

HOUSING MANAGEMENT ADVISORY BOARD – 7TH JUNE 2017

Report of the Head of Landlord Services

ITEM 7 DE-POOLING OF SERVICE CHARGES

1. Purpose of the report

This report details the potential for service charges to be charged separately to tenants in general let accommodation to more accurately recover the costs of running communal utilities and service costs.

2. Background

In the HMAB Draft Budget Report of 9 November 2016, there was a proposal to depool service charges for tenants living in general let accommodation for the 2017/18 budget. This proposal was later dropped from the final 2017/18 budget due to the tight timescale involved in preparing the costs, consultation with tenants and interfacing the charges onto the QL Housing Management computer system. It remains an option to be implemented at a later date.

3. Current position

All dwelling tenancies incur a weekly rental charge calculated using the CLG guidance first issued in 2001. A formula is applied for each property and the factors included are the property's number of bedrooms, valuation as at January 1999 and the average manual earning within Leicestershire, compared with the country as a whole. The rent calculation does not include any reference to additional services a particular property may incur.

Within the HRA, the dwelling rental income is collected and recorded as a total amount which has a budget in 2017/18 as £21,052k. The amounts by which rents can be increased are, in effect, controlled by central government. The rent charges in 2017/18 were 1% lower than in 2016/17 which is the second of a four year rent reduction policy.

The Council's running costs - to provide all the functions of the HRA including repairs and maintenance are budgeted for at an overall service level, rather than at an individual property level.

The costs that could become service charges to individual tenants are currently covered by the income going into the HRA - which is mainly from the rent charged. As such, all tenants are currently paying for the costs although they may not directly receive the service. Proposals to de-pool service charges will not end this in its entirety and there will always be services incurred by the HRA that may not be directly linked to a particular tenancy, for example: the prevention of Anti-Social behaviour and the collection of rent arrears.

However, there are costs that are directly linked to a particular group of tenants. Typically, these include services received by tenants living in blocks of flats and sharing communal areas. The costs of those services can be shared out only by those tenants, rather than pooled into the HRA overall. Tenants living in sheltered accommodation (or those in general let but receiving the floating Warden service/lifeline), alongside leaseholders in flats, both already pay service charges, and in the case of tenants, these are shown separately to the rent.

4. Examples of service charges that may be de-pooled

Service charges that may be de-pooled include¹:

- Caretaking services
- Communal area cleaning - contract and direct supervision costs
- Communal area electric / heating
- Communal window cleaning - internal and external
- Grounds maintenance costs - contract and direct supervision cost and litter collection
- Cyclical pest control
- Communal lighting
- Communal area repairs and graffiti removal
- Additional refuse collections
- Door entry
- CCTV
- Concierge
- Furniture
- Television and radio aerials
- Street lighting
- Children's play area

Whilst clarification would be required prior to setting the service charges, the majority of the above charges would be eligible for housing benefit where tenants are eligible to receive it.

5. Service charges currently charged separately

As stated, some service charges are already charged and shown separately to the rent. These include:

- Communal facilities in sheltered housing schemes
- Communal electric / heating / lighting in sheltered units
- Cesspits
- Furniture in sheltered units
- Heating in sheltered units - communal areas (the charge is not eligible for housing benefit when the heating is in the tenants own flat)

¹ Not all of the services detailed are currently provided.

6. Method of de-pooling

Existing tenants would pay the new service charge but wouldn't overall pay more rent as that would be reduced by the amount of the service charges.

Pooled rent			
House	£	Flat with communal areas	£
Rent	50	1 Rent	50
		2 Electricity	0
		3 Door entry service maintenance	0
		4 Emergency lighting maintenance	0
		5 Cleaning	0
Total weekly charge	50		50
De-pooled rent			
House	£	Flat with communal areas	£
Rent	50	1 Rent	42
		2 Electricity	2
		3 Door entry service maintenance	2
		4 Emergency lighting maintenance	2
		5 Cleaning	2
Total weekly charge	50		50

7. Properties that are re-let

Each property has a rent target set by the government formula. A number of properties have not reached their rent target. As the target covers rent only, service charges would be additional to this. When properties are re-let, the incoming tenant would pay the rent at the full target rent and the service charge. In the above example, they would pay £58 per week. The additional service charge collected means the council would be recovering its costs by £8 a week (£58-£50).

8. Options around charging service charges

There are two methods by which the new service charge could be calculated. Service charges could be either all actual/all pooled or a mixture of the two depending on the charge and the reasonableness of calculating it in that manner. Some examples are detailed below.

8.1. Based on the actual costs

Example A - Communal electricity - The costs of electricity used for lighting and other electrical componentry in communal areas could be based on the actual costs. So tenants living in a block of 8 flats with a communal area could have the charge divided up between them i.e. charge / 8 tenants in the block. This means that there may be some variance across blocks and the charges to individual tenants, as each block may consume a differing amount of electricity.

8.2 Service charge pooled amongst all tenants receiving the service

Staying with example A (above) - If the council's total bill for electricity in communal areas was £100k this would be divided amongst all tenants receiving that service living in communal blocks. They would all pay the same i.e. charge / total number of tenants living in a block with communal electricity. Leaseholder service charges would still need to be based on actual costs in accordance with legislation.

9. Advantages of de-pooling

Many local authorities have de pooled and the advantages are as follows:

Income streams would be protected and maximised - The 1% rent reduction incurred by the implementation of the central government rent scheme for council dwellings, would not apply to a service charge where the cost can be recovered in full.

Greater transparency and accountability - Charging separately for services is viewed nationally as good practice because tenants can see what they are paying for and will be better able to judge value for money.

Fairness and removal of cross-subsidy - Charging separately for services results in only those tenants receiving the service paying for it and this is a fairer charging basis. Costs are not subsidised by the wider tenant body.

Depending on how service charges are charged, service charges to tenants would be brought in to line with how leaseholders are charged, who by law, pay the actual costs of services received.

10. Issues around de-pooling

Depending on how service charges are charged, there is the potential for leaseholders and council tenants to pay a different charge for the same service.

The tenancy agreement for the affected properties may need to be updated to be clear that the tenant must pay a service charge as a condition of living in the property.

Although at the point of de-pooling, rents are reduced by the amount of the service charge, ensuring that there is no initial increase, there may be an increase over the

coming years due to the way the rent increase formula is applied. For example, if the target rent for a property is £80 and the actual rent is £75, the rent only has to increase by £5 over the following years to reach the target. However, if the rent is reduced to £70 because of de-pooling, it has to increase by £10 to reach the target (These are illustrative figures only).

The Chartered Institute of Housing have noted that the process could take upwards of a year. All tenants may need to be consulted as some services charges could cover houses and through the pooled HRA income/expenditure they are currently contributing to the costs which could be separated out.

11. Financial Implications

Implications depend on which service charges are de-pooled. The amount of additional income generated would be a gradual increase, rather than all of the additional income in year one. This is because the majority of the tenants incurring the service charge would have their rents reduced by the same amount so it would only be new tenants who generated the additional income. In 2016/17 there were 577 terminations of tenancies, around 10% of the council's tenancies. This means around 5% of council's housing stock would be eligible for increased service charges in a year if those new tenancies were predominantly in flats. Over time that figure would fall, as relets would include properties where the rent and service charge were already de-pooled and at their maximum.

12. Timetable for implementation

Given the requirement for consultation, and the significant systems work required, a robust project plan, with allocated resources, is required to enable an indicative timetable for implementation.

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