

Report To: Cabinet

Date of Meeting: 16th December 2014

Lead Member: Cllr. High Irving, Lead Member, Customers and Communities

Report Author: Dave O'Brien, Service Charge Officer

Title: Disaggregating Service Charges for Council Tenants

1. What is the report about?

To highlight the requirement from Welsh Government as part of the HRAS self-financing review, that will require Denbighshire, like all other stock holding authorities, from April 2015, to disaggregate (separate) service charges from its tenant's rental payments, enabling tenants to clearly identify what services they are paying for and the charges made for those services.

2. What is the reason for making this report?

A decision is required from members to separate service charges from rents from April 2015 to comply with WG requirements on Self Financing and recover those costs through adoption of a Variable Charging Policy. Fully disaggregated Service Charge costs along with Annual Rent uplifting figures will be presented to Cabinet in February 2015.

3. What are the Recommendations?

That members agree the key principles that will determine how service charges will be calculated and implemented from rents from April 2015 onwards with a further paper to be considered on the final charges as part of the council's annual council house rent setting process in February 2015.

Key issues upon which member agreement is being sought are to:

- adopt a Variable Charge policy for apportionment and recovery to all Tenants who receive services.
- that individual rents are reduced at year one implementation by the amount of chargeable services that tenants receive.

4. Report details

4.1. From April 2015 LA's will no longer be exempt from s18-25 of the Landlord and Tenant Act 1985 and will have to clearly identify what are tenant charges for rent and what are the charges for services provided. Additionally once universal credit is introduced, as part of the UK government's welfare reform measures all claimants will need to separately identify what their actual housing costs are made up of. It is worth pointing out that the majority of Service Charges are eligible for Housing Benefit (HB). Anyone who is in receipt of full HB will therefore have their Service Charges paid. Some 65% of our tenants receive some level of HB. and 72% of Tenants in Sheltered Housing are in receipt of HB.

4.2. Rental payments would then be seen as paying for items such as:

- Housing management costs
- Responsive repairs and planned maintenance to properties
- Structural improvements to communal areas, estate land and individual properties
- Servicing debt incurred by the Council for housing stock

- Capital works to meet Welsh Housing Quality Standard

4.3. Service charges which generally relate to the cost of services that are provided to communal areas would need to be identified separately and charged only to those who receive that service. Examples of services which could be recovered via a service charge could be:

- Heating, lighting, water and sewage in communal areas
- Fixture and fitting improvements within communal areas
- Laundry facilities
- Monitoring and servicing door entry and safety systems in communal areas
- Cleaning of communal areas
- Window cleaning
- Grounds maintenance
- Housing officer services and a Management charge for administering service charging.

4.4. To date we have identified service chargeable costs worth £420,000 that will require disaggregating from rents of which Grounds Maintenance makes up £206,000. However, not all of these costs are recoverable due to sold properties being included in such charges as Grounds Maintenance.

All service costs are currently paid for from the HRA from the rents collected from all tenants, thus the process is not transparent, will not be compliant with WG requirements from April 2015 and is unfair on tenants who do not receive services.

4.5. The recommendation from the HRAS Self Financing Steering Group is that through disaggregating we reduce an individual's current rent charge by the amount of chargeable services they receive for the first year. For example, current rent of £70 per week of which we can attribute £5 of service chargeable costs. For 2015 - 2016 the rent and other charges to the tenant would be shown as:

£65 Rent*
£ 5 Service Charges
£70 Total Payable

*The rent uplift for 2015 -2016 will be based on the net rent of £65.

4.6. This will result in different rents for similar properties throughout Denbighshire as a result of the disaggregation of charges each tenant receives. However, as rents increase each year the mechanism for uplifting rents will enable the authority to bring them back into line by 2020.

- This is manageable through Capita and Open Housing systems.
- Reflects the individual services each group of tenants receives so is fairer for all.
- Most General Needs estates will only have grounds maintenance charges so will not lead to an excessive number of different rents.
- Of 3400 properties, Current indications are 500 have no Service Charges, 1700 are General Needs, 1200 Sheltered Complexes.

4.7 The alternative is to add the Service Charge costs on top of rents, but this coupled with the annual uplifting, the Group felt, would result in an excessive increase for tenants even if phased in over a 3 year period.

4.8. Denbighshire is required by WG to comply with the Social Housing Rents Policy that applies to all Social Landlords to develop a coherent and consistent rent policy framework. The Minister for Housing has confirmed the mechanism for uplifting rents annually to bring rents to a "Target Rent" level resulting in all Social Rents in a County of a similar level for the type of property,

4.9. The impact of this action should only delay rents of service chargeable properties reaching Target Rent by 1 – 2 years for general needs properties and 3 - 4 years for some Sheltered complexes who receive many services with an estimated service charge of £10 per week. Currently we expect to reach target rent by 2016, through this method it would be 2020. New tenancies from April 2015 will commence at Target Rent plus service charges which will assist in the council's responsibility to maximise rental income and ensure that rents remain affordable. This is also in line with other authorities actions.

4.10. The Group have discussed the 2 methods of setting the recoverable service charge, fixed or variable and have concluded that the preferred method is variable. Whilst more administrative work is involved it is more accurate and fairer for both the Council and Tenants alike.

4.11. Variable charges are where we set an estimated charge at the start of the financial year and then produce a final statement when the year is complete. The final statement compares actual costs of delivering the service against the estimate set. This may result in a credit back or an additional amount due from the tenant the following year.

Benefits of Variable service charging are:

- Fixed charge to tenants for 12 months
- Fuller, disaggregated recoverable service charges
- Statement of actual against estimate is provided to all tenants every 12 months for transparency
- Any overcharge will be credited to the following years charge
- Ensures fuller recovery of actual and accurate costs
- By putting a greater focus on the actual costs of the service provided we can better ensure a value for money approach.

Negatives are:

- More time consuming to manage and administer
- Any undercharge will be added to the following years charge.

4.12. It is proposed that the authority adopt a Variable Charge policy thus ensuring full costs are recovered whilst ensuring the Service Charge costs are accurate. Variable is also the preferred method of the other stock holding N. Wales authorities, including Wrexham and Anglesey. Flintshire are now planning to phase service charging in over a 3 year period commencing with cleaning and aerial charges on a fixed charge basis on top of rents. Wrexham were initially looking to add service charges on top of their current rents but this idea has been rejected. Our approach to fully disaggregate from year one means we will satisfy WG requirement to commence disaggregation by April 2015 with completion by March 2016. It will also place Denbighshire as one of the pace setters for disaggregation in N. Wales

5. How does the decision contribute to the Corporate Priorities?

Through transparency of chargeable services it will ensure that the Council delivers greater efficiencies and improved services for its customers. It is also hoped that in time groups of residents may wish to set up social enterprises to tender for and undertake the work themselves i.e. cleaning, grounds maintenance, etc. resulting in employment/management opportunities and transferrable skills helping to develop the local economy.

6. What will it cost and how will it affect other services?

Despite this being a substantial exercise, project costs have been contained within existing HRA budgets. The ongoing administration costs including staff would be recovered through service charging.

7. What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision? (Appendix 1)

Whilst a significant amount of work is still required to calculate Service Charges by property, early indications have shown that the total number of services and thus costs of living in Sheltered Accommodation is higher than that of general needs.

A compensating factor is that a higher proportion of Tenants in Sheltered Accommodation receive Housing Benefit compared to general needs, 72% against the average of 65%

To mitigate impacts for tenants following the introduction of service charges we are recommending that rents be reduced by the amount of the Service Charge in the first year. Annual rent uplifting will then apply to the net rent. This will phase in overall costs of rent and service charges and hence lessen the impact on tenants. Additionally we are commencing a rolling review of all our service contracts, to ensure VFM and this may actually reduce the costs of some services, which will then be passed onto tenants.

8. What consultations have been carried out with Scrutiny and others?

A detailed project plan has been developed and progress is monitored through the member and tenant HRAS Steering Group. A fortnightly project group comprising officers and tenants supports the steering group.

Communication and awareness raising with tenants has taken place through the ongoing tenancy agreement consultation; an article in the Tenants newsletter; face to face explanations and discussions at tenant drop in sessions across the county..

9. Chief Finance Officer Statement

The additional costs incurred will be contained within the HRA for the year. The introduction of service charges to tenants in 2015/16 will be closely monitored and over/under recoveries will need to be calculated each year & reported to tenants.

10. What risks are there and is there anything we can do to reduce them?

A detailed project plan has been developed and progress is monitored through the HRAS Steering Group.

The financial impact and risk of unaffordability has been addressed by proposing to reduce individual rents in April 2015 by the amount of the applicable service charges that the individual receives.

11. Power to make the Decision

The process undertaken so far and the future implementation plans are in line with the recommendations of Welsh Government and compliant with guidance in the Landlord and Tenant Act 1985.