

SPC - HOUSING COSTS - SERVICE CHARGES

Contents	Paragraphs
Introduction	1
Background	2 - 3
Issues	4
Action to take	5 - 6
Appeals	7
Further products	8
Annotations	
Contacts	
Appendix	

INTRODUCTION

- 1 This memo contains guidance about the amount of benefit allowed as a housing cost service charge¹ for leasehold residents in sheltered housing. DMs should note that this guidance expands on that given at DMG 78470 to 78481 concerning service charges, whether a service is connected to the provision of adequate accommodation and the deductions for ineligible service charges. The guidance updates and replaces that in DMG letter 11/05.

1 SPC Regs, Sch II, para 13(1)(b)

BACKGROUND

- 2 Certain leasehold management companies include the cost of a variety of services and charges in the calculation of the service charge that they levy on the claimants resident in their leasehold complex. The costs may include charges for staffing, general administration, building maintenance, counselling, management fees and support costs.

- 3 Some of these costs will be wholly connected to the provision of adequate accommodation¹ and eligible in full, some of the costs will be connected with counselling and support² and will not be eligible and some of the costs will comprise of both accommodation and support elements and therefore contain both eligible and ineligible costs in varying proportions.

1 SPC Regs, Sch II, para 13(2)(b); 2 HB Regs, Sch 1, para 1(f)

ISSUES

- 4 Recent Commissioner's decisions¹ have addressed some of the problems encountered when determining the eligible and ineligible aspects of the service charge. The Commissioners decided that:
1. where the service charge includes the salary of an employee of the management company it is necessary to establish the number of hours spent by that employee on providing accommodation related services in order to give a sufficiently accurate assessment of how much of the staff expenditure is eligible (the leasehold company should provide a timed breakdown of all the staff activities and relevant job descriptions)
 2. the eligibility of service charges must be considered by reference to each individual residential complex, an average figure taken by reference to a sample of developments will not suffice.
 3. any general administration and running costs should be calculated in proportion to the eligibility or ineligibility of the other service charges.
 4. any expenditure on items used for purposes other than the provision of adequate accommodation for the owners of the dwellings in the complex should be excluded from the reserve fund.

1 CIS/2901/04, CPC/968/05, CPC/1820/05

Action to take

- 5 For the claimant's individual residential complex the DM should obtain a copy of the service charge account, details of what the salaried staff are employed to do and a breakdown of the time they spend on their various duties. This necessary information forms the base to enable the eligible portions of a service charge to be calculated for each resident of that leasehold complex. See appendix for an illustration.

- 6 Where the service provider does not supply a breakdown of the staff hours spent on their various duties the DM may still be able to make a decision on the evidence and information they do have available, eg job descriptions, if they can make a judgement as to what proportion of activities and duties of the staff, if any, are connected with the provision of adequate accommodation for the residents.

Note: The absence of any information in this area may result in a service charge award based only on the eligible portion of the reserve fund and any items that do not require apportionment.

Appeals

- 7 Where an appeal is outstanding against a decision concerning the amount of service charge allowed that is affected by these Commissioner's decisions, the DM should consider whether it should be lapsed and the decision revised - see DMG 06160. If it cannot be revised, then the Commissioner's decisions should be brought to the tribunal's attention in a further submission.

FURTHER PRODUCTS

- 8 A number of other products have also been made available to help and support the DM in reaching a decision on the amount of eligible service charge. These other products can be accessed through the highlighted links and include [a spreadsheet calculator](#) (an automated Excel spreadsheet designed to assist DMs in giving uniform and correct service charge decisions), [a desk aide](#) (this provides guidance on how individual elements of the service charge should be categorized), [a standard draft letter to the service provider](#) (which includes an appendix for the breakdown of staff working hours) and [a standard draft letter to the claimant](#) including [a Welsh version](#).

ANNOTATIONS

Please annotate the number of this memo (DMG SPC 53) against DMG paragraphs:

78457, 78473 and 78480.

CONTACTS

If you have any enquiries about this memo, please write to ACI Division, Room GS36, Quarry House, Leeds. Existing arrangements for such referrals should be followed, as set out in DMG Letter 02/06.

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APPENDIX

Example

Hampton Court is a leasehold complex of three buildings set in their own grounds, providing extra care sheltered housing for 50 residents. The complex is maintained and run on a day-to-day basis by a management company. Each resident is required to pay a service charge of £90.00 per week, which is based on the costs encountered by the management company in providing a variety of accommodation, management and support related services for and on behalf of the residents.

The DM receives a copy of the income and expenditure accounts for Hampton Court along with job descriptions of the staff employed at the complex and a breakdown of the hours each member of staff spends on their various duties. The DM considers the various aspects reflected in the accounts that make up the service charge.

Hampton Court Limited

Income/expenditure account 2005/2006

<p>Detailed breakdown of reserve fund</p> <p>expenditure</p> <p>Building 1</p> <p>Maintenance and replacement of benches, trellis, pergola, fountain, lawns, flowerbeds, tarmac and paving</p> <p style="text-align: right;">£7,800</p> <p>Building 2</p> <p>Internal and external redecoration of staff rooms including replacement of doors and windows</p> <p style="text-align: right;">£6,500</p> <p>Building 3</p> <p>Replacement of lifts, windows, doors, re-pointing and re-tiling</p> <p style="text-align: right;">£20,000</p> <p>Total £34,300</p>	<p>Income £234,000 (50 units @ £90.00 p/wk)</p> <p>Expenditure</p> <p>Salaries</p> <p style="padding-left: 20px;">Manager £22,000</p> <p style="padding-left: 20px;">H/Keepers £80,000</p> <p style="padding-left: 20px;">Sleepover £25,200</p> <p style="text-align: right;">£105,200</p> <p>H/K Assts £60,000</p> <p style="text-align: right;">£187,200</p> <p>Electricity £3,200</p> <p>Gas £1,000</p> <p>Water £2,000</p> <p>Reserve fund £32,400</p> <p>Telephone £1,020</p> <p>Office expenses £1,080</p> <p>Stationery £1,400</p> <p>Audit fee £900</p> <p>Accountancy £1,800</p> <p>Management fee £2,000</p> <p style="text-align: right;">£234,000</p>
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Staffing costs

To determine the eligible portion of the staff salaries the DM analyses a copy of the latest Hampton Court accounts and reconciles the job descriptions of the staff whose salaries appear in the accounts with the split of time spent by those staff on accommodation related and support related services.

The submitted accounts show £22,000 is charged for the complex manager, £80,000 for five housekeepers and £60,000 for five housekeeping assistants. Further analysis of the job descriptions and the times spent on the various duties contained within them show

- all members of staff do a 40 hr week
- the manager spends ten hrs each week on personnel issues, ten hrs on finance issues, six hrs on developing a varied community life for the residents, two hrs on re-sales, two hrs on individual problems and ten hrs on contacting contractors and arranging building repairs (accommodation related duties)
- each housekeeper spends 28 hrs each week on supervision of housekeeping assistants, five hrs on social life activities for the residents, three hrs on ordering meals, two hrs on calls to GPs and nurses, two hrs on supervising gardeners and window cleaners (accommodation related duties)
- a housekeeper also spends 63 hrs each week sleeping on site and being available on call between 10pm and 7am each day (support related services), this is outside their normal contracted hours and represented on the accounts by a sleepover allowance of £25,200
- the housekeeping assistants spend a total of 150 hrs each week on serving meals, shopping, ironing, washing, dressing, personal hygiene, cleaning residents apartments and a total of 50 hrs each week on cleaning communal areas (accommodation related duties).

The DM decides that

- the manager spends ten hrs on accommodation related issues and this represents 25% of his 40 hour week, the same 25% ratio is applied to his salary costs of £22,000 giving an eligible portion of £5,500

- the five housekeepers each spend two hrs (ten hrs in total) on accommodation related issues. The total housekeepers time is 263 hours (200 contracted hrs + 63 hrs sleepover hours). Ten hours represents 3.81% of the total hours and this percentage applied to the salary costs of £105,200 is £4,008.12
- the housekeeping assistants spend a total of 50 hours on accommodation related issues, this amount of time represents 25% of their total 200 hrs and 25% of their £60,000 salary costs is £15,000

as such the eligible portion of the original £187,200 salary costs is £5,500 + £4,008.12 + £15,000, which equals £24,508.12.

Reserve fund

The Hampton Court accounts show, in respect of the reserve fund, an amount to cover all the predicted future works. The amount shown is estimated at £32,400. The more detailed itemised breakdown records the actual amount required to cover the predicted works as

- the maintenance and replacement of benches, trellis, pergola, fountain, lawns, flowerbeds, tarmac and paving £7,800
- the internal and external redecoration of staff rooms including the replacement of doors and windows £6,500
- the replacement of lifts, windows, doors, re-pointing and re-tiling £20,000.

The DM decides that, of the £34,300 actual costs, the amount associated with the staff rooms (£6,500) were not connected with the provision of adequate accommodation for the owners, which would leave £27,800 as eligible. £27,800 represents 81.01% of the £34,300 actual predicted costs. To calculate the eligible portion of the amount charged to the reserve fund, that will go towards the overall service charge calculation, the DM applies the same 81.01% ratio to the amount of reserve fund levied, £32,400. 81.01% of this amount gives an eligible portion of £26,247.24.

Note: the reserve fund costs reflected in the accounts are estimated hence the amount actually needed will usually be different.

General administration and management costs

The remaining costs are associated with the general running and administration of Hampton Court and several of them may combine a mix of eligible and ineligible costs.

To establish the eligible portion of the costs that comprise both elements the DM should apply the ratio of known eligible costs to ineligible costs of all the other established aspects of the service charges.

The submitted accounts list the remaining items as

- office expenses £1080, stationery £1400, audit fee £900, Gas £1,000, accountancy charges £1800, electricity £3,200, telephone £1020, management fee £2,000, water £2,000 Total = £14400

The known eligible portions include £24,508.12 salaries and £26,247.24 reserve fund giving a total of £50,755.36. The known ineligible portions include £162,691.88 salaries and £6,152.76 reserve fund (£32,400 - £26,247.24), giving a total of £168,844.64. The total of the eligible service charges at £50,755.36, and the ineligible charges at £168,844.64, makes a total of £219,600.00. The eligible charges are therefore 23.12% of the whole and expressed as a fraction of the remaining unattributed charges of £14,400 the amount eligible, therefore, comes to £3329.28. This amount can then be combined with the other eligible portions from the salary calculation (£24,508.12) and reserve fund calculation (£26,247.24) to establish the total amount of eligible costs. In this case the total amount is £54,084.64.

To calculate the final eligible service charge for a resident of Hampton Court the DM converts the annual total of £54,084.64 to a weekly and then an individual figure (divides by 52 - weeks and then 50 - residents) This gives an eligible service charge of £20.81p/week.

Eligible aspects of the accounts	
Salaries	£24,508.12
Reserve fund	£26,247.24
Admin costs	£3329.28
Total	£54,084.64
Divided by 50 residents and converted from a yearly to weekly figure	
= £20.81p/week allowed as a service charge	