

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Equity Share Advisory Group 6th March 2003
AUTHOR: Finance and Resources Director

SHELTERED HOUSING SERVICE CHARGES
FOR EQUITY SHAREHOLDERS

Purpose

1. At the request of the Equity Share Advisory Group, to consider the financial implications of increasing the service charges made to equity shareholders for the provision of the sheltered housing service to a “full” cost level.

Background

2. At the outset of the Equity Share for the Elderly Scheme, service charges were set to recover the individual leaseholder’s share of the full cost on a scheme by scheme basis. In order to simplify administration it was subsequently agreed that a standard charge would be made irrespective of the particular scheme. Unfortunately, as it is not permissible to charge a leaseholder any more than their appropriate share of actual costs, average costs cannot be used to arrive at the standard amount.
3. Some years ago (following vociferous complaints), the former Housing Committee looked at the question of whether it was equitable to charge tenants and leaseholders differing amounts for the same service and decided to adopt a policy of charging the same amount regardless of tenure. As a consequence, the service charges are not set at a level sufficient to recover the full cost of the sheltered housing service and are subsidised, for both tenants and leaseholders, by rents in general.
4. The current standard service charge is £13.00 a week. It is estimated that full cost service charges would vary from under £20 a week to over £40 a week depending on the number of bedrooms in a property and the scheme to which it belongs. Potentially, therefore, in any one year, there could be around ninety different levels of service charge for leaseholders.
5. At the last meeting of the Equity Share Advisory Group it was agreed that consideration should be given to gradually increasing the service charge for equity shareholders, so that the full cost of the service would eventually be covered.

Considerations

6. Increasing the service charge for leaseholders to a full cost level would (based on the figures for last year and the current number of leaseholders) bring the Housing Revenue Account (HRA) around £140,000 extra a year.
7. At the last meeting of the Advisory Group, Members indicated that they would like any increase to be “phased in”, at least for existing leaseholders. If a maximum of £2 a year is added to the service charge then, in the first year, around £25,000 extra would be raised. The £140,000 would not, however, be achieved for some considerable time, as on several schemes it would probably take more than 10 years for the service charge to reach a full cost level. At the end of a five year period around £108,000 of additional annual income would be achieved on this basis.
8. There would be a considerable variation in the full cost charge from scheme to scheme and this could perhaps adversely affect the demand for properties on high cost schemes, particularly where there are schemes in the same village with widely differing costs.
9. The charges would, in line with costs, vary up or down from year to year and this uncertainty might be worrying for elderly people.
10. In addition to the service charge for sheltered housing, leaseholders pay ground rent, insurance premiums and a standard amount towards the outside maintenance of their own home. As a result of the introduction of the Supporting People Regime, anyone taking up residence after 31st March 2003 will, regardless of tenure, have to pay a further £6.50 a week.
11. There is likely to be more time spent on administering the equity share scheme as in order to charge leaseholders full costs, the Authority will need to prepare individual annual statements and have copies of invoices for all relevant services and works available for inspection. It has been indicated, by the Legal Office, that it is only acceptable to add a maximum of 10% for administration and, as existing recharges already exceed this maximum, there is no scope for recovering any additional costs of administration.
12. Apparently, the legal process involved with the purchase of a lease where a full cost service charge is to be made is more onerous than where there is a standard service charge. The Legal Office say that, in some instances, this could increase the time taken to sell a property by as much as four weeks and will involve the leaseholder in higher legal costs and the Council in more legal and administration work.
13. The reintroduction of differing levels of service charges for leaseholders and tenants might prove to be divisive and have an adverse affect on relations between residents. There will already be a difference of £6.50 between the charges made to new and existing residents (see para 9 above).

14. Income from the sale of equity share properties has been and must, under the proposed legislation, continue to be used for housing purposes. Unlike the proceeds from the sale of Council houses under the Right to Buy (the majority of which the Government is intending to pool), all of the receipts from equity share sales will remain with South Cambridgeshire.
15. A full cost service charge, particularly on the high cost schemes, may deter some applicants from proceeding with a purchase. As the receipts are used for the repurchase of equity share homes and to pay for improvements to HRA properties, which might otherwise have to be paid for from revenue or not undertaken until a later year, any loss of sale income could be viewed as a cost to the HRA.
16. The ODPM has indicated that Authorities should, over the next few years, move towards full cost charging for tenants in relation to services, like sheltered housing, which are only provided to a particular group of residents. It is clear, therefore, that at some future date service charges will need to be re-examined and it is a matter for Members whether they wish to look at leaseholders in isolation, in advance, or consider it more appropriate to review the service charges for both types of resident at the same time.

Financial Implications

17. The introduction of full cost service charges for leaseholders would be likely to eventually increase the HRA income by about £140,000 per annum.
18. The greater complexity involved in processing full cost, as opposed to standard charge, leases may result in properties remaining empty for longer with a consequential loss of income.
19. The introduction of higher and uncertain service charges could discourage elderly people from purchasing properties and, as receipts are used to fund expenditure on the housing stock, any loss of such receipts would effectively be a loss of funding available to the HRA.

Legal Implications

20. The terms of all existing leases granted under the Equity Share for the Elderly Scheme allow for the appropriate share of the full cost of providing the sheltered housing service to be recovered from the leaseholder.

Staffing Implications

21. There is likely to be considerable additional work involved in the administration of full cost service charges and this could potentially have staffing implications.

Conclusions/Summary

22. To increase the sheltered housing service charge for leaseholders would bring some additional income to the HRA. However, such income may be reduced or even eliminated by additional costs and the potential loss of capital receipts

needed to fund Council house improvements. Full cost service charges could also impact on demand for the more expensive schemes, lead to a longer legal process and be divisive

23. Phasing in a system of charging full cost over a period as short as 5 years would imply increases over 30% a year on some schemes.
24. If the weekly increase in service charges is limited to maximum of £2 a year it would take more than 10 years for the charges on some schemes to achieve full cost.

Recommendation

25. It is recommended that Members consider this report and make known their views.

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