



## CAERPHILLY HOMES TASK GROUP – 6TH JULY 2017

**SUBJECT: REVIEW OF HOUSING SERVICE CHARGES**

**REPORT BY: CORPORATE DIRECTOR - COMMUNITIES**

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### **1. PURPOSE OF REPORT**

- 1.1 To obtain the views of the Caerphilly Homes Task Group on the review of how service charges are collected within Sheltered Housing and the need to review service charges for General Needs accommodation, prior to its presentation to Policy and Resource Scrutiny Committee and Cabinet.

### **2. SUMMARY**

- 2.1 This report recommends the introduction of a fair and transparent system for recovering service charges from sheltered housing tenants for services provided.
- 2.2 The Housing (Wales) Act 2014 imposed a new duty for local housing authorities to comply with standards for housing quality, rents and service charges. Local authorities are required to review the way in which charges for services are claimed to ensure that tenants are only charged for services that they receive. Detailed guidance has not been provided but it is required that service charges fairly reflect costs incurred and be transparent with a detailed breakdown provided to tenants so they can see what they are paying for.
- 2.3 The Authority currently recovers its costs for services it provides to tenants in sheltered housing schemes by smoothing the cost of these services between all tenants within all of the schemes. This is contrary to Welsh Government policy. It is proposed that, in future, the Authority recovers from tenants the actual cost of providing services in their individual scheme, based on the calculated cost of providing the services in the previous financial year.
- 2.4 Most general needs service charges are not currently depooled and will not be considered in detail within this report, however, in order to comply with Welsh Government policy, a further report proposing the de-pooling of service charges for general needs tenants will be required.

### **3. LINKS TO STRATEGY**

- 3.1 The Single Integrated Plan 2013-2017 has a priority 'to improve standards of housing and communities, giving appropriate access to services across the County Borough'.
- 3.2 The Authority's Local Housing Strategy 'People, Property and Places' has the following aims:- 'To provide good quality, well managed homes in communities where people want to live and offer people housing choices which meet their needs and aspirations'.
- 3.3 The Wellbeing of Future Generations Act 2015 sets out the following wellbeing goals which link with the aims of this report:-

- A resilient Wales
- A prosperous Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A globally responsible Wales

#### 4. GENERAL – SERVICE CHARGES

- 4.1 The Landlord & Tenant Act 1985 defines a service charge as: *‘An amount payable by a tenant of a dwelling as part of or in addition to the rent which is payable directly or indirectly for services, repairs, maintenance, improvements or insurance or the landlord’s costs of management and the whole or part of which varies or may vary according to the relevant costs.’* The Act also advises that services charges, provision of services and/or works, the standard of work and any payments in advance must be reasonable.
- 4.2 A service charge is a payment made by a tenant or leaseholder towards the cost of services and repairs beyond those specifically for their property. For example, for tenants living in a sheltered housing scheme with communal lounge facilities, the cost of providing the communal facilities is covered by a service charge because it is available to all residents of the scheme.
- 4.3 Charges can only be made for services currently being received. Tenants have to be consulted prior to the introduction of any new services. Services covered by such charges may include but are not limited to:
- Staff cover (including sickness/absences)
  - Management/administration charges
  - Employing a Community Environmental Warden
  - Grounds maintenance work
  - Cleaning costs e.g. communal areas
  - Internal/external improvements e.g. car parking
  - Decoration of communal areas
  - Building Managers Health & Safety maintenance checks, e.g. Fire safety, legionella
  - Utility costs
  - Installation, maintenance and/or repairs to:
    - Door entry systems
    - TV aerials
    - Internal, external and emergency lighting
    - White goods, communal furniture, fittings & equipment
    - Laundry services and drying areas
    - Lifts & communal adaptations
    - CCTV
- 4.4 Local authorities have historically included the cost of providing services in the rent charged to all tenants, regardless of whether all tenants receive the service. This pooled approach is easier for local authorities to administer than itemised charges but it is not fair and transparent for tenants. It can result in loss of revenue and some tenants paying for services they do not receive.
- 4.5 The costs of providing services to tenants of sheltered schemes have long been de-pooled from rents and service charged to sheltered housing tenants. Currently these service charges are based on historical actual costs that have been subject to agreed annual percentage increases for a number of years. The costs of all the services are combined and are smoothed across all tenants of all sheltered schemes irrespective of whether or not they receive all of the services. It is recognised that the combining and smoothing of service charges and the imposition of annual percentage increases do not accurately reflect actual annual costs,

resulting in the Authority subsidising any shortfalls.

- 4.6 Through service improvements and the current Welsh Housing Quality Standard (WHQS) sheltered housing programme of work, the Authority continues to seek ways of reducing service charges to tenants and promoting sustainability for the future, for example, energy efficiency initiatives, including improvements to heating systems, insulation and energy efficiency lighting.

## **5. SHELTERED HOUSING**

- 5.1 Sheltered Housing comprises groups of unfurnished units of accommodation (bungalows, flats or bedsits) designed to meet the needs of older people. The aim of sheltered housing is to enable older people to live as independently as possible with the added security of support from dedicated Sheltered Housing staff. It also gives residents the opportunity to make friends and to socialise through the use of communal facilities and activities. There are 34 sheltered housing schemes comprising of 987 units of sheltered housing in the Caerphilly Borough, 15 of these are under one roof and one is an 'extra care' scheme.
- 5.2 For the majority of Council tenants in sheltered housing, the cost of meeting most service charges is covered by housing benefit, either in part or in full. There are currently 215 sheltered tenants who are not in receipt of any housing benefit, with 710 tenants on part or full housing benefit. The findings of the recent UK government's 'Supported Housing Review' are potentially significant for the future funding of all types of supported housing in Wales. It is proposed that from April 2019 all tenants will receive Housing Benefit only up to the Local Housing Allowance limit. Any additional top-up funding required, such as that for service charges, will be devolved to Welsh Government. Arrangements are yet to be determined so there is still significant uncertainty and until these changes have been confirmed we are unable to accurately assess the potential impact on tenants of sheltered housing schemes.
- 5.3 Throughout the County Borough utility charges in sheltered accommodation have also been de-pooled. Utility charges for communal facilities in sheltered housing and for units of accommodation that do not have individual metering are smoothed across each specific scheme against actual usage and shown as a separate charge on the tenant's rent account. Notification is provided annually by letter to tenants at the end of August/beginning of September. Through the WHQS programme of works for sheltered accommodation we are continuing to increase the number of schemes with individual utility metering for units of accommodation which will further reduce incidences of smoothing.
- 5.4 As detailed in 4.5, other than utility charges, management services for sheltered housing tenants are combined and smoothed across the tenants of all sheltered housing schemes. These tenants do not get a breakdown of this service charge as it is detailed as one payment in addition to their rent charge on their rent account. For 16/17 all sheltered housing tenants were charged £23.49 per week. Point 4.3 above provides examples of services that are charged.
- 5.5 Many tenants have expressed frustration that they are not able to have a clear breakdown of their service charges to compare with the services that they receive.
- 5.6 It is recognised that smoothed charges can result in:
- Under and over charging of tenants across schemes
  - Tenants contributing towards a service they do not receive, and that may be neither available nor necessary within their scheme
  - Tenants being unaware that they are paying for a service
  - Services provided and the quality of services may not reflect the needs and aspirations of tenants
  - The cost to the landlord being unclear, with the possibility of under or over recovery of costs.

- Difficulty demonstrating that a particular service provides value for money

5.7 Basing charges on actual costs per scheme gives the opportunity to:

- Become more fair, transparent and equitable in our provision of services to tenants
- Better evidence the cost of provision of services
- Improve the quality of the services provided to tenants
- Increase levels of satisfaction of the tenants
- Consult tenants on individual service charges
- Become more responsive to the needs and aspirations of tenants within individual schemes
- Better support those tenants applying for, or in receipt of, Universal Credit

5.8 Extensive work has recently been undertaken to identify those services provided to individual sheltered schemes and the accurate expenditure costs of providing services to those who receive them. We have undertaken a cost analysis per scheme for the past two years. This has provided an actual cost per scheme which can be compared against the charges made to tenants to evidence not only the range of costs between schemes but also the level of subsidy funded within the service.

	<b>Weekly service charge to tenant</b>	<b>Lowest actual weekly cost</b>	<b>Highest actual weekly cost</b>	<b>Average weekly cost</b>	<b>Average weekly subsidy</b>	<b>Total subsidy per annum</b>
2014/15	22.58	22.34	48.74	29.66	7.08	326,926
2015/16	23.03	20.93	42.24	26.47	3.44	158,845

5.9 As can be seen in the table above the range of costs between schemes varies year on year depending on what is provided at each scheme and previous charges are not necessarily an indicator of charges for future years (e.g. cyclical refurbishments). The table demonstrates that actual costs have reduced by some 10% on average, but there is still a significant under-recovery of costs, as demonstrated by the levels of subsidy. This ranges from 31% in 2014/15 to 15% in 2015/16. The above costs per scheme are unlikely to accurately reflect the costs going forward, and it is difficult to predict with certainty what the likely impact for tenants each year is in advance.

5.10 It has been established that the Authority currently has the capacity to charge for services based on the actual costs incurred in the previous financial year. It has also been established that, as with utility charges, notification can be provided annually to tenants during August/September. The cost of the yearly service would be divided into equal amounts based on the number of rent collection weeks and the number of tenant households receiving the service.

5.11 As charges would be calculated on the actual costs of services provided for each sheltered scheme, these charges will vary for each scheme due to the variation in the size of the scheme, and the nature and number of services provided. This proposal would be a significant change in the approach to recovery of service charges. Whilst some tenants will benefit from a reduction in charges, it will also result in increased costs to tenants of some schemes.

5.12 As a preliminary forecast for charges in 2017/18, using the most up to date actual costs currently available (2015/16 costs rather than the 2016/17 costs which are not yet available) and the current service charge of £23.49, 72% of tenants could be subjected to an increase in service charges, with 28% having a reduction. The average tenant increase would be £3.89 with a potential maximum increase of £18.75 in one scheme. The average reduction would be £1.03 with maximum reduction of £3.99.

- 5.13 It is proposed that transitional arrangements will initially be introduced for two years following implementation of the changes, to assist existing tenants in adjusting to them, following which their continuation will be subject to review by officers. It is further proposed that during the transition period service charge increases will be capped so as not to exceed the agreed annual rent increase by more than £1, therefore, the maximum service charge for 2017/18 will be £27.35 per week, an increase of £3.86. It is also proposed that if capped charges within a scheme reach actual costs, the transitional arrangements for that scheme will end.
- 5.14 It is recognised that some tenants will be concerned about future affordability but there will be options available for tenants, in addition to practical support from officers in relation to income maximisation. This could include the possibility of a move to alternative accommodation with lower or no service charges, or a review of existing services that may result in a reduction in levels of services provided, subject to full consultation at the individual schemes. It may also be possible to meet any requests for enhanced services, albeit for an increased cost, for example to return to full time Sheltered Housing Officer cover.
- 5.15 As mentioned in 4.6 above, the sheltered housing WHQS programme is now underway so consideration is being actively given to improvements that have the potential to reduce service charges for tenants. Such initiatives could include new energy efficient heating systems, independent utility supplies and meters, review of laundry facilities, energy efficiency lighting and other efficiency measures.
- 5.16 A communication and information plan is in place for raising awareness in preparation for the implementation of any agreed changes following the service charge review. Sheltered Housing Officer awareness sessions have been completed and tenants meetings were held in February/March at each scheme. The meetings included a discussion around the service charges review to raise the awareness of tenants and to respond to any questions or concerns they may have. Feedback from tenants was largely positive and tenants welcomed the opportunity to have a breakdown of their service charges based on actual expenditure. There will be further communication to tenants through a range of media sources prior to implementation of any changes.
- 5.17 Tenants will not be able to opt out of paying any element of service charges for their scheme if they do not use a service, for example the laundry room, however, consultation with tenants for future service provision, such as the opportunity to receive enhanced or reduced services will be the standard approach for the future.

## **6. GENERAL NEEDS**

- 6.1 The term 'General Needs Housing' is used to describe housing for rent that is suitable for anyone over the age of 16 including single people, couples or families. In common with many other Local Authorities this Authority has traditionally included the cost of providing additional services to tenants of general needs accommodation in the rent charged to all tenants, regardless of whether or not they benefit from a particular service. Services commonly provided for general needs accommodation include but are not limited to:
- Installation, maintenance and repairs to door entry systems
  - Communal lighting
  - Cleaning of communal areas and employment of Community Environmental Wardens
  - Maintenance of grounds and communal facilities
- 6.2 This traditional approach to service charges is no longer considered to be acceptable moving forward, following the introduction of the Housing (Wales) Act 2014 as the current Welsh Government policy for social housing rents requires Local Authorities to disaggregate, or de-pool, service charges from rents. Also, whilst under current housing benefit regulations most service charges are covered by Housing Benefit, with the introduction of Universal Credit tenants are increasingly required to provide information on the breakdown of rents and service charges as part of their application for assistance. Authorities, therefore, need to separate and

show these costs.

For these reasons, and also for reasons of fairness and transparency, most stock retaining Local Authorities in Wales have now completed or are working towards the de-pooling of service charges across all of their accommodation.

- 6.3 The Authority has already begun to introduce service charges for new services provided to new tenants, and has also consulted with some existing tenants on the possibility of introducing service charges for new services, however, the introduction of service charges for existing tenants and services will be the subject of a future report to Members in the near future. As the introduction of service charges for existing tenants would require a review of the Tenancy Agreement it is currently planned to coincide this review with the review that will be required to implement the Renting Homes (Wales) Act 2016.

## 7. WELL-BEING OF FUTURE GENERATIONS

- 7.1 This report contributes to the Well-being Goals as set out in Links to Strategy above. It is consistent with the five ways of working as defined within the sustainable development principle in the Act in that:

**Long Term** – improving and future proofing our properties; providing affordable housing for tenants; providing a fair and transparent service to tenants

**Prevention** – providing well maintained, safe, warm and secure homes; preventing disrepair and promoting low maintenance for the future

**Integration** – improved standards of housing and community environments

**Collaboration** – joined up working arrangements within in-house teams and cost effective procurement arrangements

**Involvement** – tenant meetings, consultation and information updates to obtain the views of the residents

## 8. EQUALITIES IMPLICATIONS

- 8.1 An Equalities Impact Assessment is not needed as this report is recommending changes to the manner in which existing charges are calculated, therefore the Authority's full EIA process does not need to be applied.

## 9. FINANCIAL IMPLICATIONS

- 9.1 Despite a willingness to review the appropriateness and level of service charges within schemes there is a risk of an increase in the number of low demand properties and higher rent and service charge arrears.
- 9.2 There will be a reduction in the likelihood of under recovery of the costs of providing services and any requirement to subsidise the provision of some services.
- 9.3 The rationale for, and costs associated with, the provision or removal of any subsidy will be better evidenced.
- 9.4 The proposed transitional arrangements will lead to under recovery of costs from some existing tenants during the transitional period, resulting in a loss of income, necessitating subsidy of the service provision.

## **10. PERSONNEL IMPLICATIONS**

- 10.1 There will be resource implications for managing and administering the calculation and recovery of service charges based on actual costs.
- 10.2 Current service delivery will be affected if existing resources are unable to sustain the increased responsibilities. Any additional resources would be service charged to the tenants.

## **11. CONSULTATIONS**

- 11.1 All responses from consultees have been incorporated in the report.

## **12. RECOMMENDATIONS**

- 12.1 The Caerphilly Homes Task Group is asked to consider and give a view on the following recommendations which will be presented to Policy and resources Scrutiny Committee on the 18th July 2017:
- 12.2 The proposal to charge tenants of sheltered housing schemes the actual costs of providing them with services per scheme is approved.
- 12.3 The proposal to introduce transitional arrangements for two years, prior to review, and to cap service charges in line with the rent policy during the transitional period is approved.

## **13. REASONS FOR THE RECOMMENDATIONS**

- 13.1 To comply with Welsh Government rent setting policy.
- 13.2 To provide a fair and transparent system to tenants.
- 13.3 To provide assistance to those tenants most affected by any increase in charges while they adjust to the changes.

## **14. STATUTORY POWER**

- 14.1 Housing Act 1985
- 14.2 Landlord & Tenant Act 1985

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