

Unpooling of Service Charges – Cabinet Member Decision January 2008

1. Background Information

- 1.1. As part of its policy on rent restructuring the Government expects councils to separate out service charges from rents. This process is known as “unpooling”. Before making a decision on unpooling Councillor Harvey requested that tenants first needed to be consulted on the change to the way in which they pay for their rent and the charges currently included within the rent. This report provides an update to the consultation which has been undertaken during October and November with tenants.

2. Detail

- 2.1 The reasons the Government expects Councils to separate out service charges from rents are explained below:
 - Formula rents only include charges relating to the occupation of the dwelling such as the maintenance of the dwelling and general housing management services. They take no account of the additional communal services such as caretaking which are not provided to every dwelling.
 - Under the rent restructuring mechanism local authorities were urged by the government to separate those elements of the rental charge that relate to the provision of communal services such as grounds maintenance, caretaking, door entry systems, concierge services etc. so that there is greater transparency over the services that tenants are paying for in their rent. This process of separating service charges from rent is known as 'unpooling'.
 - The separation of service charges also enables the Council to make charges for specific service based on usage within individual estates - thereby more closely matching charges with services received by tenants and lessees. It also gives some scope to levy additional charges for some services that may not be covered by rent at the moment
 - There are some relatively minor short-term consequences for the Council in not unpooling its service charges from rent. These include the fact that the Council's return to the DCLG under the Housing Subsidy system is 'qualified' each year by the external auditors from the Audit Commission. However, this is deemed to be a minor technical qualification and does not result in qualification of the Council's accounts.
 - London Councils recently collected data from all London Boroughs on their levels of rent and service charges for the current year. This suggested that Westminster is one of only 4 out of 33 London local authorities who have not yet unpooled their service charges.

2.2 The process of unpooling service charges described below will be carried out in accordance with guidance issued by the relevant Government department between 2001 and 2003. Charges will be unpooled as follows:

- Rents will set for next financial year (i.e. 2008/09) using the formula under the rent restructuring regime.
- Service charges will be calculated relating to the cost of the services for which a charge is to be levied and deducted at an individual property level from the rent figure to provide unpooled rent and service charge amounts.
- Under this approach the aggregate of rent and service charge will be the same per property in 2008/09 as if rent and service charges had not been unpooled. From 2009/10 onwards the rent portion will increase as defined within the rent restructuring regime set out by the Government and the service charge element will reflect the costs of services provided.

2.3 Unpooling will give tenants greater choice as to the level and quality of service received. When service contracts are renewed CityWest Homes will ensure that residents are involved in determining what level of service they wish to see delivered at a village level. Where changes or efficiencies in service delivery lead to reduced costs then these reductions will be passed on to both tenant and leaseholders as reduced service charges. Tenants will thus see a direct benefit in reduced costs

3. Housing benefit

3.1 As part of the consultation tenants were informed that only those services which were eligible for housing benefit would be unpooled. The Housing Benefits policy Unit has looked at all the services which it is proposed to unpool and has advised that all will be eligible except for CCTV provided at estate level. Maximum income from this service is £16,000. This service will not therefore be unpooled. Costs of CCTV for individual blocks are eligible but are recovered as part of the charge for concierge services which are already charged separately.

4. Financial Implications

4.1 Tenants will in future be paying a separate charge for occupation and separate charges for the services identified in this report; this is consistent with the basis of charges set by other social landlords. Charges for these services are eligible for housing benefit and will in future be set to reflect the actual costs incurred in delivering these services.

5. Reason for Decision

Unpooling of service charges will enable tenants to exercise choice over the costs and levels of service provided and will produce additional income to the Housing Revenue Account.

Appendix A Explanatory Letter to Tenants sent 29 October 2007

Dear

Important information about the way your rent is charged.

I am writing to let you know that we are proposing to change the way your rent will be charged from April 2008.

We wrote to tenants in February 2003 explaining that the Government was changing the way it expected local authorities to calculate the rent they charge. The new method is known as the 'rent restructuring formula'.

The Government is encouraging all local authorities to separate the rent charged for your home from the charges for services such as gardening or cleaning. The Government wants tenants, just like leaseholders, to know what services they should receive and how much the service costs.

Most local authorities have already introduced service charges for tenants. Among the 32 London councils, only four, including Westminster, have not done so, although some Westminster tenants already pay a service charge for heating and hot water or a concierge service.

We are proposing, subject to Westminster City Council approval and resident consultation, that from April 2008, the costs for the following services will be separated out from the rent and shown as a separate service charge.

- Grounds maintenance
- Caretaking
- Cleaning
- Concierge services
- CCTV
- Communal lighting

Please note that you will only be charged for the services you receive where you live. Therefore if you do not have a caretaking service – you will not pay for that service. The rent restructuring formula will still be used to calculate your rent but the service charge will be calculated separately based on actual costs.

In the first year, to help you get used to these changes, there will be no extra charge for services, even though they are shown as a separate item. We will deduct the service charge from your rent once the rent for 2008- 2009 has been calculated. There may be a slight, total increase, because your rent has to be calculated every year, based on the Government formula.

The enclosed leaflet explains the rent restructuring formula and how rents are calculated. If you are currently eligible for housing benefit for your rent, you should be entitled to housing benefit for your service charge as well.

In future, we hope you will find this new way of separating out service charges is helpful. From April, like leaseholders, you will know exactly what your share of the costs of services to run your building or estate is.

If anything is not clear or you would like further information on the proposed separating of rents and service charge, please do not hesitate to use the telephone freephone has been set up on **0800 358 3784** that will be operational from Monday 29th October 2007 until Friday 23rd November 2007.

Our intention is always to provide the best service we can.