and Eslington Courts are a priority for reclassification.
7. Any improvement in the sustainability within these two blocks as result of reclassification would be used to inform future plans for change within other multi-storey provision across the borough.
8. The proposed rent would be slightly higher than for the standard one-bedroom flats, using the formula for rent calculation and reflecting the additional floor space and property valuation:

2014/15 weekly basic rent, over 52 weeks (excluding service charges)		
If no action taken to reclassify	Standard one bedroom flat: £63.37	Standard two bedroom flat: £69.68
After reclassification	Standard one bedroom flat: £63.37	One bedroom flat with flexible living space: £64.64

9. The weekly reduction in basic rent would be £5.04.
10. Based on 100% occupation of the 164 two bedroom flats, the loss in annual rental income to the Housing Revenue Account (HRA) would be £42,981. However due to the void levels this notional rental income is unlikely to be achieved as flats are vacant and generating no income. Currently the cost of lost rental income for the 37 void two bed flats at basic rent in 2014-15 is £134,064 per annum, and with compulsory service charges included, this figure rises to £172,679.
11. Vacant properties also mean a loss of income through uncollected council tax. These properties are currently in Band A, the charge being £1,068.64 for the 14/15 financial year. In addition after a period of one month the HRA via The Gateshead Housing Company is responsible for paying the council tax on vacant properties and in the unlikely event of a property being empty for two years, the charge increases to 150%. The council tax charge will not be affected by the reclassification of the property.
12. Consultation with the existing tenants of the two-bedroomed flats would need to take place first. A draft letter to tenants is included at appendix 2.
13. It is not proposed to amend service charges as part of this reclassification.

### Recommendations

14. It is recommended that Cabinet:
  - (i) gives delegated authority to the Strategic Director, Community Based Services and the Strategic Director, Finance and ICT to execute, subject to relevant consultation, the reclassification of all (164) two-bedroom flats to large one-bedroom flats with flexible living space at a large one-bedroom rent charge within Redheugh and Eslington Courts; and
  - (ii) gives delegated authority to the Strategic Director, Community Based Services and the Strategic Director, Finance and ICT to execute, subject to relevant consultation and business sustainability reviews, the reclassification of additional two and three bedroom flats and maisonettes across the borough of Gateshead.

For the following reasons:

To manage resources and safeguard the financial viability of the Council's housing portfolio by ensuring the ongoing sustainability of the Council's housing stock in terms of supply and demand.

### Policy Context

1. The proposals support the following aims of Vision 2030:
  - **Sustainable Gateshead** – Providing good quality, affordable and energy efficient homes. Helping to grow the local economy and provide local jobs through housing investment.
  - **Active and Healthy Gateshead** – Support the health and wellbeing of residents. Good quality affordable housing will reduce and prevent, demand for more expensive critical health and social care services.

### Background

2. There are always examples of properties that are less popular than others, or where turnover may be higher than average. As long as there is sufficient demand to let any vacancies, and as long as the turnover does not reach uneconomic levels then this does not present a problem.
3. When high levels of vacant properties (“voids”) are combined with very low demand for those vacancies, then this is an indicator that the properties may not be sustainable in their current form, or at least without a significant shift in the potential market for those properties. High levels of voids concentrated in an area can contribute to its accelerated decline. They also represent lost income, and a drain on resources.
4. Void properties across the borough are monitored on a weekly basis, and an “estate matrix” consisting of a number of factors such as tenancy turnover, repair costs, rent arrears and anti-social behaviour caseload is compiled twice a year to help identify trends and issues affecting the sustainability of estates across the borough.
5. Terminations of Council tenancies (i.e. properties becoming available for reletting) increased from 1,579 in 2012/13 to 1,926 in 2013/14 and the level of void properties in the council stock increased during 2013/14 from 234 at the start of April 2013 to 440 by the end of March 2014. Voids have continued to increase in the early months of the new financial year.
6. Since April 2013 properties are taking longer to let, with more offers being refused. Some advertised properties are attracting few or no bids. These properties are classed as “always available” and let on a “first come, first served” basis.
7. Many northern local authorities cite the impact of welfare reform as the main reason for an increase in tenancy turnover and voids, with increasing risks for the sustainability of stock in some localities.
8. A working group has been established with partner authorities and registered providers in the Tyne and Wear Homes lettings scheme to consider additional methods of marketing low demand properties.

9. Under the terms of the lettings policy, two or three bedroom flats with shared entrances are not let to households with young children who are permanently resident. They are however let to households with access to children, and have often in the past been taken by singles or couples with access. Many more are occupied by single persons or couples with no children.
10. Under the terms of the social housing size criteria the following households are all deemed to under occupy a two bedroom flat:
  - Single person, no children
  - Couple, no children
  - Single person with access to children
  - Couple with access to children
11. Other local authorities are taking action to address the problem of sustainability in low demand properties. Newcastle City Council have reclassified all two-bedroom flats as one-bedroom in a number of multi-storey blocks in the East end of the city. Similar plans have been implemented in Leeds and Nottingham.
12. A letter to local authority Chief Executives from Lord Freud in June 2013 (see appendix 3) makes it clear that reclassifying properties without reasonable grounds and without reducing rents would be inappropriate, but that the Department for Works and Pensions has no objections in principle where there is good cause to do so. Legal advice is that reclassification (accompanied by rent reduction) on the grounds of sustainability of stock would be considered to be a reasonable ground. Rents would need to be lowered for all flats of that type within the relevant block.

### **Borough wide review**

13. Using the experience of letting properties from April 2013 to September 2013, a review of stock was carried out in October 2013 to identify properties that had become harder to let (or were considered would be harder to let should they become vacant). These were then grouped into degrees of severity.
14. 1,286 properties were identified, consisting of:
  - 1,052 x 2 bedroom flats
  - 112 x 3 bedroom flats
  - 116 x 3 bedroom maisonettes
  - 6 x 4 bedroom maisonettes
15. A breakdown of all the properties identified is included at appendix 4. 241 of the properties were considered to be the most at risk. When vacant, these properties were tending not to let despite repeated adverts, and included:
  - 2 bedroom multi-storey flats at Redheugh Court and Eslington Court
  - 3 bedroom multi-storey flats at Regent Court
  - 3 bedroom flats at Springwell and Lyndhurst estates
  - 3 bedroom maisonettes at Birtley Villas and Pleasant Place
16. Two further categories of risk were considered:

- 834 properties were considered to be lettable but often only after repeated adverts
  - 211 properties were in the lowest risk group of those identified, and generally required only one advert, but attracted a higher number of refusals than previously, or a lower number of bids.
17. Within the highest risk group, the situation has deteriorated at Redheugh and Eslington Courts since the exercise was carried out, with a further increase in levels of void properties.
18. This report proposes action to attempt to tackle the decline in demand and to improve the sustainability of these two blocks. There is however a risk that the action will not fully address the reduction in demand, and high levels of voids may continue. A further review of rent setting and sustainability for this and other locations may therefore become necessary in future. Monitoring of voids and demand will continue at all other locations.

### **Redheugh Court and Eslington Court**

19. Redheugh Court and Eslington Court is a pair of 21-storey tower blocks located off Bolam Street, Teams. Within each block there are 167 flats (3 x bedsits, 82 x one-bedroom flats, 82 x two-bedroom flats). Service charges for a caretaker service and concierge service are added to the rental charge. The total weekly charge can be relatively high compared to other council properties in Gateshead. For example, a full weekly charge including the basic rent, service charges and water rates is a minimum of £93.34. If a tenant also takes a leased furniture package then the weekly charge can range from £105.65 to over £120.
20. The Council has made a significant investment in the blocks in recent years. Both blocks received Decent Homes works to include kitchens, bathrooms and new windows from 2009 to 2011. The blocks also benefited from external decoration and concrete repairs, and works to communal electrics and lighting. The overall investment was over £4.4 million.
21. The two blocks have never been characterised as having high demand for vacancies, and there have been some historic issues with anti-social behaviour. A local lettings plan was introduced in May 2007 that placed a minimum age restriction of 30 on new tenants. Along with some intensive housing management, this improved the sustainability of the blocks. Vacancy rates were relatively low from 2008 until April 2013:

Year	Voids as at end of March
2008	12
2009	11
2010	8
2011	7
2012	5
2013	5

22. Since April 2013 there has been a sharp increase in levels of void properties in the blocks:

Redheugh Court / Eslington Court (stock)	voids at 1 April 2013	voids at 31 Mar 2014	voids at 30 June 2014	14/15 basic rent loss per annum
Bedsit flats (6)	0	3	4	£11,737
One bedroom (164)	3	8	11	£36,242
Two bedroom (164)	2	31	37	£134,064
<b>All flats (334)</b>	<b>5</b>	<b>42</b>	<b>52</b>	<b>£182,043</b>

- Of the current voids, 31 are at Redheugh Court (including 23 x 2 bedroom), and 21 are at Eslington Court (including 14 x 2 bedroom)
  - Estimated lost rental income based on the basic rent and void position as at 30 June 2014 is £182,043 per annum.
  - The void bedsit flats are on the ground floor of the blocks (two in each block) and have some problems with water ingress, which is currently being investigated. As a result we are not actively trying to let them at present.
23. The void one-bedroom and two-bedroom flats are currently classed as “always available”, but there has been more success in letting one-bedroom flats. For example, since January 2014 9 x one bedroom flats have been let, compared to 4 x two bedroom flats. The earliest current one-bedroom vacancy (as at 30 June 2014) dates back to December 2013, whilst the earliest two-bedroom vacancy dates from June 2013.
24. Tenants of working age who under occupy and claim housing benefit will see a 14% reduction in the eligible level of housing benefit if they are deemed to have one spare room, or a 25% reduction if they are deemed to have two or more spare rooms.
25. At Redheugh and Eslington Courts this means that a tenant under-occupying a two-bedroom flat may have to pay an additional £11.84 each week. If they have a leased furniture package, the increase could range from £14.70 to £17.82.
26. In April 2013, when the housing benefit reductions were first implemented there were 67 tenancies in total at the two blocks where the reduction applied. This had reduced to 52 tenancies by December 2013 mainly as a result of tenancy terminations, but increased back to 67 again by end of March 2014. The traditional market for the two-bedroomed flats consists almost entirely of applicants who would be deemed to under occupy (if they were claiming benefit).

### Consultation

27. Consultation on the proposals has taken place with the Cabinet Members for Housing. Sustainable Communities Place Advisory Group was also consulted on 5<sup>th</sup> June 2014 in order to gain their view on the issues; notes are attached at Appendix 5. Ward Councillors have been consulted and are in favour of the proposal.

## Alternative Options

28. The alternative option is to do nothing, which will not resolve current business threats; or to reclassify more properties, but at this stage an incremental monitored approach would be a more considered approach.

## Implications of Recommended Option

### 29. Resources:

- a) **Financial Implications** –The Strategic Director Finance and ICT confirms that based on 100% occupancy the total potential income to the HRA would reduce by £42,981 due to reclassification. However currently, the total cost of voids is significantly reducing the ability to meet the potential income.
- b) **Human Resources Implications** – There are no human resource implications arising from this report.
- c) **Property Implications** - The report may lead to an increase in sustainability and longevity of difficult to let properties within the borough.
30. **Risk Management Implication** - The actions proposed will assist the Council to manage risk posed to the Housing Revenue Account and the condition of neighbourhoods by ensuring that every effort is made to keep council homes occupied. It is important care is taken consulting DCLG and on the legal and financial implications to prevent placing the Council in undue risk.
31. **Equality and Diversity Implications** - The report aims to increase sustainability of stock and equality for Council tenants.
32. **Crime and Disorder Implications** – The actions proposed may indirectly prevent an increase in crime and disorder.
33. **Health Implications** – The proposals may provide beneficial in terms of physical and mental health of Council tenants.
34. **Sustainability Implications** - The proposals aim to increase the sustainability of Council stock.
35. **Human Rights Implications** - There are no human rights implications arising out of the report.
36. **Area and Ward Implications** – Redheugh Court and Eslington Court are in Teams and Dunston Ward, but properties in all wards and areas will be subject to ongoing sustainability monitoring.
37. **Background Information**

Notes of Sustainable Communities Place Advisory Group 5<sup>th</sup> June 2014. Appendix 5

## The Gateshead Housing Company

Civic Centre, Regent Street, Gateshead, NE8 1JN.

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Text: 'ENQ' and your message to 0762 480 4167

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## APPENDIX 2

Draft letter to existing tenants  
Redheugh Court /  
Eslington Court  
Teams

Reference:

Date:

Dear (name of tenant)

### Proposal to reclassify two bedroom flats in Redheugh Court and Eslington Court

Gateshead Council's vision for the future of the housing stock contributes to the overall vision of the Borough as a place for ***“local people who live in good quality, affordable homes, which meet their changing needs and are located within pleasant, safe and sustainable communities”***

For homes to remain sustainable and affordable, we need existing tenants to be able to continue to meet their rent payments, and we need sufficient demand to be able to let empty homes. We therefore regularly monitor all of the council housing stock across the borough to check that the number of tenants leaving their tenancies is not too high, and that any empty homes can be let.

At present we have high levels of empty two bedroom flats at Redheugh Court and Eslington Court. Although the overall number of applicants on the Housing Register requiring rehousing is increasing, very few applicants are currently prepared to accept these two bedroom flats.

Gateshead Council have carefully considered this issue. In order to help sustain existing tenancies and to attract more demand for empty flats, it is proposed that rents for the two bedroom flats will be reduced and the flats reclassified as “large one bedroom flats with flexible living space”

Please note that there would be no actual physical alteration to the flats as part of these proposals, nor any further restrictions on how you use the living space. The changes

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will only be to the classification of the flats for rent setting purposes. The rent charged for the large one bedroom flats would still be higher than for the standard one bedroom flats in the blocks, reflecting the additional floor space in the larger flats.

The reduction in the weekly rent is expected to be £5.04, but we will write again to confirm the new rent and the effective date of the change. Under the terms of your tenancy agreement you will be given at least 4 weeks notice of the change in rent.

Please note that if you receive Housing Benefit there would also be an adjustment to the amount of benefit received, which would affect any change to how much you are asked to pay.

If you pay your rent by direct debit then we would automatically recalculate your payments over the remainder of the year.

If you would like to discuss this matter further, please contact the Dunston Housing Office on telephone number 0191 433 8888, or alternatively contact the Rent and Income Team on 0191 433 6150.

Yours sincerely,

Jon Mallen-Beadle

Managing Director

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20 June 2013

Local Authority Chief Executives

### **Re-designation of properties and the removal of the Spare Room Subsidy**

As you may be aware there have been a number of reported cases of local authorities re-designating their properties, without reducing the rent to reflect the loss of a bedroom. Such action could lead to incorrect Housing Benefit subsidy claims being submitted to my Department at the end of the financial year.

In principle my Department has no objections to re-designating properties where there is good cause to do so, for example where a property is significantly adapted to cater for a disabled persons needs. However, we would expect the designation of a property to be consistent for both Housing Benefit and rent purposes. Blanket redesignations without a clear and justifiable reason, and without reductions in rent, are inappropriate and do not fall within the spirit of the policy.

Between 2000 and 2010 expenditure had doubled in cash terms, reaching £21 billion. Unreformed, by 2014-15 Housing Benefit would cost over £25 billion. By removing the Spare Room Subsidy £500 million a year can be saved through greater efficiency and better use of social housing stock. It is therefore vital that local authorities adhere to their statutory responsibility to implement this policy on behalf of the Department.

I would like to stress that if it is shown properties are being re-designated inappropriately this will be viewed very seriously. If the Department has cause to believe this is the case we will commission an independent audit to ascertain whether correct and appropriate procedures have been followed. I wish to state clearly that these audits would be separate from the subsidy audits already undertaken, which carry out sample checks on the assessment of Housing Benefit.

Where it is found that a local authority has re-designated properties without reasonable grounds and without reducing rents, my Department would consider either restricting or not paying their Housing Benefit subsidy.

*Yours sincerely,  
David*

**Lord Freud  
Minister for Welfare Reform**

### **Borough wide review of properties affected by lower demand (October 2013)**

#### **Category 1 (most severe) - 241 properties**

Properties that are now generally not letting despite repeated adverts

These include:

- 2 bed multi-storey flats at Redheugh Court and Eslington Court
- 3 bed multi-storey flats at Regent Court
- 3 bed flats at Springwell and Lyndhurst estates
- 3 bed maisonettes at Birtley Villas and Pleasant Place

#### **Category 2 (less severe) – 834 properties**

Properties that generally require repeated adverts before being let

These include:

- 4 bed maisonettes at Sir Godfrey Thomson Court
- 3 bed flats and maisonettes at Sir Godfrey Thomson / Wellington Court estate
- 3 bed flats and maisonettes at Barns Close
- 3 bed flats at East Street
- 3 bed flats at Saltwell Road
- 3 bed flats above shops at various locations
- 2 bed multi-storey flats at Harlow Green / Allerdene / Beacon Lough / Bensham Court / Crowhall Towers / Newbolt & Tennyson Courts / St Cuthbert's Court
- 2 bed flats at Sunderland Road estate
- 2 bed flats at Ridgeway Birtley
- 2 bed flats at Saltwell Road.

#### **Category 3 (least severe) - 211 properties**

Properties that are being let from one advert, but taking longer with lower bids / higher refusals than previously.

These include:

- 3 bed flats at Queen Elizabeth Avenue, Roseberry Avenue and Rectory Place.
- 2 bed flats at Springwell / Beacon Lough and Lyndhurst / Lobley Hill / Sheriff Hill / Wellington Court estates

**Sustainable Communities Place Advisory Group****5 June****Report to Cabinet**

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**Purpose of the Meeting**

On 3 July and 18 November 2013 the group considered the implications for Council tenants of restricting Housing Benefit where under-occupation occurs and provided views on the ways the impact could be mitigated.

The purpose of this meeting was to explore information that would constitute a business case review for the re designation or reclassification of some council residential accommodation

**Advice provided**

The Advisory Group made the following comments:

**Real Life Reform**

- The Group welcomed the presentation provided that updated on 'Real Life Reform', the 18 month intensive study being undertaken by the Northern Housing Consortium to understand the impact of welfare reforms in the North
- Concerns were raised in relation to feedback which is being received about the change in the culture of the role of the Job Centre in helping residents to find work and the issues of benefit sanctions
- It was suggested that it may be beneficial for this issue to be looked at via the appropriate overview and scrutiny committee, to include information on how other local authority areas are dealing with this problem and to hear from those persons responsible for delivering JobCentre+
- Concerns were raised in relation to how households are coping with reduced income/increased expenditure in particular around health and wellbeing. Particularly where there have been cases where prescription medication is being taken incorrectly in an attempt to make it last longer due to affordability. There is also concern that where children receive free school meals it is not clear as to whether a family may be able to provide the same level of provision during school holidays
- The Group acknowledged the effect that welfare reform is having on mental health services as there is an increased level of

persons accessing such services at crisis point. It also highlighted the importance of the findings of the survey being fed in to health and wellbeing strategies

### Business Case – Re-Designation

- The Group noted that to re-designate properties aims to create more sustainable housing stock
- The group were supportive of the approach that officers were taking in relation to re-designation
- The Group supported the business case put forward to re-designate flats within Redheugh and Eslington Court but advised that there are similar blocks of flats across the borough which are becoming difficult to let, with higher refusal rates
- The Group suggested that the local lettings plan for the Teams area be reviewed to look at the possibility of lowering the age range of tenants as this, in addition to re-designation, could have a greater impact.
- It was however acknowledged that existing residents would need to be consulted as they may have taken on a tenancy on the basis of an age restriction
- The Group requested that costs in relation to re-designation of similar blocks in other locations be brought back to members
- The Group acknowledged that to re-designate properties may also help to alleviate homeless cases, where at present it would be unreasonable to offer a single homeless person a two-bedroom property
- The Group queried what impact there has been to the Housing Revenue Account as a result of welfare reform and increased voids/loss in rent. The Group were advised that this is impacting on potential capital programmes that could deliver aspirations eg, replacement window schemes, more appropriate accommodation for older people.
- The Group recognise there is a level of expectation from tenants and this needs to be met, in a climate where rents have increased and less money is being received to the Housing Revenue Account
- It was suggested that there may be scope to review marketing strategies in an attempt to further promote the properties available
- The Group commended the work of officers both of the Council and The Gateshead Housing Company in relation to mitigating the impact of welfare reform and highlighted the importance of

sustaining relationships with existing and future customers and also the sustainability of Council properties.

- Chair:** Councillor J Eagle
- Members Present:** Councillor S Dickie, B Goldsworthy, J Lee and P Ronan
- Also Present:** Councillors B Coates, P Dillon, L Caffrey, D Davidson, J Turnbull, J Wallace, M Charlton, M Foy, T Graham, P Foy and C Donovan
- Officer Attendance:**
- |               |   |                               |
|---------------|---|-------------------------------|
| M Laing       | - | Community Based Services      |
| L Philliskirk | - | Community Based Services      |
| N Bouch       | - | The Gateshead Housing Company |
| Kevin Johnson | - | The Gateshead Housing Company |
| Karen Emery   | - | Democratic Services           |