



Service Charge Review

Service Review Panel: Kai Jackson (Chair), Archie Gibson (Vice Chair) Carlene Wynter, Ann Bayliss, Nikki Crook and David Turner

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1. Introduction

- 1.1. The Resident Scrutiny Voice Panel (RSVP) has been set up by Black Country Housing Group. The role of the Panel is to review services to residents and identify potential areas for improvement. The Panel is an important part of Black Country Housing Group's commitment to engaging residents. It is currently composed of 6 tenants and leaseholders.
- 1.2. Resident scrutiny is a key feature of the Regulatory Framework set by the Regulator of Social Housing. The Framework requires Registered Providers to set up and support scrutiny panels to look at services provided to residents. Whilst there is no requirement on landlords to accept recommendations arising from resident scrutiny there is a requirement to respond in a constructive and timely way to Panels. Through setting up, supporting, and considering the recommendations of the Scrutiny Review, Black Country Housing Group are demonstrating regulatory compliance. This will be proactively regulated in the future.
- 1.3. The Panel undertook its first service review on non-emergency repairs between August and November 2021 and made evidence-based recommendations, which were welcomed by the Black Country Housing Group (BCHG) Board about how services might be improved. The Panel have followed the progress of those and will receive a formal report from BCHG on changes made in June 2022.
- 1.4. This report details the findings and recommendations of a second service review by the Panel into Service Charges.
- 1.5. The Panel was supported by Ramesh Malhan (Head of Customer Voice) from BCHG. The Panel would like to thank all the members of staff and residents who have helped to support this investigation.

2. Approach

2.1. The Panel selected Service Charges as an area for their second Service Review. Annetta Birch had made a presentation to the panel giving an overview of Service Charges. The Panel identified from this that the key principles of the service charge policy: Transparency, Affordability and Viability are key topics within the Service Charge, they also felt this covered procurement and monitoring. This is reflected in the objectives for the review.

2.2. Objectives

1. To review how contracts are procured and selected
2. To review what is included as a service charge and compare this to non-service charge items
3. To review how service charges are calculated and embed the principle of transparency, affordability, and viability
4. To review how planned changes to assets are worked into service charge (Electric car charge point, Electric boiler)
5. To review how services and costs are monitored

2.3. Definition: What is a Service Charge?

The Panel have worked to the following definition of a service charge: a payment made by a resident towards the cost of providing and maintaining services and benefits, provided for them beyond the benefit of enjoying occupation of their own home. These are often referred to as communal facilities and are subject to the actual terms of the lease/tenancy agreement.

2.4. The Panel carried out the following Tasks:

Desk Top Review

- Annetta Birch presentation
- Service Charge Policy and Procedure
- Service Charge Specification
- Service Contract
- Service contract appraisal/ review
- Service Charge Calculation
- Service Monitoring Sheet
- Current performance figures (IFF survey)
- Complaints relating to Service Charges
- Health and Safety Policy by way of reference to standards required within a contract
- Procurement Strategy and Policy
- Tenancy Agreement
- Estate Communal Service Satisfaction Results

Interview with Annetta Birch,

Interview with Phill Heales, BCHG Head of Assets and Investment

Interview with Ken Harrison, BCHG Assets and Building Safety Manager

Joint Interview with Kaye Coulthard, BCHG Director of Finance and Stuart Collins, BCHG, Financial Accountant

Customer telephone survey

Site Visits with Customer Relation Managers, Amjad, Mirek and Sally

Inclusion in BCHG Annual Communal Estate Survey

Acknowledgement, and thank you to all the above staff that helped.

3. Findings

Interview with Phill Heales

- 3.1. That there are staff across 4 teams involved in the service charge setting and a new role of Homeownership and Service Charge Manager is now in place.
- 3.2. That there are individual workplans for each estate and the price is varied dependant on this. Costs are apportioned equally to the groups that benefit from the service.
- 3.3. That Value for Money is a critical component, looking at both the cost, quality; considerations include travel, time, and waste disposal. There was discussion around the benefit of services in house, and VAT saving. This may not always be applicable as some jobs require specialist contractors and equipment.
- 3.4. That the aim to achieve net zero by 2050 will not always directly impact service charges such as for electric charging points.
- 3.5. That service specifications through customer consultation can be adapted and changed.
- 3.6. That there is a lack of detail given to customers on service charges, which will be improved through access via the Customer Portal and providing a breakdown of what they are being charged.
- 3.7. That some service charge lines are not clear, and without a clear definition to guide staff where to post each item.

Interview with Ken Harrison

- 3.8. That Asset covers compliance safety checks on Fire extinguishers Lifts, Legionella, Asbestos, Gas and. Electric. That Gas Servicing is split into 2 groups: 1) Residential 2) Commercial, and specialist gas registered contractors are used to service those.
- 3.9. That a localised framework, made up of pre-qualified suppliers is used, such as Procurement for Housing. New suppliers are vetted.

- 3.10. That residents can be involved more in procurement.

Policy

- 3.11. The Service Charge policy had recently been reviewed and the cap on increases was welcomed by the Panel.
- 3.12. The Panel questioned a flat 15% administration charge, and why it is not varied for schemes that have less services and requirements.
- 3.13. Service Charges fluctuate each year and customers spoken to did not feel this is clearly explained.
- 3.14. Insufficient information is provided to customers. The wording of documents can be difficult to understand for all tenants.
- 3.15. The Health and Safety policy works alongside the Service Charges policy as it assesses the legal and procedural requirements for each property and the equipment used within them.
- 3.16. The Procurement policy forms the basis of how contracts are acquired and the specifications to be met by both BCHG and the contractor.

Site Visits

- 3.17. Estate visits are carried out by the Customer Relations Manager (CRM) responsible for the location. The frequency of visits depends on the number of homes and whether there are housing management, environmental issues, with a minimum of one visit per week. As there are no consistent monitoring sheets to show the weekly visits, the panel felt this needed following up and a system put into place.
- 3.18. Their appeared to be some inconsistency of the use of an estate inspection checklist.
- 3.19. The CRMs carrying out an estate inspection had good understanding of service requirements and about customer concerns.
- 3.20. Resident issues with services can be raised directly with the CRM in person, telephone, through IFF and communal estate surveys and through the customer portal. Where there are communal notice boards, the cleaners have a checklist that residents can view and leave a comment.
- 3.21. Grounds maintenance service is challenged by environmental issues such as fly-tipping, litter, and dog mess, which is an area that requires more assistance. Resident expectations of the internal communal cleaning service are not at times matched to the service specification. It was identified that the Department of Works and Pensions has changed the funding from a weekly clean to fortnightly.

Performance

- 3.22. The Panel notes the current performance of 72.4% satisfaction for communal cleaning, 71.69% for grounds maintenance and 66.27% for

window cleaning. That the overall service charge provides you VFM achieved 62.38%.

3.23. The Panel received direct feedback from 13 customers that indicated dissatisfaction with grounds maintenance and the window cleaning. This could have been helped if the grounds were left in a tidier state and a clearer expectation of the window cleaning service is explained to customers. A clearer expectation is also required on exterior maintenance of the property. Customers also had difficulty in knowing who to contact when they had an issue with their service charge.

3.24. This feedback was directly given by customers without bias. A closed question survey was carried out over the phone and data collected to form the statistical outcome.

Financial Analysis

3.25 That the information provided to the Panel for the three following sites was used for investigating the financial aspect of the service charge.

Name of property	No of properties	Type of Services/Residents	Type of service charge
Mountbatten Close	85	RTB Leasehold and Tenants	Fixed (Tenants), Variable (Leaseholders)
The Mews-Bearwood Close	41	Over 55 Tenants	Fixed charges
Vantage Point	44	Over 60 Retirement Living Scheme	Fixed (Tenants)

3.26 That under a fixed service charge where actual costs are more or less than what has been budgeted and charged to the tenant, there is no adjustment made to the following year's cost.

3.27 Under a variable service charge, where costs are more than budgeted, the under-recovery is added on to the following year's charge, where actual costs are less than budgeted -there is an adjustment made against the following year's charge to reflect this refund.

3.28 That leaseholders are not given a refund. The credit amount is applied to the next year service charge to reduce it.

3.29 That experience of leaseholders is not matched to the method. Immediate payment is asked for underbudgeted amounts, and there is no clear line of sight on amounts credited the following year to reduce it; this requires clarification and placed as a recommendation.

3.30 That BCHG aim to set service charges in line with the three policy principles: Affordability, Transparency, Viability

3.31 That on Affordability: For fixed services: BCHG seek to smooth out costs to make them more affordable. Try to avoid large increases.

3.32 That on Transparency: service charges are broken (itemised) out for customers. Further improvement is needed in this area. Customers can request additional information on their service (available on request).

3.33 That on Viability: BCHG seeks to recoup/recover all costs from customers, so it does not subsidize at no time at all.

3.34 That scheme costs vary due to size, frequency and layout, full detail of findings is set out below.

	RSVP Question	BCHG Response
1	How does BCHG take advantage of economies of scale so that customers can benefit from these and how are these translated into lower service costs for customers?	BCHG does business at the organizational level. All contracts are at the organizational level. For example, there is one cleaning company that is contracted for all properties.
	How do you decide what items will make up service charges for customers	Based on estate, building requirements and who are tenants and leaseholders
	What is a service charge?	Services for which the tenants/leaseholders pay for the day to running of shared facilities that fall outside the home and landlord (BCHG) responsibility.
	What are non-service charges?	Those costs for which the landlord (BCHG) is responsible and obligated to maintain by law, for example, drainage
	How are your service charges calculated?	<p>The general performance of the respective properties is reviewed. Look at the trends in performance across previous years, what has the actual costs of the service been, is there an under/over recovery for that scheme, if so, why. This information is then used to inform the best estimate of the charge required for the next 12 months.</p> <p>Each set of property is a cost center, and all costs are attributed to each cost center.</p> <p>How are they calculated?</p> <p>They are based on best estimates (and for Variable charges only, plus, or minus previous year's under/over recoveries. For Affordable Rent properties, charges for the upcoming year are increased by CPI as of September of the previous year +1%.</p>

		<p>This increase is fixed. For 2022/23 the CPI was 3.1.</p> <p>Since BCHG is governed by rent standard from the Regulator Social Housing, they must follow the guidelines on affordable rent.</p> <p>For social rent, there is no maximum or minimum but BCHG endeavor to remain within the Sept CPI limit +1%. The same applies to leaseholder. BCHG wants to stay within the band of affordability for all its customers.</p>
	<p>There are some inconsistencies in relation to cost elements across the properties. For example, for Vantage Point there is a Scheme Management Cost? Can you elaborate on this?</p>	<p>Vantage Point is a little different as it is a Retirement Living scheme. The Scheme Management Cost relate to services provided by the Scheme Manager employed at that scheme, who provides wellbeing services directly to those tenants. This is something different to what is covered by the Admin & Mgt charge.</p> <p>This cost relates to the Scheme Manager and is an essential service to the Retirement Living Scheme offer. BCHG have 6 schemes, and each has a full time (35hours) Scheme Manager on site. The service provided: Daily okay checks, Safety and security checks, estate and services management, personal well-being, and support plans, organizing events with resident committee, liaising with family, care/support agencies, welfare benefit and budgeting support. Please note that Housing Management functions such as letting, rent collection, and tackling behavioral issues are funded through rent. In simplicity, we have 80% of the cost paid through service charge, and 20%, which relates to housing management, paid through the rent.</p>
	<p>Since it is an independent arrangement, why then is BCHG charging a management fee on this arrangement?</p>	<p>An additional 15% admin and management fee is not being added for a scheme manager, which is excluded from this calculation. The admin and management charge are linked to procurement, accountancy, invoice</p>

		<p>payment and monitoring of contracts. The scheme is more complex and has a greater level of input from BCHG.</p>
	<p>Describe the steps BCHG takes to ensure that tenants and leaseholders understand how services are arrived at and how they are charged</p>	<p>BCHG sends to each Leaseholder customer their service contract at the beginning of year, showing the previous year cost plus the costs for the new year. Tenants get notified of their service charge each year through the annual review. Meetings take place at Schemes with over 25 homes, where Customer Relations Managers attend to explain costs.</p>
	<p>What is the difference between the following charges?</p> <ul style="list-style-type: none"> i) Admin & management fees ii) Usage fee iii) Scheme management cost 	<p>Admin and management cover the costs for the administration of service charges such as managing the contracts, paying contractor invoices, carrying out the annual review of service charges, communications to tenants & leaseholders, responding to service charge queries etc.</p> <p>Usage fee is a recovery cost: recovering the cost of assets put into service. This is effectively writing off the cost of the item over its useful life.</p> <p>Scheme management fee – this cost relates to retirement properties who have their own scheme managers and who provide a direct service to those tenants daily.</p>
	<p>Since BCHG housing acquire services at the organization level, then why do the unit cost of each service for each property is so different</p> <p>For example:</p> <p>Grounds –</p> <p>Mountbatten is £65.21</p> <p>The Mews is £79.21</p> <p>Vantage Point is £55.68</p> <p>Cleaning</p> <p>Mountbatten -£163.69</p>	<p>Generally, some services are broad, and some are restricted.</p> <p>Costs are based on the following:</p> <p>Grounds</p> <ul style="list-style-type: none"> i) Regularity frequency of services provided to each property ii) Size of grounds iii) How the grounds are planted (lot of grass and shrubby then grounds men required to do more) <p>Cleaning</p> <ul style="list-style-type: none"> i) Regularity of cleaning

<p>The Mews - £178.54</p> <p>Vantage Point -£322.65</p>	<p>ii) Size of property</p> <p>iii) What is involved in the cleaning contract, for example whether windows are a part of the contract</p> <p>Additionally, it depends on the contractor schedule of rates</p>
<p>I thought the schedule rates was determined in the contract</p>	<p>To provide additional information on this. Example provided.</p>
<p>What is maintenance provision and what is its purpose?</p>	<p>The maintenance provision is set up on leasehold flats that was purchased under the Right to Buy scheme. The maintenance provision is an estimated cost for major works and is made at the point of sale. It must be included in the RTB notice 125, so a leaseholder knows what costs can be expected within the first 5 years, known as a 'reference period'. This is to avoid any unexpected costs that can make it unaffordable.</p> <p>Once outside the 5-year reference period, the Landlord can start passing on actual costs to the leaseholder. However, BCHG has maintained the provision as an annual fixed amount for major works and includes communal repairs. In doing so, BCHG has kept service charges affordable.</p>
<p>How do you convert assets in usage fee/user charge?</p>	<p>An example was sent</p> <p>BCHG's schedule of assets is reviewed to ascertain the useful life of asset.</p> <p>The cost of the asset is then divided by the useful life of the asset. This cost is divided among the properties within the scheme. This cost is carried through until the cost of the asset is written off.</p>
<p>Is this depreciation repackaged as a user fee?</p>	<p>Effectively the usage charge spreads the total cost across the expected lifetime of the particular asset to spread the costs and avoid a large one-off payment, which is akin to the accounting concept of depreciation.</p>
<p>Do these assets go on BCHG's asset register? And if they do, is there depreciation charge these assets?</p>	<p>Yes, capital assets are recorded on our system, and it would generate a depreciation charge.</p>
<p>How does the information of what</p>	<p>This will usually be done through</p>

	constitutes a user charge is normally conveyed/explained to the customer?	consultation with the tenants and their CRM
	Can you provide some information on BCHG's policy on how these assets are converted to user charge?	<p>Where a tenant is 'benefitting' from the use of an asset, this charge would be passed on to them. This is for ongoing charge to service and maintain for example a lift our Telecare Alarm System.</p> <p>Only communal assets which are 'enjoyed' by the tenant in addition to those provided by the landlord as part of their occupation are classified/charged as such.</p>

4. Recommendations and Management Response

RECOMMENDATION:		FINDINGS
1. No voice no approval is extended to service contracts.		3.5; 3.10
MANAGEMENT RESPONSE:		
Responsible Officer: Phill Heales	<p>We welcome the extension of voice, but this should be done on contracts where there is influence. Contracts that are subject to regulatory/statutory requirements would not be suitable for this.</p> <p>Management agrees to deliver an overview on the Procurement process to Panels.</p>	
Implementation Date:	December 2022	

RECOMMENDATION:		FINDINGS
2. Administration Charge is reviewed and not set as one size fits all		3.12, 3.22, 3.34
MANAGEMENT RESPONSE:		
Responsible Officer: Kaye	<p>BCHG applies a percentage-based admin charge (15%) which means that those schemes with smaller service charges pay a lower admin charge and vice versa.</p>	

	Benchmarking across peers was recently conducted to provide assurance that 15% remained in kilter and a reasonable charge. The admin fee contributes towards the staff cost of the time taken to administer the service charge including the annual review of charges, provision of statements for variable service charges, procurement of contracts, processing and payment of supplier invoices and appropriate accounting of costs. Percentage based administration charge is the fairest way of passing on these costs and that 15% remains reasonable.
Implementation Date:	No Further Action Required

RECOMMENDATION:		FINDINGS
3. Consistent use of inspection sheets across the Team		3.18
MANAGEMENT RESPONSE:		
Responsible Officer: Jay	Management agree that a consistent sheet is used and will review this, and set up on a App.	
Implementation Date:	November 2022	

RECOMMENDATION:		FINDINGS
4. Communication of service charges is looked from a customer perspective and simplified and made clearer		3.6, 3.14, 3.23
MANAGEMENT RESPONSE:		
Responsible Officer: Jay/ Annetta/Kaye	Management agree that simplified language is required. A glossary terms will be produced for customers. Management have agreed to replace the term Usage Charge with Depreciation to hopefully aide the understanding of tenants. This charge reflects the payment for the asset itself over its expected lifetime and is in addition to the service charge payable for the ongoing maintenance and service	

	provision.
Implementation Date:	November 2022
RECOMMENDATION:	
FINDINGS	
5. Process is clarified on variable charge on how under and over is accounted for	3.7, 3.13, 3.29
MANAGEMENT RESPONSE:	
Responsible Officer: Kaye/ Annetta	<p>Variable service charges mean that where there is an over recovery of costs the difference is refunded to the tenant, and that if there is an under recovery of costs this is also charged to the tenant.</p> <p>Each September tenants who have a variable service charge will receive an annual statement and the following example provides a clearer explanation of timescales:</p> <p>Sept 2021 – Statement showing a comparison of actual costs incurred vs the service charge collected for the period April 2020 to March 2021 provided.</p> <p>Any under or over recovery will be shown on this statement and it is explained that it will either be added to or credited to the service charge account.</p> <p>April 2022 – Service charge for April 2022 to March 2023 set based on best estimate of what the charge for the year will be. In addition to this charge, there will also be an adjustment to either add any under recovery or deduct any over recovery for April 2020 – March 2021 as previously notified in the statements issued in September 2021.</p>
Implementation Date:	No further action required

RECOMMENDATION:		FINDINGS
6. Access to help, roles and responsibilities are made clear to customers		3.23
MANAGEMENT RESPONSE:		
Responsible Officer: Jay	We will make our offer clear and present this to the Panel.	
Implementation Date:	December 2022	

RECOMMENDATION:		FINDINGS
7. Service specifications are made available to residents, e.g., ground maintenance.		3.32
MANAGEMENT RESPONSE:		
Responsible Officer: Phill/ Annetta	Agreed that we aim to do this through Portal and Website	
Implementation Date:	January 2023	

RECOMMENDATION:		FINDINGS
8. Sinking funds are put in place on a case-by-case basis		3.34
MANAGEMENT RESPONSE:		
Responsible Officer: Kaye/Annetta	Overall BCHG does not currently have sinking funds in place. The way in which sinking funds work mean that it is difficult to introduce them for schemes which have been in	

	<p>existence for a few years as by this time there will have been income collected and expenditure incurred not reflected in a sinking fund. Where a sinking fund is not in place, expenditure for things which will last for a few years (capital expenditure) will be paid by BCHG and then recharged back to tenants over the expected life of the asset via the Usage Charge. This is to prevent tenants having to pay significant amounts at one time.</p> <p>BCHG will consider whether it is beneficial to use Sinking Funds for any new schemes moving forwards on a case-by-case basis. First scheme to be assessed is Regis Lodge.</p>
<p>Implementation Date:</p>	<p>Responsive, subject to new development programme requirements.</p>

9. Whilst not placed as a recommendation in the original report, the panel wishes to emphasize, given the economic power of BCHG, it should seek to leverage this power in gaining cost advantages for its large customer base- to ensure that every customer gets the 'best cost.'

Management Response: Management already use purchasing power and economies of scale to pass on the 'best cost' to residents and aim to achieve value for money.

Further discussion on Value for Money and procurement to be arranged with Panel to demonstrate how this is delivered by December 2022.

5. Lessons for future Service Reviews

To set up meeting with all involved to explain scope and requirements. Within the review there seemed to be communication issues around the financial and contractual related information, which resulted in sources sent not matching the request.

As this is a new panel, some staff members were less aware of the panel and the need for unfettered access to information. It is clear more broadcasting is needed about the Resident Scrutiny Panel so collaboration for the future will be more influential and produce better outcome.