Housing Association Service Charges and their Relationship to Rents

DataSpring report

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This paper aims to clarify the relationship between service charges and gross and net rents; and how they vary between different property sizes, areas and types of housing association (HA) - Large Scale Voluntary Transfer (LSVT) HAs, Black and Minority Ethnic (BME) HAs and mainstream HAs.

Understanding the relationship between rents and service charges is important for all stakeholders in the HA sector. Tenants need to budget for their housing costs by understanding what elements of those costs relate to rent and service charges and which elements of these costs can be met from housing benefit payments. HAs must determine their overall incomes in such a way that costs can be covered from this income. The Housing Corporation need to understand the relationship of rents and service charges in its role of regulator of the sector (including rent restructuring) and to assist in policy development.

Key Findings

- The likelihood of HA tenants paying a separate housing benefit eligible service charge decreases as property size increases.
- Service charges account for a decreasing proportion of gross rents as property size increases, i.e. as net rents increase with property size, service charges decrease.
- The inverse relationship between rents and service charges is strongest amongst mainstream HAs and is also more strongly correlated among LSVT HAs than BME HAs.
- There is a strong pattern of decreasing net rents as distance from London increases, but average service charges do not follow the same pattern. As a proportion of housing costs, service charges are more significant in Northern than Southern regions – so rents including service charges vary less between regions than do rents alone.
- Regional averages mask a wider range of service charges at district level.
- The overall pattern of rents and service charges in mainstream HAs are more coherent than those for LSVT HAs and BME HAs in part because of historical reasons.

Like other landlords, HAs may charge a service charge in addition to rent for the properties they own. There are a number of legal, financial and policy based frameworks such as accounting and housing benefit rules that aim to ensure landlords are accountable for the distribution of housing costs between the rents and service charges they collect from tenants. Basically, a rent should relate to the costs of the property and a service charge should cover other direct service based costs incurred by the landlord. HAs are also subject to wider rent regulation measures.
imposed and monitored by the Housing Corporation, including the government policy on rent restructuring.

HA tenants may pay for their service charges either in with their net rent in which case the HA does not need to mention them in their tenancy agreement, or as a separate charge. The sum of net rent and all service charges payable by a tenant is traditionally known as the gross rent.

Table 1 shows a breakdown of HA owned general needs self contained dwellings and the components of gross rents paid by tenants as reported by HAs in the Regulatory and Statistical Return (RSR): the net rent, service charges eligible for housing benefit (HB) and non-HB eligible service charges.\(^1\)

It shows that:
- Fewer than half of all HA tenant households pay a separate service charge;
- Almost half of such households (47%) pay a service charge eligible for HB; and,
- Around 10% of households pay a service charge not eligible for HB.

Table 1: Breakdown of Gross Rents Paid by HA Tenants at 31 March 2001

<table>
<thead>
<tr>
<th></th>
<th>Dwellings with no Service charges</th>
<th>Dwellings with a net rent and a service charge eligible for HB</th>
<th>Dwellings with a net rent and service charge not eligible for HB</th>
<th>Total Dwellings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self contained dwellings</td>
<td>678,203</td>
<td>602,089</td>
<td>121,857</td>
<td>1,286,127</td>
</tr>
<tr>
<td>Percentage of total dwellings</td>
<td>52.73%</td>
<td>46.82%</td>
<td>9.47%</td>
<td>100%</td>
</tr>
</tbody>
</table>


There is inevitably an overlap between the number of tenants that pay both HB eligible and HB ineligible service charges in addition to their rent. Unfortunately, because of the way that rents and service charge data are collected in the RSR - averages for all properties within a bed size category - it is not possible accurately to eliminate double counting of units. We can say how many tenants pay both HB eligible and ineligible service charges (116,022 tenants)\(^2\). Further, the figures in table 1 suggest the overlap is likely to be around 9%.

Table 2 shows average net rents, gross rents and the standard deviations\(^3\) for each of the groupings in table 1. In the case of ‘all dwellings’ and ‘net rents with service charges eligible for HB’, the standard deviation in gross rents is smaller than those in net rents. The implication is that the average gross rent is a better representation of

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\(^1\) Not all service charges are eligible for HB payments. The Housing Benefit (General) Regulations 1987 (S.I. 1987/1971) provides guidance on what costs are ineligible for HB. Most directly related housing costs are eligible. Those costs that are ineligible are summarised in the Appendix.

\(^2\) See Table A in the Appendix for a breakdown of rents and service charges as reported in the RSR 2001.

\(^3\) The standard deviation is a statistical measure of how the cases in a data set are spread out from the average. When the cases are pretty tightly distributed around the average, the standard deviation is small. When the cases are spread apart, the standard deviation is large and the average is not as representative of the whole sample.
all gross rents than the average net rent because of the impact of including service charges.

Table 2: Characteristics of Rents Charged by HAs at 31 March 2001

<table>
<thead>
<tr>
<th>Dwellings with:</th>
<th>No service charges</th>
<th>Net rent and service charge eligible for HB</th>
<th>Net rent and service charge not eligible for HB</th>
<th>All Dwellings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Net Rent</td>
<td>Gross Rent</td>
<td>Net Rent</td>
<td>Gross Rent</td>
</tr>
<tr>
<td>Mean</td>
<td>£65.70</td>
<td>£65.70</td>
<td>£59.36</td>
<td>£57.82</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>15.90</td>
<td>14.31</td>
<td>13.84</td>
<td>12.55</td>
</tr>
</tbody>
</table>


In 1997, the Housing Corporation introduced regulatory requirements for HAs relating to the rents that they charge. As part of their activity in relation to rent regulation, relative gross rents and their constituent elements have been monitored and since 1997 they have published the details (net rents and HB eligible service charges annually.

Until now the regulatory approach has related specifically to net rents and service charges eligible for HB. Regulation of rental increases has aimed to deter HAs from increasing HB eligible service charges disproportionately to rents and costs. Whether or not an HA has identified service charges separately has related to: the nature of the relevant stock; the HA’s internal management accounting practices; and, attitudes to transparency to tenants. Data suggest that policies and service levels can differ greatly between HAs even across similar types of dwellings in the same areas. For example, HA gross rents for two bedroom dwellings in the local authority district of St Albans vary from £56.62 (made up from a £55.48 rent and £1.14 service charge) to £73.56 (made up from a £68.39 rent and £5.17 service charge).

The situation has changed quite radically. In the Housing Corporation’s new Regulatory Code and Guidance regulatory requirements relating to rents from April 2002 are two-fold (obligation 3.1):

- HAs must set rents which move towards target social rents and are, on average, below those in the private sector for similar properties and which reflect size, property value and local earnings, i.e. rents are set in accordance with the rent restructuring formula; and,
- All residents are provided with information about their landlord’s rent policy and rent levels across the HA stock in the relevant local authority area. All residents are provided with information about their service charges including costs that their charges cover, how charges are budgeted and increases are calculated.

The aim of rent restructuring is to establish a system of realistic social housing rents that reflect local housing and employment markets. The rent restructuring agenda

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4 These requirements were set out in the Housing Corporation's regulatory document, Performance Standards and Regulatory Guidance for Registered Social Landlords (Housing Corporation. London. 1997) under Social Housing Standard D: Rents and Service Charges.
5 The way forward: Our approach to regulation (Housing Corporation. London. 2002).
applies only to net rents and not service charges so it has required all HAs to identify and cost services separately from the net rent determination. The ideal at the end of the adjustment process is to ensure consistency in net rents.

The remaining analyses in this Sector Study do not include service charges that are not eligible for HB payments, only general needs self-contained assured and secure (combined) net rents and HB eligible service charges (referred to as gross rents from this point) as at 31 March 2001.

The Relationship Between Rents and Service Charges: The National Picture

As the number of bedrooms in a property increase, the likelihood of the tenant paying a HB eligible service charge decreases. In 2001, 83% of tenants in bed sits paid an additional service charge; 69% in one bedroom properties; 43% in two bedroom properties; 23% in three bedroom properties; and, 34% in four or more bedroom properties paid service charges.

This pattern is, to some extent, explained by the mix of property types within each property size category. For example:
- Tenants in bed sit accommodation share communal areas and facilities such as bathrooms, and the costs of servicing these is generally recovered in a service charge.
- One and two bedroom dwellings are more likely to include flats than three and four or more bedroom properties. Flats are likely to attract a service charge in relation to communal areas.
- One bedroom dwellings include general needs sheltered housing. This commonly incorporates communal areas and other facilities covered by housing benefit payments.

Table 3: Average Rents and Service Charges by Housing Corporation Investment Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Net Rent (£)</th>
<th>Number of net rent</th>
<th>Service charge (£)</th>
<th>Number of s.chg*</th>
<th>Gross Rent (£)</th>
<th>% Of s.chg to gross rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>62.61</td>
<td>241,275</td>
<td>8.08</td>
<td>123,886</td>
<td>66.76</td>
<td>12.1%</td>
</tr>
<tr>
<td>South East</td>
<td>61.14</td>
<td>217,156</td>
<td>7.96</td>
<td>91,658</td>
<td>64.50</td>
<td>12.3%</td>
</tr>
<tr>
<td>South West</td>
<td>53.17</td>
<td>137,161</td>
<td>6.73</td>
<td>61,402</td>
<td>56.18</td>
<td>12.0%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>49.23</td>
<td>68,949</td>
<td>7.21</td>
<td>35,859</td>
<td>52.97</td>
<td>13.6%</td>
</tr>
<tr>
<td>East of England</td>
<td>55.67</td>
<td>107,917</td>
<td>6.95</td>
<td>48,925</td>
<td>58.82</td>
<td>11.8%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>47.51</td>
<td>169,938</td>
<td>7.23</td>
<td>66,637</td>
<td>50.34</td>
<td>14.4%</td>
</tr>
<tr>
<td>Yorkshire &amp; Humber</td>
<td>47.38</td>
<td>83,361</td>
<td>7.39</td>
<td>44,424</td>
<td>51.32</td>
<td>14.4%</td>
</tr>
<tr>
<td>North East</td>
<td>45.56</td>
<td>49,446</td>
<td>8.75</td>
<td>30,248</td>
<td>50.92</td>
<td>17.2%</td>
</tr>
<tr>
<td>North West</td>
<td>46.74</td>
<td>146,558</td>
<td>7.94</td>
<td>67,412</td>
<td>50.39</td>
<td>15.8%</td>
</tr>
<tr>
<td>Merseyside</td>
<td>45.22</td>
<td>64,463</td>
<td>8.45</td>
<td>31,725</td>
<td>49.38</td>
<td>17.1%</td>
</tr>
</tbody>
</table>

England | 53.74 | 1,286,224 | 7.67 | 602,176 | 57.33 | 13.4%

Source: Regulatory and Statistical Return 2001, Part O (Housing Corporation). *Note: Not all HAs charge service charges separately, so numbers vary between columns - gross rents are not necessarily the sum of average net rents and average service charges.

Nationally in 2001, the average service charge eligible for HB was £7.67, accounting for just over 13% of the average gross rent paid by general needs HA tenants (table 3). However, this average masks significant differences between regions and properties of different sizes (figures 1 to 3).

Figure 1 shows that average service charges decrease as property size increases. So, at £15.91 the average service charge for bed sits in England was more than twice the average for all property sizes (£7.67), while for properties with four or more bedrooms it was less than half the average for all property sizes (£2.90).
Figure 2 shows that average net rents follow the opposite pattern to service charges with respect to property size. Average net rents increase as the number of bedrooms in a property increase.

Figure 3 shows the impact that this pattern of service charges has on gross rents. As a result of their service charges tenants in smaller properties in particular have gross rents that hardly vary in relation to property size. More generally, service charges paid by tenants in bed sit accommodation account for just under a third of the total average gross rent charged but only 4% of the average gross rent paid by tenants in the largest properties (four or more bedrooms).

It is possible to test the reliability of these overall average trends by applying Pearson correlation coefficient analysis to the total sample of recorded HA rents and service charges provided by HAs in the RSR. Correlation analysis is used to measure the relationship between two variables. The strength and significance of the relationship is indicated by the correlation coefficient. The fact that variables are significantly correlated means that the relationships between them are very reliable across the

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7 Please refer to the Appendix for more information about Pearson correlation coefficients.
total sample of HA rents and is not affected by HAs with different stock profiles or sizes of stockholdings.

The findings of the correlation analysis on the relationship between service charges, net and gross rents and property size correspond to the analysis based on averages.

The relationships between property size and net rent, property size and gross rent, net rent and gross rent, and service charge and gross rent are all positively correlated. This means that as property size increases, net and gross rents increase, and as net rents and service charges increase, gross rent increases.

The relationships between property size and service charges and between net rent and service charges are negatively correlated. This means that as the number of bedrooms in a property increase and net rents increase, service charges reliably decrease across the total sample. Whilst the nature of properties of different sizes and their propensity to include common areas may account for this pattern (as discussed earlier), the negative correlation may also indicate that HAs are trading rents and service charges off against each other within the total stock of dwellings that they own.

Correlation analysis of the relationship between net rents and service charges by property size also supports the findings based on averages. The relationship between net rents and service charges changes as the number of bedrooms in a property increase. The pattern suggests that in the case of smaller properties (those with two bedrooms or fewer) there are specific service charges that most HAs apply in addition to rents. In the case of properties with three or more bedrooms, there is no relationship between service charges and property size - service charges become very variable. This indicates that it is individual HAs’ procedures and the services they provide and charge for, that determines the total cost to the tenant rather than the property size.

**The Relationship between Rents and Service Charges: The Regional Picture**

Average net and gross rents generally increase as proximity to London increases (table 3). London has the highest net and gross rents while Merseyside has the lowest. Only three regions - London, the South East and the East of England - have average net and gross rents that are higher than the average for England.

Average service charges do not follow the same pattern (table 3). Tenants in the South West and East of England regions pay the lowest average service charges. Tenants in London, Merseyside and the North East pay the highest.

Correlation analysis of the relationship between net rents and service charges by region shows that as net rents increase, service charges decrease in all regions. Correlation coefficients between net rents and service charges are: bed sit (-0.22), one bedroom (-0.21), two bedroom (-0.16), 3 bedroom (0.07) and 4+ bedroom (0.07), all-significant at 99% probability level.

Correlation coefficients between net rents and service charges are: England (-0.40), London (-0.33), South East (-0.56), South West (-0.47), East Midlands (-0.57), East of England (-0.43), West Midlands (-0.45), Yorkshire & the Humber (-0.52), North East (-0.44), North West (-0.49) and Merseyside (-0.48), all significant at 99% probability level.
This relationship is strongest in the East Midlands, closely followed by the South East and then Yorkshire and the Humber regions. Interestingly, London was the only region in which this relationship was weaker than the average for England.

Figures 1 and 2 also show the regional pattern of rent and service charges by property size. They suggest that:

- London and the South East regions follow the pattern for England - net rents increase with property size but service charges decrease.
- All other regions follow this pattern except in the case of the largest properties with four or more bedrooms.
- Regional differences in the average level of service charges by property size do not follow the same North-South pattern as rents.
  - Service charges are consistently low in the South West, the East Midlands, and East of England and, with the exception of bed-sits, the South East regions.
  - For bed-sits and one-bedroom properties, the North East and Merseyside show much higher figures than is average for England.
  - London has the highest average service charges and net rents for properties with two or more bedrooms but only in the case of properties with three bedrooms did service charges account for a higher percentage of the gross rent than in other regions (table 4).
- It is noteworthy that in the North East, the North West and Merseyside, gross rents for bed-sits and one-bedroom properties are higher than those of two bedroom dwellings (because of the higher service charges).

Table 4: Average Service Charge as a Percentage of Average Gross Rent: by region and property type (%)

<table>
<thead>
<tr>
<th>Property size</th>
<th>London</th>
<th>South East</th>
<th>South West</th>
<th>East Midlands</th>
<th>East of England</th>
<th>West Midlands</th>
<th>Yorkshire &amp; Humber</th>
<th>North East</th>
<th>North West</th>
<th>Merseyside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bed sit</td>
<td>25.6</td>
<td>29.2</td>
<td>26.4</td>
<td>29.9</td>
<td>29.5</td>
<td>33.3</td>
<td>32.9</td>
<td>39.2</td>
<td>37.3</td>
<td>36.3</td>
</tr>
<tr>
<td>One bedroom</td>
<td>18.9</td>
<td>19.3</td>
<td>18.1</td>
<td>19.3</td>
<td>19.0</td>
<td>19.5</td>
<td>19.3</td>
<td>23.0</td>
<td>19.6</td>
<td>24.7</td>
</tr>
<tr>
<td>Two bedroom</td>
<td>8.3</td>
<td>6.6</td>
<td>7.2</td>
<td>7.8</td>
<td>6.1</td>
<td>8.4</td>
<td>8.8</td>
<td>8.4</td>
<td>8.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Three bedroom</td>
<td>5.4</td>
<td>3.1</td>
<td>2.8</td>
<td>3.8</td>
<td>3.0</td>
<td>3.5</td>
<td>3.7</td>
<td>4.7</td>
<td>4.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Four+ bedroom</td>
<td>4.5</td>
<td>2.6</td>
<td>2.5</td>
<td>3.5</td>
<td>3.0</td>
<td>2.9</td>
<td>4.0</td>
<td>4.9</td>
<td>3.7</td>
<td>4.7</td>
</tr>
</tbody>
</table>


Significantly, the importance of average service charges as a percentage of average gross rents follows the opposite regional pattern to that of net and gross rent levels (table 4). As a proportion of gross rents:

- Service charges are more important in Northern than Southern regions.
- Net rents are more important in Southern than Northern regions.
- In only four regions did service charges account for a below average percentage of the average gross rent - the East of England (lowest), South West, London and South East regions.
• Service charges in the North East region accounted for the highest percentage of the average gross rent - 17% compared with 13% for England. Notably, the North East had the highest percentage of sheltered housing in its total stock and above average proportions of small dwellings with two or less bedrooms (including the highest proportion of bed sits). It was also the least active region in terms of the number of units transferred to the sector under the LSVT programme at the time these rent and service charge data were collected.

**Sub-Regional Analysis of Differences in Service Charges**

Regional averages again mask a wider profile of service charges at district level. Generally, average service charges paid by tenants in the South varied most between districts in smaller properties: bed sits, one bedroom and two bedroom dwellings. In districts of the North West they varied most in dwellings with three and four or more bedrooms.

To exemplify this, table 5 shows the average service charge for the South East region for each property size, the districts with highest and lowest service charges and the range between the two.

**Table 5: Sub regional differences in service charge levels: Example of the South East region**

<table>
<thead>
<tr>
<th>Property Size</th>
<th>Regional Average</th>
<th>Highest District Average</th>
<th>A</th>
<th>Lowest District Average</th>
<th>B</th>
<th>A-B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bed sits</td>
<td>£16.51</td>
<td>Horsham</td>
<td>£29.18</td>
<td>Spellthorne</td>
<td>£3.77</td>
<td>£25.41</td>
</tr>
<tr>
<td>One Bedroom</td>
<td>£11.40</td>
<td>Rother</td>
<td>£25.67</td>
<td>Spellthorne</td>
<td>£2.20</td>
<td>£23.47</td>
</tr>
<tr>
<td>Two Bedroom</td>
<td>£4.22</td>
<td>Vale of White Horse</td>
<td>£9.06</td>
<td>Eastleigh</td>
<td>£1.45</td>
<td>£7.61</td>
</tr>
<tr>
<td>Three Bedroom</td>
<td>£2.17</td>
<td>Surrey Heath</td>
<td>£4.51</td>
<td>Runnymede</td>
<td>£0.95</td>
<td>£3.56</td>
</tr>
<tr>
<td>Four Bedroom</td>
<td>£2.04</td>
<td>Lewes</td>
<td>£5.16</td>
<td>2 Districts (1)</td>
<td>£0.00</td>
<td>£5.16</td>
</tr>
</tbody>
</table>


Although there are clear patterns in the relationships between rents and service charges at the regional level, at sub-regional level there are no immediate conclusions that can be drawn from these data about variations within regions. From the data that the Housing Corporation collects, it is not possible to determine exactly why relative net rents and service charges vary so much between HAs operating within the same local authority area, the subset of data most closely related to local housing markets. An in-depth analysis of accounts information to assess the costs on which service charges are based would be necessary to ascertain why the application of and the scale of service charges varies so much.

**The Relationship Between Rents and Service Charges: By HA Type**

Correlation analysis shows that the relationship between net rent and service charge levels is negatively correlated amongst HAs of all types, i.e. as net rents increase,
and service charge levels decrease. However, the strength of this relationship varies between types of HA: the correlation is stronger amongst mainstream HAs and to a lesser extent LSVT HAs, than BME HAs.

These differences are likely to be the result of different policies and historical factors that have impacted on the stock profiles, rent structures and rent setting practices within the three typologies of HAs:

- In the case of BME HAs, their stock has largely been developed post-1989 and so the capacity to cross subsidise rents and fund services from surpluses is much lower than in the case of mainstream HAs. Also, many BME HAs provide additional services, available to all of their tenants, over and above those directly related to housing e.g. translation and advocacy. In addition, stock profiles of BME HAs include larger proportions of houses with three and four or more bedroom dwellings. Stock is often developed to culturally sensitive designs incorporating specific features to match the needs of ethnic groups. These are all factors that could increase the size of service charge that BME HAs need to recover in respect of their properties.

- LSVT HAs also generally have a higher proportion of dwellings with more than two bedrooms within the stock profile. Also, to some extent the profile of LSVT HA rents and service charges reflect local authority rent structures more than those of mainstream HAs, particularly in recently formed LSVT HAs.

The extent to which net rents and service charges are negatively correlated varies between HA types within and between regions.

Net rents and service charges of mainstream HAs are significantly correlated in all regions and the correlation is higher than for other types of HAs in all regions except the South West where LSVT have the highest correlation. This is not surprising as mainstream HAs are the principle stockholders in all regions except the South West. Further, as rents increase, service charges decrease to a greater extent than for England as a whole in all regions except London. Net rents and service charges were most strongly correlated in the South East and East Midlands regions.

Net rents and service charges of LSVT HAs are only significantly correlated in the South East, South West, East of England, East Midlands, and West Midlands and to a lesser degree, Yorkshire and the Humber regions. This pattern reflects the chronological programme of transfers that have taken place geographically. Net rents and service charges were most strongly correlated in the South East and South West regions where a significant number of the earlier LSVTs took place.

Net rents and service charges of BME HAs are only significantly correlated in London, the East Midlands, West Midlands and Yorkshire and the Humber regions. This reflects the fact that BME HAs are most likely to be found operating in these regions and the North West.

When patterns within regions are examined, the impact of the historical development of the sector appears more significant. In the East of England, the South East and

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10 Correlation coefficients between net rents and service charges by type of HA are: LSVT HAs (-0.35), BME HAs (-0.20), and mainstream HAs (-0.42); all significant at 99% probability level.

South West regions, net rents and service charges are significantly correlated for LSVTs and mainstream HAs. All three regions have had active LSVT programmes in the past. Mainstream HAs show a higher correlation than LSVT HAs reflecting the fact that rents and service charge levels are likely to have been set differently by the two groups. Traditionally, general local authority practice has not been to identify service charges separately; rather, rents include service charges. Although rent and service charges are specified at the time of transfer, because of the number of existing tenants, rent structures often still reflect those historically charged by the local authority. In contrast, mainstream HAs traditionally determine the distribution of rent and service charges during the development process of each property or as properties are purchased. BME HAs have relatively insignificant stockholdings in these regions.

In the East Midlands, West Midlands and Yorkshire & the Humber regions, the pattern of rents and service charges are significantly correlated for all types of HAs. BME HAs’ stockholdings are more significant in these regions. In Yorkshire and the Humber region the correlation of BMEs appears higher than that of LSVTs. This reflects the fact that there has not been an active LSVT programme in Yorkshire and the Humber region for as long as in most other regions and so rents are still in the rent guarantee period. Again, this means that service charges are less likely to be charged separately than is the case with BME and mainstream HAs.

Conclusions

Analysis of RSR data collected by the Housing Corporation in 2001 shows that there are a number of clear and reliable relationships between rents and service charges at the national and regional level:

- Gross rents are less likely to include a service charge as the number of bedrooms in a property increase;
- Service charges and net rents follow opposite patterns – as property size increases net rents increase but service charges decrease both in value and as a proportion of the gross rent;
- Service charges therefore reduce the differential between gross rents charged for properties of different sizes as compared to the differential between net rents.

These relationships result from the nature of the stock and the fact that service charges are strongly linked to communal areas. These are far more likely to affect smaller sized properties. The lower correlation between net rents and service charges as property size increases suggests that specific HA procedures and practices are more important in the case of properties with three or more bedrooms than smaller properties.

Although the correlation between net rents and service charges varies most significantly by property size, it varies more between HA types than it does by region. This is likely to be the result of different historical factors affecting these HAs rather than the range of property sizes within their stock. In particular the proportion of the stock built pre-1989 and therefore the different opportunities to cross subsidise rents and the terms of LSVT agreements continue to affect the actual rents paid in the twenty first century.
Appendix

1. **Summary of Service Charges Not Eligible for Housing Benefit**
   (Housing Benefit (General) Regulations 1987):
   - Water and sewerage charges i.e. water rates;
   - Charges for fuel except where this is charged for communal areas if separate from the fuel charge for a claimant's own accommodation. Communal areas are generally classified as areas of common access e.g. halls, stairways, passageways, (but in sheltered accommodation only, this may also include common rooms e.g. dining rooms or lounge areas);
   - Charges for meals or unprepared food;
   - Other day-to-day living expenses, for example: laundering; transport; sports facilities; TV and radio rental, TV licences and satellite service charges; any other leisure items, etc;
   - Rent on any part of a property that is used for business, commercial or other non-residential purpose; and,
   - Support charges, for example: emergency alarm systems; counselling and support; medical, nursing and personal care. N.B. some of these charges are eligible in supported accommodation and some are never eligible for housing benefit.

2. **Table A1: Breakdown of General Needs, Self Contained Rents and Service Charges as Reported in the RSR 2001 (SC = service charges)**

<table>
<thead>
<tr>
<th></th>
<th>Rent but no SC</th>
<th>Rent and only HB eligible SC (1)</th>
<th>Rent and only non-HB eligible SC (2)</th>
<th>Rent, HB and Non-HB eligible SC (3)</th>
<th>All Rents (table 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Rent</td>
<td>145,565</td>
<td>574,585</td>
<td>37,176</td>
<td>528,801</td>
<td>1,286,127</td>
</tr>
<tr>
<td>HB eligible SC</td>
<td>0</td>
<td>322,578</td>
<td>0</td>
<td>279,511</td>
<td>602,089</td>
</tr>
<tr>
<td>Non-HB eligible SC</td>
<td>0</td>
<td>0</td>
<td>5,835</td>
<td>(4) 116,022</td>
<td>121,857</td>
</tr>
</tbody>
</table>

(1) 574,585 - 322,578 = 252,007; (2) 37,176 - 5,835 = 31,341; (3) 528,801 - 279,511=249,290
(4) 116,022  ➔ minimum number of properties that may be double counted.
145,565 + (1) + (2) + (3) = 678,203 ➔ total where no service charges are charged.

3. **Correlation Analysis: Significance**
   Basically, in interpreting the results, it is important to understand that:
   - Correlation coefficient figures vary between -1 and 1: 1 indicates a perfect relationship between two variables; 0 indicates no relationship; and, the larger the correlation, the stronger the relationship;
   - ' +' and '-' indicate the direction of the relationship, i.e. if the correlation coefficient is '+1', this means that there is a perfect positive relationship between the two variables, if the coefficient is '-1', this means there is a perfect negative relationship and the two variables are perfectly related inversely.

Any relationship should be assessed for its significance as well as its strength. The significance of the relationship is expressed in probability levels (e.g. at p = .01 or .05). This shows how likely a given correlation coefficient will occur given relationship
in the case. \( p = 0.01 \) means the relationship is significant at the 99% probability level and \( p = 0.05 \) means significant at the 95% probability level.

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