Appendix D3: Leaseholder Service Charges

1. Synopsis

1.1.   This report proposes that the council replaces its current bedroom weightings method of apportionment for service charges with a points based system. This would enable us to apportion service charges in a manner that preserved the charge differentiation according to property sizes as well as facilitate 100% recovery of rechargeable costs.

2. Recommended Approach

2.1.   To replace the bedroom weightings method with the points system for the apportionment of home owners' annual and major works service charges.

2.2.   To introduce the apportionment method for each service charge element listed in **Table 2**, including replacing some unit rate charges with the points system.

2.3.   To implement the new approach from 1 April 2022.

3. Background

3.1.   Service charges are calculated at block or estate level, according to the service provided or work undertaken. There is no standard apportionment method to share the costs between individual properties but the most commonly used are: floor area, number of bedrooms, rateable value and a "unit rate" basis (i.e. cost divided by no of units).

3.2.   The council used rateable values to apportion all service charges until 1992. By 2002 annual service charges were apportioned on a unit rate basis and a bedroom weighting was used for major works. By 2007, most service charges were apportioned by bedroom weighting and the remainder by unit rate. Current and proposed apportionment methods for each service charge element are set out in **Table 2**.

3.3.   The current bedroom weighting method is summarised in **Table 1** below. Costs are divided by the total number of block/estate units (or in some cases the divisor used is the number of units attached to a communal system) to obtain a unit charge. A weighting percentage is then applied, depending on the number of bedrooms in a property to give the individual property recharge:

Table 1 – Current Bedroom Weighting Method

Bedrooms	Standard bedroom weighting	Heating bedroom weighting
Bedsit	20% reduction	20% reduction
1-bed	10% reduction	10% reduction
2-bed	Unit charge	Unit charge
3-bed	Unit charge	10% increase
4-bed	10% increase	20% increase
5-bed	20% increase	20% increase
6-bed	20% increase (30% for caretaking)	20% increase

3.4. The proposed system is one where each property is allocated four points (notionally to represent a living room, kitchen, hallway and bathroom) and one extra point for each bedroom. So bedsits would be allocated four points and a one-bedroomed flat would be allocated five points and so on. The amount each flat pays is the number of points as a proportion of the total points in the block/estate.

3.5. This approach is already in place for PFI1 and PFI2 leasehold stock and is a well-established system used by Southwark Council and other public sector landlords.

Table 2 – Current and Proposed Apportionment Methods for each service charge element

Service charge element	Actuals 20/21	Current apportionment method		Proposed method
	Average charge	LBI directly-managed properties	PFI1 & PFI2	
Block repairs & maintenance	£230	Bedroom weighting	Points	Points
Communal electricity	£50	Bedroom weighting	Points	Points
Entryphone repairs & maintenance	£21	Bedroom weighting	n/a	Points
Estate repairs & maintenance	£41	Bedroom weighting	n/a	Points
Fire safety	£33	Bedroom weighting	Points	Points
Grounds maintenance	£58	Bedroom weighting	Points	Points
Pest control	£3	Bedroom weighting	Points	Points
TMO / co-op charges	£564	Bedroom weighting	n/a	Points
Caretaking	£431	Bedroom weighting	n/a	Points
Heating (energy costs)	£322	Heating weighting	n/a	Points
Heating repairs & maintenance	£142	Heating weighting (annuals); bedroom weighting (major works)	n/a	Points
Concierge	£461	Unit	n/a	Points
Block mechanised services	£22	Unit	n/a	Points
Estate mechanised services	£49	Unit	n/a	Points
Digital aerial repairs & maintenance	£12	Unit	Points	Points
Building insurance	£268	Sum insured	Sum insured	No change
Management fee	£252	Unit (based on categories)	Unit	No change