

Polisi Tâl Gwasanaeth - Papur Opsiynau/ Service Charge Policy- Options Paper

Gwasanaethau Tai/Housing Services Division
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Service Charge Policy

1. Purpose

1.1. The purpose of the report is to outline the options available for a future Service Charge Policy for Council Tenants and to seek Scrutiny members initial views as part of the review.

2. What is a Service Charge?

2.1. Service charges are payments made by contract holders (tenants or leaseholders) that share communal areas or facilities within our blocks of flats, sheltered schemes or supported housing projects. It is where we as the landlord provide additional services that are over and above the general rent. Service charges pay for things like:

- cleaning, lighting and maintenance of shared areas like stairwells and hallways;
- looking after gardens in shared areas;
- hot water and heating if there is a communal system;
- entry systems, lifts and rubbish chutes in a block of flats;
- caretakers, wardens and emergency alarm systems;
- buildings insurance and management fees; and
- Anything else that contract holders decide as a new/ additional service.

2.2. Contract holders will only pay for the communal services that they receive. This Policy is for general use, and it is understood that not all Service Charges apply to individual contract holders. For example, if a contract holder lives in a block of flats that is not cleaned by the Council, they will not be charged for cleaning.

2.3. For those tenants that Service charges apply these are generally included in the rent known as 'Inclusive Rent'.

2.4. The way that we determine Service Charges for the forthcoming year is to calculate this on the actual expenditure in the previous year. Therefore, no assumptions are made and again the contract holders only pay for what they have received. We don't anticipate changing this part of the process as it is seen to be the most effective and accurate way of calculating what the contract holder owes.

2.5. Through consultation with the contract holders we can offer extra or remove services, based on choice.

3. Why Review the Service Charge Policy

- 3.1. There are several reasons why we need to review the Service Charge Policy. The service charge policy was introduced in 2010 and has not been reviewed for some considerable time.
- 3.2. General management costs, income and rents have all increased during this time.
- 3.3. One of the key elements within the current policy is the inclusion of a ‘cap’ on the maximum amount the service charge can be increased by year on year. This is currently set at a maximum of £3 per week above the previous years charges and was originally put in place to protect Contract Holders. The gap between what we spend each year on additional or communal services within our schemes/ blocks of flats is far greater than what we receive in income, particularly in recent years with extremely high inflation rates e.g. in September 2022 the CPI would have been 11%.
- 3.4. For 2022/23 the gap was 141k between what the expenditure was in 2021/22 on these additional services. This will increase for 2023/24 if we maintain the current position.
- 3.5. It should be noted that a contract-holder in a general needs’ bungalow/house/flat is feeling the impact of the cost-of-living crisis with the rise in utility bills etc. which they are responsible for paying themselves

4. Current Profile of Service Charges

- 4.1. The current profile for those affected (**1244 Contract Holders**) by service charges and costs involved are highlighted below. The calculation of the service charge for 2023/2024 financial year based on data and figures for Service charge actual data for 2021/2022.

Sheltered Schemes	
517 properties are Sheltered Accommodation	<ul style="list-style-type: none"> * 21 Sheltered Complexes * £27.46 weekly average service charges for Sheltered Accommodation * £43.79 highest weekly charge * £15.00 lowest weekly charge
<p>2023/2024 annual service charges invoiced and charged to contract-holders</p> <p>£681,398.88 total annual cost of service charges (with cap in place)</p> <p>£816,572.64 total annual cost of service charges (without cap in place).</p> <p>The HRA is subsidising £135,173.76.</p>	

General needs properties (blocks with communal areas for service charges)	
727 are general needs properties	<ul style="list-style-type: none"> * £2.34 weekly average service charges for general needs properties * £11.81 highest weekly charge * £0.25 lowest weekly charge
<p>2023/2024 annual service charges invoiced and charged to contract-holders</p> <p>£81,598.56 total annual cost of service charges (with cap in place)</p> <p>£87,132.48 total annual cost of service charges (without cap in place).</p> <p>The HRA is subsidising £5,533.92.</p>	

5. Considering the future options

5.1. Below is a table outlining four different options when considering the new Policy.

Option 1: Do nothing	
Summary	Keep the existing Service Charge Policy in place and make no changes with a cap of any possible annual increase in its overall Rental Charge (including Service Charges) to a maximum rise of £3 per week.
Benefits	The contract-holder benefits with this protective cap of a maximum rise of £3 per week. This means contract holders are not exposed or impacted significantly by inflationary rises and general service costs. The only benefit to the Council would be that the limited impact to contract holders would mean they are unlikely to contest annual service charge increases.
Disadvantages	By placing a cap on the charges, the rest of our tenants gain no benefit from these services and the HRA is subsidising these charges. By keeping the cap in place, we are not charging for what the tenant's actual usage of these services are. The Sheltered Complex tenant's usage and understanding of these charges isn't encouraged to change based on these challenges due to the cap negating the full financial impact.
Risks	There will be a significant variance in the HRA business plan financial modelling meaning a reduction in revenue and capital investment/ spending.
Timeline	Review the Policy in two years

Option 2: Gradual incremental removal of the cap

<p>Summary</p>	<p>Review and amend the existing policy with a view to introducing incremental increases to bring us up to full cost recovery and to ensure we are recovering all eligible service charges.</p> <p>The option could propose an increase of the cap over a 3-year period.</p> <ul style="list-style-type: none"> * Raise the cap yearly over 3 years by a third = £1 per year * Remove the cap completely in the fourth year <p>Rent & service charges financial years</p> <ul style="list-style-type: none"> * 2025/2026 = maximum increase of £4.40 per week (£4 +40p admin fee of 10% (amended policy) * 2026/2027 = maximum increase of £5.50 per week (£5 +50p admin fee of 10% (amended policy) * 2027/2028 = maximum increase of £6.60 per week (£6 +60p admin fee of 10% (amended policy) * 2028/2027 = Remove cap (amended policy) <p>The cap will only come into effect where charges exceed the agreed weekly cap amount.</p>
<p>Benefits</p>	<p>The contract-holders will remain protected with an incremental increase in the cap gradually increasing by a third over 3 years.</p> <p>Inflation has hit almost every sector, and with overheads and supply costs increasing, everyone can expect last year's charges to be higher this time around, however with the cap remaining in place for 3 years this will soften the impact.</p> <p>The benefit to the wider tenants is that charges are applied equally across the board based on usage.</p> <p>Further education of Contract holders to understand usage and billing through our Tenancy Support and Pre-Accommodation Teams.</p>
<p>Disadvantages</p>	<p>Some contract holders may see increased charges over and above the current £3 per week cap</p>

Risks	<p>All increases must be “reasonable”. Price rises linked to inflation may be considered fair, as the costs of delivering these services have gone up.</p> <p>The average UK service charge is £1,500 a year according to the Home Owners Alliance. Inflation has hit almost every sector, and with overheads and supply costs increasing, everyone can expect last year’s charges to be higher this time around.</p> <p>Having an incremental arrangement will reduce the gap gradually and help maintain the HRA Business Plan income and expenditure. This is similar to how we close the gap for tenancies that are below target rent and up to a £2 progression can be applied.</p>
Timeline	Review the Policy in 4 Years (full removal of the cap by 25/26)

Option 3: Remove Cap	
Summary	Remove the cap completely from the existing policy with contract holders meeting full cost of usage from 2024/25
Benefits	Contract holders are unlikely to benefit from this having had years of protection by the cap and the difference between actual costs and recoverable costs being considerably different. The advantage for the Council is full cost recovery to reinvest in service, Capital and Revenue and that other general needs contract holder i.e. all other tenants and subsidising charges and the impact on affordability/ cost of living is shared or equalled.
Disadvantages	With this removal complete without any cushion to soften the impact, this will have a big effect on our contract-holders, potentially moving them into arrear and the policy changes are likely to have resistance.
Risks	Full cost recovery will present little risk to the HRA business plan financial modelling however increased tenant arrears and actual collection rates will impact annual income and bad debt provisions.
Timeline	Review the Policy in 3 Years

5.2. The removal of the Service Charge completely for those contract holders affected by the Policy and who receive additional service has been considered when putting these options forward. This could be included as a fourth Option.

5.3. The removal of the charge however has very little equity for stakeholders. The cost and the risk to the Council is considerable as well as all other contract holders being burdened with subsidising the whole cost. Contract Holders for who the Policy would apply would be better off financially, though with the limited income, it is unlikely that schemes, flats and supported projects will have significant investment, making the offer less desirable, more vacancies and greater void loss.

5.4. Adopting this Option would pose significant financial risk to the HRA, costs being absorbed through general revenue/ rents and is likely to be unsustainable and unequitable. Based on previous years actual spend this could mean a shortfall of £900k a year and over the 30-year HRA business plan model this will increase further with inflationary rises.

5.5. We may want to consider applying any of these options/ changes to new contract holders only or by age group. However, this would be extremely difficult to calculate and monitor which may cause inconsistencies and confusion.

6. Scrutiny Committee Recommendations

6.1. To confirm Scrutiny members views on the future Service Charge Policy as part of the pre-decision process for policy development, prior to submission to Cabinet

Appendix 1 Repairs and Maintenance Service Charges

For Tenants, Service charges will be raised against the cost of

Servicing communal utilities- including

- Heating and lighting systems (60% of overall cost will be met by council,40% by residents)
- Fire protection and safety equipment,
- Door entry systems
- CCTV
- Communal TV aerial
- Cleansing Water systems
- Lifts
- Adjustments of timer devices

Repairs to (and replacement of) communally situated

- Radiators, valves and pipe-work
- Sanitary-ware
- Electrical Fittings
- Lighting
- Doors
- Door entry systems
- CCTV
- Communal TV aerial
- Lifts
- Fire Protection Equipment
- Electrical appliances including laundry equipment
- Rotary/Washing Lines
- Security Lights
- Personal Fire protection equipment e.g. fire blankets

Service Charges will not apply to:

Repairs to (and replacement of) communally situated:

- Central heating systems e.g. boilers
- Electrical systems including wiring
- Water, sewerage and drainage systems
- Sheltered Scheme Officer Accommodation
- Sheltered Scheme Offices or Store Rooms
- Structural repairs
- External repairs e.g. roofs, rainwater goods, chimneys, brickwork
- External maintenance e.g. gulley or guttering clearance
- Planned Maintenance or Major Work schemes e.g. Carmarthenshire Homes Standard
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Appendix 2 - Examples of other Local Authority, RSL's and Private Sector rent and service charges for comparison

Carmarthenshire Local Authority			
Property Type	Category	Net rent per week	Average Service Charges per week
1 bed flat	Sheltered	£87.47	£27.46
2 bed flat	Sheltered	£97.23	£27.46
1 bed flat	General needs	£87.47	£2.34
1 bed bungalow	General needs	£96.71	

Caerphilly Local Authority			
Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat under one roof	Sheltered	£90.64	£42.11
2 bed flat under one roof	Sheltered	£98.56	£42.11
1 bed bungalow with separate communal block		£99.81	£30.76
2 bed bungalows with separate communal block		£108.98	£30.76
1 bed flat with separate communal block		£90.64	£33.06
2 bed flat with separate communal block		£98.56	£33.06

Bro Myrddin Housing Association

Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat (Carmarthen area)	Sheltered extra care 24/7 on site warden	£146	£130
1 bed flat (Carmarthen area)	Sheltered over 55's part time warden independent living	£97.77	£26.25

Cartref Cynnes / Ty Dyffryn Extra Care Units

Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	Extra care Cartref Cynnes	£148.17	£115.20
2 bed flat	Extra care Cartref Cynnes	£163.43	£115.20
1 bed flat	Extra care Ty Dyffryn	£150.80	£104.28
2 bed flat	Extra care Ty Dyffryn	£166.34	£104.28

Llysnewydd (Llanelli) Private Sector flats

Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	Private sector flat (former residential home)	£100	£28.85

Cardiff Local Authority

Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	Sheltered	£90.86	£48.68
2 bed flat	Sheltered	£104.37	£58.20
1 bed flat	General needs	£94.61	£10.85
2 bed flat	General needs	£109.52	£9.21
1 Bed Bungalow	General needs	£106.90	£3.72
2 bed Bungalow/house	General needs	£121.94	£4.65

Swansea Local Authority

Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	Independent living	£99.56	£24.25
2 bed flat	Independent living	£104.82	£26.64

Flintshire Local Authority

Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	General	£90.41	£9.69
2 bed flat	General	£100.45	£9.69

Vale of Glamorgan Local Authority			
Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	Sheltered	£104.29 Av	£24.70 Av – no repairs
2 bed flat	Sheltered	£112.11 Av	£24.70 Av -no repairs
1/2bed flat	General	£99.04 Av	
1/2 bed bungalow	General	£115.08 Av	

Wrexham Local Authority			
Property Type	Category	Net rent per week	Service Charges p/w
1 bed flat	Sheltered	£93.19	£20.-30 Av
2 bed flat	Sheltered	£103.53	£20-30 Av
1 bed bungalow	General	£102.99	
2 bed bungalow	General	£114.43	