

## **SERVICE CHARGE REVIEW**

Report of the Director & Company Secretary

### **1. SUMMARY OF REPORT**

This report sets out some proposals for un-pooling specific service charges and requests approval to make recommendations to the Council affecting service charges from April 2009.

### **2. RECOMMENDATION**

2.1 To approve the principles set out in the report to increase or introduce the following service charges:

- energy charges
- burglar alarms (houses)
- burglar alarms (flats/bungalows)
- smoke alarms.

2.2 To recommend to the Council the introduction of specific service charges from April 2009.

### **3. MATTER FOR CONSIDERATION**

3.1 Un-pooling of service charges was raised at HRA Strategic Working Party on 22 September 2008. The meeting approved the concept in principle and requested a report to Derby Homes Board and undertake consultation with stakeholders.

3.2 The current position on service charges set by Derby City Council is that although there are specific service charges for some services the charge set generally do not reflect the cost of providing the service. This means any balance outstanding on the cost of providing the service is effectively paid from general rent income. When this occurs it is referred to as pooling the cost.

3.3 Service charges are reviewed as part of the annual rent setting process. However, a restriction imposed by the Government on un-pooled service charges limits the increase allowed to RPI + 0.5% except where the Council has no control over rising costs, for example increased charges for energy.

3.4 Local Authorities are encouraged to identify service charges separately based on the actual cost of services to individual properties and this report proposes introducing additional service charges in a phased approach.

- 3.5 A research exercise has been completed by a graduate placement which reviewed services and identified those that could be separated from rents. The exercise also included research into other Local Authorities and ALMOs to establish which service charges have been successfully introduced in similar exercises. The report is included in Appendix 1.
- 3.6 There are two main benefits of introducing fully costed service charges:
1. The calculation of housing element subsidy ignores service charges. This means service charge income remains within the Local Authority Housing Revenue Account (HRA) and is available to fund the cost of the relevant services which means funding is released to be used for other purpose in the HRA.
  2. The costs for a service will be attributed to only those properties receiving the service which would be a fairer method of calculating rents and charges.
- 3.7 A timetable for introducing service specific fully costed service charges is attached at Appendix 2. The services which have been identified and reviewed are detailed in Appendix 3. Detailed proposals for the service charges to be implemented from September 2009 will be brought to a future meeting.
- 3.8 The impact on individual tenants will be reviewed to ensure increased total rent and service charges remain within Government limits. Constraints are in place to ensure tenants are protected from large sudden increases and the Local Authority has discretion to reduce individual rents. Rents for other tenants not receiving a specific service will continue to be reviewed as part of the annual rent restructuring process. It is not anticipated that in general rent levels will fall because the current average rent paid is well below the target rent set through rent restructuring.
- 3.9 A preliminary meeting has been held with Derby City Council Benefits Team to confirm the service charges will be eligible for Housing Benefit subject to any legislative changes.
- 3.10 The decision to implement changes to service charges will be taken by the Council. This report seeks Board approval to make a recommendation to the Council to implement the proposed changes.

#### **4. FINANCIAL & BUSINESS PLAN IMPLICATIONS**

- 4.1 The proposed new charges and forecast additional income for implementation from 6 April 2009 is detailed in Appendix 4. In some cases the increase in the service charge cost will be covered by an increase in Housing Benefit received. Some tenants will pay the increase personally.
- 4.2 Service charges for energy costs are already in place for sheltered accommodation schemes. The increase to these service charges has not kept pace with rising energy costs and there is a significant shortfall between the service charge and the cost of providing the service. It is

proposed to update these charges. In addition, it is proposed to introduce a service charge for communal electricity consumed within blocks of flats. The charge will be site specific and reflect actual cost.

- 4.3 The cost of communal energy supplies is funded from Derby Homes operating budgets. Additional income collected from these two measures will be paid to Derby Homes to cover the energy inflation cost incurred.
- 4.4 Other extra income generated will be available to supplement the repairs budget or extend service provision.

## **5. CONSULTATION**

Detailed consultation will be completed and will be undertaken as part of the annual consultation on Rents and Service Charges through Local Housing Boards, CHCG and Community Commission.

## **6. LEGAL AND CONFIDENTIALITY**

- 6.1 The decision on rent increases and service charges require Council approval as part of the budget and policy framework.
- 6.2 A four week notice period is required to tenants to increase rents and service charges. This would be included as part of the annual rent review process.

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

- Personnel
- Environmental
- Equalities Impact Assessment
- Health & Safety

**If 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](mailto:phil.davies@derbyhomes.org) - Tel 01332 711010**

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**Background Information:** None.

**Supporting Information:** None.