Calculating and Apportioning Service Charges in an Accurate and Transparent manner

A presentation for the National Housing Federation

Wednesday 3rd September 2014

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Adrian Waite
Introduction and Experience

♦ Managing Director of AWICS Ltd
  – Provides management consultancy and training services principally to social housing organisations
  – Recently advised Denbigh CC, Northampton BC and Oldham BC / Housing 21 on introducing service charges
♦ Chair of Impact Housing Association
  – Former board member of Calico Housing Association

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RICHARD TOWES
WHO AM I

● Leasehold Management since 1990 in a London Borough Council
● Trained over 4,000 staff in other organisations around the country
● Have done training for/with CiH, LEASE, RSLs' ALMOS, Borough/City and County Councils.

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- Sat on Government working parties for RTB, Leaseholds
- London Government Association adviser on Leasehold issues
- Founder member of London Leasehold Officers forum and member of London ALMOs forum
- Registered CIH trainer
- Own business since September 2008

What we will cover

- ♦ Assessing the technical support and advice available
- ♦ Establishing best practices of identifying and calculating service charge costs for your property portfolio
- ♦ Projecting future service charge costs earlier to minimise disruption to your organisation

Assessing the technical support and advice available

- ♦ National Housing Federation
  - Service Charges (a guide for housing associations)
  - Leaseholder and Tenant Service Charges Conference
- ♦ Chartered Institute of Housing
  - Managing your Service Charges effectively
  - Seminars and events
  - Home Ownership Conference

Other Help

- Others:
  - Residential Property Tribunal
  - LEASE - Lease Advisory Service
  - RICS Service Charge Residential Management Code
  - Other RSLs and LAs/ALMOs
  - AWICS
  - LTCS

Calculation of Service Charges

- Leaseholder Service Charges must be provided for in the lease
  - Include capital and revenue items
- Tenant service charges must be provided for in the tenancy agreement and include revenue items only
- Need to decide what services to charge for
  - For example, Lifts?
- Calculation should include the direct costs and indirect costs of the service

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Administration

- Administration fees can be based on:
  - Actual costs
    - The cost of the staff employed in administering service charges plus appropriate oncosts
    - For example, Northampton Borough Council
  - Estimated costs
    - An on-cost on the cost of the other service charges
    - For example, Oldham Borough Council / Housing 21 chose 10% - consistent with advice of the rent officer who also says 15% is acceptable for housing associations
- Difficulty in identifying actual costs is recognised:
  - *"Payment of a management charge based on a percentage of costs is not intrinsically unreasonable, having regard both to the position of the purchaser and of the vendors."* – Mahase v London Borough of Camden 1996

Staffing Costs and Supporting People

♦ Staffing Costs (wardens, managers, caretakers & concierges) – Full salary plus on-cost less a percentage for general housing management
  – Caretakers – apportion between estates and then between general management and service activities
  – London Rent Assessment Committee decided in 1967 that an appropriate appropriation to service charges is 15%

♦ Supporting People
  – Need to distinguish between housing management and housing support services
  – Trend for councils to reduce supporting people budgets and to fund services from the housing revenue account

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Heating, Lighting, Energy and Cleaning

♦ Heating & Lighting Communal areas
  – One option to apportion the total electric bill between flats and communal areas based on floorspace and recover the communal element as a service charge

♦ Cleaning communal areas
  – May be done by caretaker, warden, cleaner or contractor
  – Need to apportion the cleaners' wages between communal areas and other work and add appropriate on-costs

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Lifts, Furniture and Equipment

♦ Lifts are contentious
  – Ground floor dwellings
  – Government guidance

♦ Furniture
  – Usually covered by rent but charges can be made for maintenance

♦ Equipment
  – Tenancy agreements usually amended to include a service charge

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Grounds Maintenance

- Costs vary greatly
  - Work carried out by contractors, staff or residents
  - Sometimes a need to include maintenance & depreciation of plant
  - Non-recurring costs such as tree surgery
  - Lack of information to calculate apportionments
- Northampton Borough Council divided the borough into three zones and calculated a service charge for grounds maintenance in each zone per bed space
  - Not ideal – a more specific method could have been better

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Depreciation and the Usage Charge

- Depreciation can be included in a service charge
  - Accepted lives for different assets
  - But beware the housing benefit implications!
- Usage Charge
  - Based on providing equipment that is 'fit for purpose' and includes uplift for inflation

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What should not be in Service Charges?

- Repair, maintenance and insurance of the dwelling structure, fixtures and fittings and of the installations within the dwelling
- Provision, repair and maintenance of communal halls, stairways and passages.
- Provision of fixtures and fittings, including radiators, pipes etc. within the dwelling.
- Refrigerators, cookers and washing machines within the dwelling, if only provided by the landlord with no covenant to keep in repair or to maintain.
- Decoration of common parts, other than communal rooms.
- Interior decoration of dwellings, including provision of decorating materials.
- Management costs for other than service items.
- Staff training levies.
- Deficits and surpluses arising from previous years' costs.

Source: Rent Officers' Educational Trust

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Apportionment Techniques

- At what level should costs be collected?
  - Block
  - Estate
  - Scheme
  - District
- How to apportion costs to dwellings?
  - Units
  - Bedrooms
  - Bed spaces
- Is there an intermediate stage of apportionment?
  - For example using floorspace to apportion total costs between schemes

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Projecting future service charge costs earlier to minimise disruption to your organisation

- Revenue Service Charges:
  - Model any known changes to services or costs
  - Model any increases required to achieve full recovery
- Stock Condition Survey
  - Ensure it is up to date, robust and identifies works to properties with leaseholders
- Business Plan
  - Ensure it is based on the stock condition survey
- Communication
  - Give residents advance warning of what the service charges will be

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Conclusions

- Decide what to charge for based on statute, case law and the provisions of leases and tenancy agreements
  - Decide between fixed and variable charges
- Identify all appropriate costs
- Apportion costs between schemes and tenants based on the best available information
- Ensure charges represent Value for Money
- Keep it Simple
- Consult and provide complete information
- Plan ahead using stock condition surveys and business plans
- Seek appropriate technical support and advice

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The End –
Any Questions or Comments?

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