

SERVICE CHARGES REVIEW

Report of the Director & Company Secretary

1. SUMMARY OF REPORT

To inform and consult the local board about a review of service charges and the implications for tenants and funding.

2. RECOMMENDATION

That the local board discuss and provide feedback, as well as noting the wider consultation process.

3. MATTER FOR CONSIDERATION

- 3.1 Some services are provided only to certain groups of tenants. In many cases there is no specific charge, so the cost of these services ends up being shared between all tenants, regardless of whether or not they receive the service. This is known as the 'pooling' of service costs.
- 3.2 Rents make no allowance for the cost of these services, which are over and above those which a landlord provides to a tenant in a typical house. An example is grounds maintenance of communal garden areas around a block of flats. We incur an additional cost to maintain the communal areas, but the rent of the flats doesn't cover the extra cost.
- 3.3 The cost of the extra service has to come from somewhere. So, with no specific charge to provide funding, reductions have to be made in improvements and repairs to homes or in other services to tenants.
- 3.4 The government requires the Council to 'unpool' the costs of additional services. That means tenants who receive the service will have to pay a service charge to cover the cost, while other tenants won't be paying towards something they don't receive.
- 3.5 The good news is that where a new charge is introduced to unpool costs, the rent for that home is reduced. So when the charge is brought in the tenant should see little or no difference to the overall amount they pay. And we expect new 'unpooled' charges to be eligible for Housing Benefit.
- 3.6 The even better news is that all the additional income raised through service charges can be kept in Derby to spend on tenants' homes and services. Although rental income is reduced at the same time income rises, the strange nature of the Housing Revenue Account (HRA) subsidy system means that it

doesn't affect the allowances we receive from the government. But we keep the service charge income on top of that. So if, for example, we introduce £1 million of charges and the rent is reduced by a similar amount, Derby ends up £1 million better off each year.

3.7 Service charges are being introduced in phases, with the most significant being dealt with in phase 1, planned to be implemented from April 2010:

- Grounds maintenance (not including tree maintenance at this stage) - early analysis of some neighbourhoods suggests an average charge of about £2.50 per week, with the large majority between £1 and £4.
- Smoke alarms (to provide, maintain and replace) – about £1 per week for a house with two alarms, 50p for a flat or bungalow with only one.
- Communal cleaning and caretaking – early analysis suggests an average of about £2.50 per week, with the large majority between £1.50 and £3.50.
- Review of energy charges for Whitecross House, Rebecca House, Kestrel House and Oakvale House, to bring in line with current energy costs. Costs per flat not available at this stage.

3.8 Wherever possible, the cost of services is being calculated for each block or group of properties. This means that a charge will most accurately reflect the cost of the service provided at each site. Because of this the new service charges will not be standard and will vary from site to site.

4. CONSULTATION IMPLICATIONS

4.1 Unpooling of service charge costs will have a significant positive impact on the HRA. It will help to make up the gap between the income we receive and the higher cost of providing the level of service that tenants expect.

4.2 The management and maintenance allowances we receive from the government, under the HRA subsidy system, do not allow for the kind of services that are being unpooled. The subsidy system assumes that we are correctly applying service charges and so have a separate income to finance these services. This is not currently the case, which leads to a funding shortfall.

5. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

5.1 Along with the local housing boards, consultation with tenants is taking place at the Housing Focus Groups and the DACP. The Derby Homes Board will receive a report in November.

The areas listed below have no implications directly arising from this report

- Legal and Confidentiality
- Environmental
- Equalities Impact Assessment
- Health & Safety

If local board members or others would like to discuss this report ahead of the meeting please contact the author, or the Chief Executive, phil.davies@derbyhomes.org - Tel 01332 711010

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Background Information: None

Supporting Information: None