

**19<sup>th</sup> June 2017**

**Community, Health & Housing Committee**

**Service Charge Strategy 2017**

**Report of:** *Angela Williams, Interim Head of Housing*

**Wards Affected:** *All*

**This report is:** *Public*

**1. Executive Summary**

- 1.1 This report sets out the background and recommendation to adopt a formal written *Service Charge Strategy*. The strategy will allow for the implementation of a pricing mechanism relating to the servicing of Council owned HRA blocks/schemes (circa 48 blocks).
- 1.2 Service charging has not been reviewed since circa 1998 and there is currently no strategic document to underpin policy.
- 1.3 Service charges should apply to all residents of communal blocks and sheltered schemes (community housing). Service charges are currently contained within the global rent figure rather than being specifically listed and apportioned. In simple terms HRA income is not matching expenditure.
- 1.4 Rent charges (general stock) are currently subject to the Government's mandatory 1% annual decrease. Having a combined rent/service charge figure means that income for service provision is also subject to an effective 1% decrease which is unnecessary. The *Service Charge Strategy 2017 (Appendix A)* seeks to address this income loss.
- 1.5 The *Service Charge Strategy 2017* outlines the reasoning and direction relating to service charging. If adopted a *Service Charge Policy* containing a full pricing mechanism will be submitted at the next Committee.

**2. Recommendation(s)**

- 2.1 **That the Committee formally approve Option 2 (to implement the 'Service Charge Strategy 2017' (Appendix A)).**
- 2.2 **That the Committee approve the development of a 'Service Charge Policy' (with pricing mechanism) for submission at the next committee.**

### **3. Introduction and Background**

- 3.1 The loss of income to the Housing Revenue Account ('HRA') through decreasing social rent by 1% per annum since 2016/17 is projected at £875,000 within the next 5 years.
- 3.2 Housing Services needs to ensure that it is delivering a well-costed, effective and financially sustainable service programme for now and the future.
- 3.3 Tenants have not previously been charged service charges at a rate that reflects the true financial and operational impact to the Council. Whilst service charge income has been collected it has not been clearly defined and separately apportioned.
- 3.4 Currently Leaseholders pay an apportionment of service charges as reflected in their annual 'actual' statement.

The specific charges concerned include:

- Caretaking & refuse
- Security & CCTV
- Heating\*
- Communal Lighting
- Water
- Housing Support Officers (Sheltered blocks only)
- Window cleaning
- Grounds maintenance
- Management fees (e.g. Homeless Temporary Accommodation).

*\* (only charge not applicable to Housing Benefit)*

- 3.5 The '*Service Charge Strategy 2017*' enables a transparent and sustainable approach to the provision of block/scheme services, funded by 'at cost' service charges. A supporting '*Service Charge Policy*' will subsequently outline the specific detail as to financial impact on a block-by-block basis.
- 3.6 A recent review of the Council's approach to setting service charges has identified certain issues that are preventing the Council effectively recovering its expenditure:
  - Current Tenancy Agreements do not itemise services which tenants should contribute to.
  - Services may be carried out on Estates but not recharged to Leaseholders or Tenants.

- Service charges may not accurately represent work carried out.
- Tenant service charges are not linked to actual costs.
- Leaseholders are charged for services in the block which are not charged to tenants.
- Responsibility for setting service charges is currently unclear.

#### **4. Issues, Options and Analysis of Options**

- 4.1 Historically housing service charges have not been charged at a rate which reflects the true financial and operational impact to the Council, nor have they been effectively separated from the rent figure.
- 4.2 Central funding cuts and Government-led reduction of rents for four years by 1% means that service charging needs to be conducted at an 'at cost' rate. This is to ensure financial viability and to prevent potential financial and service failure.
- 4.3 In addition, there are continuing significant financial reductions in the Supporting People Grant ('SPG'). The SPG contributes in effect towards enhanced service provision within sheltered accommodation.
- 4.4 The current charging mechanism means that we have no option other than to apply the 1% decrease to **both** the service charge and rent charge. By separating the two elements we will be able to apply the 1% decrease to rent-only without decreasing service charge income, thus contributing towards a reduction in the HRA deficit.

##### **Option 1: Continue to apply minimal Service Charges:**

- 4.5 Currently service charges which are applied do not represent a reflection of the true cost of services the Tenant/Leaseholder receives. A consequent economic burden is therefore applied to the Council, depleting public financial resources.
- 4.6 Currently service charge income suffers the 1% rent reduction unnecessarily.
- 4.7 By not separating the Service Charge from the Rent Charge, and charging 'at cost', the HRA will suffer continued financial loss which is unsustainable.

##### *Illustrative Example:*

Rent (including service charges)	=	£100.00 per week
LESS (1% reduction)	=	£1.00 per week

Total Income	=	£99.00
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<b>Per property loss per annum</b>	<b>= £52.00</b>
<b>Total Stock Loss per annum (based on 2400 properties)</b>	<b>= £124,800.00</b>

## Option 2: To apply 'at cost' Service Charges:

- 4.8 Through ensuring that a tailored service charge is billed and accounted for separately to rent charges it will allow for a lessening of the economic impact of the 1% rent reductions and loss of Supporting People grant.

### *Illustrative Example:*

Rent	=	£90.00 per week
LESS (1% reduction)	=	£0.90 per week

Service Charge	=	£10.00 per week
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Total Income	=	£99.10
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Per property loss per annum	=	£46.80
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Total Stock Loss per annum (based on 2400 properties)	=	£112,320.00
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<b><u>Option Two total efficiency saving</u></b>	<b>= £12,480.00</b>
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## 5. Reasons for Recommendation:

- 5.1 Option 2 is recommended as the most financially viable option for the Council and supports the '*Getting our House in Order*' transformation programme for Housing Services. It also ensures that Financial Services can code charges accurately against the Estates where services have been provided.
- 5.2 Taking no further action will fail to advance corporate priorities and would destabilise financial resources.
- 5.3 'At cost' service charging of Tenants/Leaseholders in blocks/schemes introduces a fair and balanced approach across the entire housing stock. It also reflects in real terms the advantages those households currently benefit from and protects against service reduction elsewhere.

A *Service Charge Strategy* will allow the Council to:

- **Make an efficiency saving of approximately £13,000.00 per annum (£65,000.00 over 5 years)**
- Meet its legal requirements.
- Viably fund block/scheme service provision within the HRA housing stock.
- Underpin and maintain service provision for residents.

- Support the corporate commitment to reducing expenditure and providing financially coherent and viable policies.
- Structure the Council's approach to service charging for Tenants and Leaseholders, allowing for greater transparency and scrutiny of service provision.

5.4 The financial mechanism for 'at cost' service charging would be submitted for scrutiny and approval by Committee as part of the formal annual rent-setting process.

## **6. Consultation**

6.1 Consultation with 'Tenant Talkback' was conducted on the 6<sup>th</sup> June 2017. 'Tenant Talkback' approved the introduction of a *Service Charge Strategy* and welcomed the proposed policy document, to produce clarity in charging and enable efficiency savings.

## **7. References to Corporate Plan**

7.1 The Council's Corporate Plan aims to:

- To deliver safe and comfortable homes which are efficient and sustainable.
- Manage our stock to recognise the limited resources available and supporting those in greatest need.
- Review the future delivery of housing services to provide the best outcomes for Brentwood residents.

7.2 Through implementing cost-efficient service charging and by adopting a separate Service Charge Policy each of the aims listed above can be achieved.

## **8. Implications**

### **Financial Implications**

**Name & Title: John Chance, Finance Director & S151 Officer**

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8.1 The financial implications are laid out in the body of the report with a firm indication about the option recommended to be chosen in the best interest of the Council.

**Legal Implications**

**Name & Title:** Daniel Toohey, Head of Legal Services & Monitoring Officer

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- 8.2 Local Authority requirements and constraints in setting rent charges and billing for service charge items are broadly set out in the body of this report.

**Other Implications** (where significant) – i.e. Health and Safety, Asset Management, Equality and Diversity, Risk Management, Section 17 – Crime & Disorder, Sustainability, ICT.

- 8.3 None.

- 9. Background Papers** (include their location and identify whether any are exempt or protected by copyright)

- 9.1 None.

**10. Appendices to this report**

- 10.1 Appendix A – Draft Housing Strategy 2017

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