

RESTRUCTURING OF SERVICE CHARGES IN SHELTERED HOUSING

1. INTRODUCTION

- 1.1 This report advises members of proposals to undertake the restructuring of service charges payable by sheltered housing tenants of this Council, following a review by officers.

2. BACKGROUND

- 2.1 Tenants of sheltered housing pay a weekly service charge, in addition to the rent. The purpose of the service charge is to cover all of the costs of running the scheme, such as warden support, and the heating and lighting of communal areas. The charge also includes a contribution towards the running of the central control service. In specific schemes the charge may also cover heating and lighting of individual flats, and (for non-self-contained flats) a contribution towards council tax.
- 2.2 In determining the levels of service charges payable, the aim is to cover all of the relevant costs, so that none of the burden falls on rent-payers generally.
- 2.3 The last major review of service charges was undertaken in the early 1990s. Since this time, annual increases have been applied to ensure that the basic aim of recovering overall costs has been achieved. However during the intervening period, certain events have taken place which have led to the creation of anomalies between different schemes. Examples of these events are:
- A number of schemes have been refurbished, which in some cases has reduced the number of flats contributing to the overall costs.
 - Changes to the level of warden support provided have taken place in some schemes.
 - Individual cost headings have increased at varying rates.
- 2.4 The arrangements for the funding of warden support have changed with effect from 1 April 2003. Charges levied are no longer eligible for housing benefit, but instead are subsidised via a supporting people grant, administered in this area by Hampshire County Council. Under the new arrangements, the County Council have overall strategic responsibility, and to this end will undertake periodic inspections. It is important for New Forest District Council to review its charges for warden support to ensure that they are sustainable. The first inspection of this Council is due to take place in 2005/06.

3. SCOPE OF THE REVIEW

- 3.1 A major task was to identify all expenditure headings associated with sheltered housing and to review the accounting arrangements. That is, should the expenditure item be taken into account in the setting of service charges, or should it be 'pooled' with other housing revenue account costs, to be funded by rents generally? Reference was made to some recent draft Government guidance on this topic.

- 3.2 Looking at costs to be met from service charges, where these are not allocated directly to individual schemes, the bases of apportionment have been reviewed. For the purpose of apportioning warden costs, schemes have been weighted to reflect the level of service received.
- 3.3 Gas, electricity, and water costs have been examined for each scheme, with the aim of determining what proportion is attributable to communal areas, and how much relates to individual flats. The relevance of this is that amounts relating to individual flats are ineligible for housing benefit.

4 RESULTS OF REVIEW

- 4.1.1 The review concluded that the general accounting arrangements for sheltered housing expenditure are correct. All costs currently allocated to the general service charge 'pool' are valid. Expenditure on the following items is excluded from service charge recovery and so is funded from rents generally:
- Grounds maintenance (other than specific scheme improvements)
 - Lift installation and maintenance
 - Fire alarms
 - Fire extinguishers
 - Insurance (other than pressure boilers and lifts)
 - Reactive maintenance
 - Planned maintenance
- 4.1.2 A weighting system has been devised for the purpose of apportioning warden costs. Separate totals of warden costs have been produced for category 2 and 2.5 schemes and costs per unit calculated. The following schemes have been allocated a lower weighting to reflect the reduced service received:
- Weighting 0.4- Campion House, Lime Tree House and Carlton House.
 - Weighting 0.3- Davis Field, Efford Court, Marryat Road, Foldsgate Close, and Deerleap Way.
 - Weighting 0.2- Rivers Reach and Willow Tree House.
- 4.1.3 Proposals for new weekly charges have been drawn up based on revised apportionment rules. Information with regard to schemes being overcharged/undercharged is contained in appendix 1.
- 4.4 Work to determine a fair split of gas, electricity and water costs between communal areas and individual flats is ongoing. Indications at this stage are that there will be a general shift in weighting of costs from individual flats to communal areas. This will have the effect of increasing the proportion of the overall service charge that is eligible for housing benefit.

5 IMPLEMENTATION ISSUES

- 5.1 Factors to be considered in deciding how the revised charges should be introduced include:
- (a) In the interests of fairness and the correction of anomalies, and notwithstanding other issues, implementation should take place as soon as possible.
 - (b) Around 85% of tenants are in receipt of housing benefit, and so will be largely protected from the effects of increased charges. Consideration needs to be given to the tenants who do not have this protection.
 - (c) Any phasing-in arrangements should ensure that the overall income level is maintained.

- (d) Ideally, the aim should be to ensure that support charges continue to be fully covered by subsidy for those tenants who are eligible. It is necessary therefore, to ensure that any changes to charges are acceptable to Hampshire County Council.
- (e) Any increases/ decreases of service charges for individual tenants should be considered alongside changes arising from rent restructuring, about to commence the third year of a ten year implementation programme.

5.2 Members may recall that under rent restructuring, changes are controlled, ensuring that no tenant experiences a rent change in any year of more than inflation +/- £2. It is possible to manage the combined effect of rent and service charge changes by specifying a further requirement that, in overall terms, charges for any individual tenant should not vary by more than inflation +/- £2.

5.3 Officers have investigated two alternative options for the phasing-in of revised service charges, assuming an overall limit as discussed in the previous paragraph. The options are to phase-in the charges over periods of 3 or 8 years. The reasons for choosing these periods are as follows:

- (a) A 3 year timescale seems to be the minimum realistically achievable, given the proposed constraints, and has the advantage that the optimum position is reached at an early stage for the majority of tenants.
- (b) An 8 year programme would tie-in with rent restructuring and would minimise annual increases.

6 EXAMINATION OF OPTIONS

6.1 Appendix 2 contains details of the impact on tenants of the alternative options, with effect from April 2004. It shows the approximate numbers of tenants receiving increases or decreases within different ranges, both in terms of service charges alone, and service charges combined with rents.

6.2 Under each option, the overall average service charge would increase by 3.6%. This is the amount required to ensure that costs are covered, and is slightly in excess of inflation (3.3%).

6.3 8 YEAR IMPLEMENTATION PERIOD

6.3.1 Under this option, 388 (53%) tenants would receive a service charge increase in excess of inflation with effect from 5 April 2004. For the remainder, there would either be an increase equivalent to, or less than inflation, or for a small number, a small reduction.

6.3.1 When the effects of rent restructuring are taken into account, the number of tenants receiving a combined increase in rent and service charge in excess of inflation falls to 254 (35%).

6.3.2 The number of tenants affected by the overall constraint outlined in paragraph 5.2 above would be around 16. In these cases, the implementation period would exceed 8 years.

6.4 3 YEAR IMPLEMENTATION PERIOD

6.4.1 Under this option, the numbers of tenants receiving a service charge increase in excess of inflation with effect from 5 April 2004, would also be 388. However, the shorter implementation period would also result in greater reductions where relevant. As a result, the service charge payable by 211 (29%) tenants would actually reduce.

6.4.2 Looking at the combined impact of rent and service charge restructuring, 313 (43%) tenants would receive an overall increase in excess of inflation.

6.4.3 Around 180 tenants would be affected by the constraint that the overall charge payable should not increase/decrease by more than inflation +/- £2 per week. This total would comprise some 60 tenants experiencing an overall increase, and 120 tenants where charges are reducing. For these tenants, full implementation could take from 4 to 10 years

7 SUPPORTING PEOPLE GRANT

7.1 Consultation has taken place with Hampshire County Council, with regard to the warden support element of the revised charges and the implementation arrangements. The County Council has expressed agreement to the proposals, subject to there being no overall increase in costs over and above the annual inflationary uplift.

8 TENANTS COMMENTS

8.1 The outcome of the review was discussed with members of the Sheltered Housing Focus Group in November. Tenants agreed that service charges should fairly reflect the level of service received, and supported the principle of restructuring. They also requested that the Council informs tenants individually in writing of the changes affecting them.

8.2 The Tenants Consultative Group has expressed support for the proposals.

9 FINANCIAL IMPLICATIONS

9.1 The objective of service charge restructuring is to make the system fairer to the individual charge payer. The Council's current charge is designed to recover costs and this principle is not affected by the restructuring proposals. As a result there should be no change to the net financial position for the Council. It is similarly expected that entitlement to 'Supporting People' grant is not adversely affected.

10 ENVIRONMENTAL IMPLICATIONS

10.1 There are no environmental implications arising from this report.

11 CRIME AND DISORDER IMPLICATIONS

11.1 There are no crime and disorder implications arising from this report.

12. PORTFOLIO HOLDER COMMENTS:

Service Charges should fairly reflect use, and the revised structure should result in a fairer distribution of costs between residents.

13. HOUSING HEALTH AND SOCIAL INCLUSION REVIEW PANEL

The Housing Health and Social Inclusion Review Panel support the recommendations contained in the report.

14 CONCLUSIONS

- 14.1 The revised charging structure discussed in this report will result in a fairer distribution of costs between sheltered housing tenants when fully implemented.
- 14.2 The impact of service charge increases may be mitigated for tenants by setting a limit on annual combined rent and service charge increases/ decreases of inflation +/- £2 per week.
- 14.3.1 The main issues to consider in deciding on the implementation period of the revised charges are as follows:
- (a) With a longer implementation period, the number of tenants who are liable for an annual combined increase in charges in excess of inflation is minimised. A minor consideration is that an 8 year implementation period would be consistent with rent restructuring.
 - (b) A shorter implementation period is the best option in terms of accountability, and favours those tenants who are liable for a reduction in service charges.
 - (c) Housing benefit will offset the effect of increases for those tenants who are eligible. However, the interests of non-eligible tenants should also be considered.
- 14.4 Many tenants in receipt of housing benefit should gain in due course from a general shift in weighting of gas, electricity and water costs from individual flats to communal areas.

15 RECOMMENDATIONS

- 15.1 It is recommended that, subject to the views of Hampshire County Council, with effect from 5 April 2004:
- (a) Phasing-in begins of a revised service charge structure for sheltered housing, as outlined in this report.
 - (b) The combined rent and service charge payable by any tenant should not vary annually by more than inflation +/- £2 per week.
 - (c) An implementation period of 3 years is set for the phasing-in of revised service charges.
- 15.2 To ensure continued fairness of service charges across all schemes, the charging structure should in future be reviewed annually as part of the budgetary review process.

<p>For further information please contact:</p> <p><u>1. Rent Accounting Matters</u> Gordon Ballantyne Housing Rents Manager (023) 8028 5175 Email: Gordon.ballantyne@nfdc.gov.uk</p> <p><u>2. General Financial Implications</u> Alfons Michel Principal Service Accountant (023) 8028 5713 Email: alfons.michel@nfdc.gov.uk</p>	<p>Background Papers: Housing Health and Social Inclusion Review Panel, 21 November 2001, Report B: Rent Restructuring</p> <p>A New Financial Framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account (Consultation Paper), June 2002.</p>
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<p><u>3. General Service Levels</u> Sue Reynolds Sheltered Housing Manager (023) 8087 1432 Email: sue.reynolds@nfdc.gov.uk</p>	
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**SHELTERED HOUSING
COMPARISON BETWEEN CURRENT AND PROPOSED SERVICE CHARGES**

Overcharge Up To £4

Bannister Court
Brinton Lane
Compton House (part)
Cranleigh Paddock
Evergreens (part)
Ewart Court
Foxglove Place
Howard Oliver House
Lawrence House (part)
Lime Tree House
Rivers Reach
Robertshaw House
Sarum House
The Mallows
Willow Tree House

Overcharge £4.01 to £8

Campion House
Churchill Court
Corbin Court
Davis Field
Deerleap Way
Efford Court
Foldsgate Close
Harvey Gardens
Lawrence House (part)
Marryat Road
Marryat Court

Overcharge Over £8

Carlton House

Undercharge Up To £4

Albion Road
Clarks Close
Clover Court
Compton House (part)
Evergreens (part)
Gore Grange(part)
Whitcroft
Winfrid House

Undercharge £4.01 To £8

Manor Close
Solent Mead
Wilson Court

Undercharge Over £8

Alexander Close
Barfields Court
Gore Grange (part)

**RENT AND SERVICE CHARGE INCREASES APRIL 2004- SHELTERED HOUSING
COMPARISON OF IMPLEMENTATION OPTIONS**

<u>Range of Increase (Decrease)</u>	<u>NUMBER OF TENANTS AFFECTED</u>					
	<u>Rent Only</u>		<u>Service Charge Only</u>		<u>Rent and Service Charge Combined</u>	
	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>	<u>No.</u>	<u>%</u>
<u>Implementation Period = 8 years</u>						
(Up to 0%)	16	2	86	12	0	0
0.1% to 3.3%	541	75	252	35	472	65
3.4% to 6.0%	169	23	286	39	254	35
6.1% Upwards	0	0	102	14	0	0
<u>Implementation Period = 3 years</u>						
(Up to 0%)	16	2	211	29	0	0
0.1% to 3.3%	541	75	127	17	413	57
3.4% to 6.0%	169	23	165	23	297	41
6.1% upwards	0	0	223	31	16	2