



In-depth Briefing

Local Housing Allowance (LHA) and Service Charges

Introduction

In the Spending Review and Autumn Statement 2015, the Chancellor announced a cap on Housing Benefit (HB) at the relevant Local Housing Allowance (LHA) rate for new tenants in the social rented sector. The announcement meant that the social housing sector would see major changes in the maximum levels of housing benefit available to tenants to pay for eligible rent and service charges, which are charges set by landlords to cover the costs incurred for estate management. The majority of social housing tenants in Wales claim Housing Benefit.

Subsequently, an announcement was made to postpone the effects of the policy on supported housing until April 2017 while the Department of Work and Pensions (DWP) reviews the impact, cost and future funding options.

Community Housing Cymru (CHC) is looking at the impact of the cap on both supported and general needs housing and exploring options to mitigate these impacts. This briefing paper is an outcome of the strategic day in May where participants agreed to share data, information and examples of initiatives that are taking place across the sector in which service charges are being reviewed. The paper discusses the proposed LHA changes, possible impacts and provides some case studies from across the sector where housing associations (HAs) are reviewing how to recover service charges.

Policy context for LHA and service charges

From 1st April 2018, the way Housing Benefit (HB) or the housing element of Universal Credit (UC) is calculated will change so that if a claimant has signed a new or renewed tenancy from 1 April 2016 (1 April 2017 for supported accommodation tenancies) the amount of benefit will be restricted to the applicable Local Housing Allowance (LHA) level for that size of household. If the tenant is single and under 35 years old the benefit eligible rent and service charge will be capped to a shared accommodation rate (SAR).

Service charges are governed by legislation and regulation and are meant to cover costs that the landlord incurs for the estate management. Some landlords provide some additional services for their tenants and leaseholders such as grass cutting, CCTV or lighting for communal areas. Until recently, most landlords have pooled service charges and often paid for the services out of the rental income. This has resulted in many social landlords losing revenue on the services they provide



De-pooling of Service Charges

In 2013, the Welsh Government introduced a policy stating that social landlords who currently pool rent and service charges must begin the process of disaggregating service charges from rent and consider the impact on their Business Plans. This was to be completed by March 2016.

The guidance calls for service charges to be de-pooled from the main rent charged in order to bring about transparency of service charges. This should also assist claimants of Housing Benefit to ensure that only the housing benefit or the maximum sum for housing benefit relates to rent and any eligible service charges.

The Housing (Wales) Act 2014^[3] introduced new powers for Welsh Governments to set a service charge standard and to issue guidance. This is currently being developed.

NPT Homes Rent De-pooling

As a registered social landlord, NPT Homes is required to follow and implement the guidance set out in the new Rent Policy issued by the Welsh Government.

From July 2015 to March 2016, NPT Homes contacted those tenants who were affected by these changes and provided information about the de-pooling process. NPT Homes wrote to over 1500 tenants, provided free post reply slips, and carried out a follow up visit. This was to ensure that tenants had opportunities to discuss the changes and to provide comments on the communal services they receive. They spoke to over 600 tenants, answering questions about the changes, discussing communal services and dealing with various housing management requests.

NPT Homes received 170 comments from tenants on a wide range of issues, which were all considered during the consultation period and fed back to the different services. The range of comments covered areas, such as:

- Cleaning
- Housing Management requests for landlord services
- Repair requests
- Grounds Maintenance
- Welsh Housing Quality Standards
- Refuse and recycling

3) <http://www.legislation.gov.uk/anaw/2014/7/notes/contents>



During the visits a number of tenants requested assistance from the Financial Inclusion Team and Tenancy Support Services. The Financial Inclusion Team also held a number of drop-in sessions, providing benefit advice following rent de-pooling.

In February/March 2016 NPT Homes issued the Rent Increase Notice to all of its tenants and provided a full breakdown of Service Charges for those tenants affected by the de-pooling.

For the first time, NPT Homes issued Communal Service Standards to tenants in blocks of flats. As part of the rent de-pooling process they were keen to involve tenants in the monitoring of these service standards. There were around 30 tenants originally interested in becoming a Tenant Assessor from the consultation process. NPT Homes is pleased that it now has 12 tenants currently undertaking Tenant Assessors training and will soon be monitoring blocks of flats to assess the condition of internal and external communal areas.

They held a Finding Out More Session and a number of Co-design meetings with tenants, who have taken a lead in developing the job description, role, procedures and inspection forms. There is an on-going training package for tenants on health and safety, data protection and inspection and the new role will officially begin in September 2016. NPT Homes is continuing to promote this involvement opportunity and recruit more tenant assessors throughout the borough.

Head of Specialist Services, Clare Way, said:

'This has given us valuable information in preparation for the LHA cap where we can now identify/target particular areas of service provision which may be problematic once the LHA cap comes into force in 2018 for anyone who has moved in since April 2016... we have already worked with tenants in one area of the service to re-tender for an alternative call monitoring provider to not only reduce costs but achieve better value for money.'

What allowances are payable under Housing Benefit?

HAs provide a number of services for their tenants and currently a number of these are covered under HB and paid alongside eligible rent. LHA is a set figure dependent on location (Broad Rental Market Area) and family size and a single payment covers all contractual rent payments, including service charges.

Currently, service charges that are eligible under HB are for services which are paid to occupy the home and are related to the provision of adequate accommodation.



There are four eligible service charge categories:

- Maintaining the general standard of accommodation i.e. cleaning of communal areas. These are defined as areas (other than rooms) with common access (including halls and passageways) and rooms of common use in sheltered accommodation
- Areas of communal use i.e. other services such as those provided by caretakers which relate to the provision of adequate accommodation
- Basic communal services i.e. connection to a radio or television system (except satellite and cable relay systems) in specified circumstances
- Tenant accommodation specific charges i.e. children's play areas

Impact of Universal Credit and Local Housing Allowance on service charges

Claimants of Universal Credit will have slightly different service charge eligibility which is paid as part of their housing element:

For Universal Credit, an eligible service charge is a charge that a person must pay to live in social housing or a property they own. It can only be for:

- Maintaining the general standard of the accommodation, including internal and external maintenance and repairs and window cleaning of the upper floors only of a multi-storey building
- General upkeep of communal areas including maintenance, cleaning and utility costs for internal and external areas such as laundry rooms and children's play areas
- Basic communal services that are available to everyone living in the accommodation, such as refuse collection, communal lifts, secure building access, wireless or television aerials to receive free channels
- The use of essential items provided in the accommodation such as furniture or domestic appliances

HAs assessing the impact of the LHA Maxima policy on their service charges for UC claimants should reference the [DWP guidance for landlords.\[4\]](#)



The impact on supported housing

The LHA Maxima policy has been postponed until April 2017 for supported housing. The sector is currently awaiting clarity from DWP on a new funding model for supported housing. The LHA Maxima policy, in its current format, presents serious risks to the viability of supported housing. The introduction of LHA Maxima policy to supported and sheltered schemes will have a devastating effect on the financial sustainability and ongoing provision of these schemes. This is because the additional service charge costs required to house the most vulnerable tenants would place many schemes above the applicable LHA rate.

A recent survey by CHC of Welsh housing associations found that the rent and service charge for 57% of supported accommodation is over the applicable LHA rate, and we are clear that the UK Government's offer of a slight increase in DHP is inadequate. The survey predicts that 1 in every 3 properties will have a rental and service charge above the appropriate LHA rate in 2018 (1 in 5 when assessing general needs stock). Figures from the survey show that the total DHP required to mitigate the cap's impact for supported accommodation will reach an unsustainable £21.3m per year.^[5]

This policy will also impact on those living in general needs accommodation. While current rent charges for a number of areas are below the LHA rates, it is service charges, such as maintenance of shared facilities and the provision of furniture, which will leave many tenants with a shortfall in housing costs. Accommodation where additional service charges are required, such as high rise flats, will also be adversely affected by the policy.

In addition, the shared accommodation rate (SAR) of LHA is under £50 per week in the majority of BRMAs in Wales. This would rarely cover rental cost of a unit let alone the additional management services charges that are often associated with shared accommodation. CHC and the Welsh Local Government Association have commissioned research to look at the housing options available for under 35s that will be affected by this policy and you can view the final report on the [CHC website](#).

What are organisations currently doing to mitigate risk?

A number of housing associations began analysing their service charges with the introduction of Universal Credit. In England, the National Housing Federation is working with members to identify the issues that they anticipate around service charges and the implementation of LHA Maxima for social housing.

The National Housing Federation has carried out analysis to establish the impact of the LHA cap on the sector using lettings information from 2012/13. Discussions with their members have outlined challenges as well as some possible solutions. Some solutions discussed by



organisations include developing a service charges strategy, putting measures in place at the development stage to ensure lower cost of services, implementing strategies to keep procurement costs down and involving residents in setting service charge, monitoring and delivery.

HAs are reviewing service provision and recognise that a more flexible offer is needed. Some are looking at tiered services (e.g. bronze, silver, gold service and associated rents); however, there is some concern about the impact of this on attracting employed tenants. In addition, differential service offers can be hard to manage. One association is exploring a cross-subsidy model through transferring some units into a separate private rented sector (PRS) subsidiary with half units targeted at a higher end PRS and the other half targeted at those impacted by the 'bedroom tax' and under 35 SAR.

Housing Associations in Wales

A number of HAs across the country have started to look at the possible impact of welfare reform on service charges and business sustainability. This work has included looking at the impacts on new developments, scrutinising service charges through the de-pooling exercise, and increasing tenant engagement to find out what services tenants require and are prepared to pay for.

CHC is currently working with members to map initiatives and share good practice around service charge provision. HAs are currently assessing the likely impact on their businesses and tenants and looking at different ways in which to sustain provision of services. Discussions at a strategic day held in May focused on a range of issues, including whether service charges should be standardised across Wales and whether service charges could be reduced to meet the LHA rate.

Participants felt that there was a need to be more transparent by, for instance, entering into discussions with tenants on the services that they actually require to achieve tenant buy-in to any changes. Other areas for improvement that were noted included the development of better collaborative ways of working with other organisations such as LAs and health, and considering in detail at the design/development stage how to minimise service charges going forward.

The following case studies give a flavour of the work currently undertaken by our members to review service charges in light of policy changes.

4) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/541509/universal-credit-service-charges-guidance-landlords.pdf

5) http://chcymru.org.uk/uploads/general/Impact_of_Capping_Housing_Benefit_at_LHA_rates_-_In-depth_briefing_paper_April_2016.pdf



At Pennaf, every new scheme that comes up is put through an LHA affordability test so that the Board can identify whether a scheme is affordable under LHA rates before it is approved.

The organisation is reviewing the supported housing, older persons and general needs service charge items/expenditure with a view to reducing these where possible, or removing the charge and asking tenants to purchase/procure service directly from external providers if possible. The Group is also reviewing the calculation of service charges against LHA rates for the procurement of estate management/cleaning of communal blocks, etc.

The above is being assessed against profiled tenants with different incomes. Tenants are grouped by factors such as whether they are working/not working, and whether they are claiming the various non-working benefits such as Job Seekers' Allowance, Attendance Allowance (AA), and Personal Independence Payment (PIP) etc.

Rhondda Housing Association

In response to the introduction of LHA rates in social housing and the cap on Universal Credit, Rhondda Housing Association has formed a Task and Finish group to look at service charges across the organisation and ensure that they are maximising the money collected from service charges and providing value for money. The ongoing service charge review, which is set to be completed in September, is looking at the issues of administration charges on service charges and reviewing where and when service charges should actually be applied and what services should be passed on to the tenant.

As a starting point the Task and Finish group is reviewing the 12 most expensive schemes and reassessing the charges. These include sheltered schemes and schemes for over 50s. In some areas they have identified that they have on-going charges on capital items such as lifts, where charges are implemented each month, which is resulting in the creation of something almost similar to a sinking fund. The Task and Finish group is looking at recovering charges only when a service has been provided e.g. when there is a need for repairs.

Mid Wales Housing Association

Mid Wales Housing Association's focus has been to look at more affordable solutions for communal cleaning and gardening. They have removed costs for services which tenants didn't actually want, such as grounds maintenance for plots of land they never used. In some areas in the Hollies, Llanidloes and Powys, the organisation has leased out the land to other neighbours who want to garden the land. This has resulted in a win/win situation for tenants as the tenants have seen their service charges drop and those who like gardening have access to more land to work on.



The organisation has also taken out hard wired systems in sheltered housing to reduce the costs and use dispersed units.

One idea which the organisation has not delivered on yet is to link up local gardening clubs to undertake communal gardening at a significantly lower cost and perhaps converting some areas to grow vegetables and share the produce.

Newport City Homes

Newport City Homes (NCH) is reviewing its approach to service charges. The aim is to provide residents with easy to understand charges which accurately reflect the services they benefit from. This will enable NCH to demonstrate value for money.

A dedicated Service Charge Officer has been appointed to:

- Review the block structure to ensure consistency with leases/tenancy agreements so that costs can be attributed to block and communal area level.
- Review contracts which deliver services at block and scheme level.
- Introduce a new service charge cycle which allows differences between estimated charges and actual costs to be reconciled over a three year period (see attached diagram/explanation).
- Develop clear annual statements of reconciliation for residents.
- Implement formal and informal consultation processes.

So far, feedback from residents has been very positive. The first round of annual statements were issued to sheltered residents late last year with very few queries raised afterwards. NCH also delivered an interactive service charges workshop at their last resident conference which was received very well.

Itemised contract costings at block level make it easier to answer resident questions and to manage contracts more effectively. This ensures that NCH is obtaining value for money and providing quality services to residents in the right places and at the right time.

Aelwyd Housing Association



Aelwyd Housing Association provides supported sheltered accommodation mainly for the elderly. Given the nature of the housing Aelwyd provides, service charges are unavoidable. With the impending Local Housing Allowance (LHA) freeze (and the associated Housing Benefit cap) the Association is looking to gain efficiencies in any way possible in order to maintain rents at an affordable level. The Association says it is preparing itself for the unknown as it is not known whether or not additional funding will be made available to tenants of supported housing such as sheltered accommodation. Although Discretionary Housing Benefit payments are already available from Local Authorities this is considered to be an inadequate provision.

To give an indication of the impact of the LHA cap on their services, they tell us that the very nature of their buildings (and the associated service charge implications), means that apart from stock within Newport, Cardiff and Monmouthshire (where the LHA is significantly higher), the cap is likely to result in an average differential of between £8.00 -£12.00 per week between current rent charges and LHA capped benefit receipts at a typical CAT1 scheme. At schemes with increased service charge burdens (e.g. lifts/Scheme Manager Service) this increases to an average differential of around £30.00 per week.

The organisation is currently reviewing service charges to ensure that the service charges it sets are both reasonable in cost and appropriate and that tenants are fully informed and understand how service charge costs are determined. The extent and variety of communal services will vary considerably between schemes.

The service charge review will look at communal services provided to determine whether:

- The costs for such services across all schemes are equitable and reasonable.
- The services provided are wholly necessary.
- The services currently provided are eligible for housing benefit.
- Tenants have been properly consulted on the services that they receive

The Association hopes, as a result of the review, to identify potential savings in service charge costs and initiate a review of the management/administration fee currently added to service charges. The Association will investigate and clarify the reasons for the disparity between costs across on-going service charges that are recovered from tenants such as communal electricity, general cleaning, window cleaning etc. and aims to provide more durable, efficient savings on long term services such as replacement of communal flooring.

Working with tenants, the Association proposes to review and reassess the frequency of provision of services such as cleaning and gardening work and investigate whether such services could be delivered by alternate means. A possible alternative would be that, where appropriate, the Association draws up alternative designs that substitute small green areas, for example, with maintenance-free or low-maintenance alternatives.



With the provision of communal electricity, the Association is looking to analyse consumption charges at all schemes where upgrades to LED lighting have been undertaken. If satisfied that significant savings are being achieved, (and component failure is not significant):

- The Association proposes that funds be set aside for further capital projects over the next two years with a view to all communal lighting at schemes being predominantly LED-based within the next five years.
- And that when communal laundry equipment is next due for replacement that consideration be given to purchasing the most energy efficient models available.
- Depending upon the findings of the investigation, the Association will give consideration to restructuring the way in which it procures and delivers services at all its schemes and re-assesses its Management Charge, clearly evidencing how it is calculated.

A final outcome of the review process is that, on completion of the assessment, the Association can determine whether or not it is appropriate to charge the out-turn fee and, if not, what fee should be charged.

Conclusion

This briefing has attempted to highlight the policy changes likely to impact on service charges when the HB or housing element of UC is reduced in April 2018 (for those new or renewed tenancies after April 2016). The responses from our members show that a number of them are in the process of reviewing how they recover charges and maintain services which are responsive to residents' needs. The review processes show that members are currently engaging residents in discussions on how to implement service charge changes, ensuring that as organisations they are transparent and give residents the opportunity to determine which services they are prepared to pay for.

A number of initiatives are still in their initial stages and monitoring progress of these once implemented will be important. CHC will continue to share good practice across the sector. HAs are therefore encouraged to share their progress with us and we will ensure that we provide an update on the impact of the introduction of the LHA Maxima.

For more information on the content of this briefing, please contact Selina Moyo, Policy Officer on selina-moyo@chcymru.org.uk

