



HIGH DENSITY HOUSING – THE IMPACT ON TENANTS:

A REVIEW OF
SERVICE CHARGES

east^{THAMES}

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1. Introduction

Recent years have seen rapid increases in the density of housing schemes in London. These have been both policy led, with the government advocating more intensive use of land in cities, but also developer driven. This move towards sharply higher densities has led to changes in the built form of affordable housing.

These increases in density have resulted in increases in the extent and number of common services that are required, particularly staff intensive services such as cleaning, caretaking and concierges. In some cases, the ongoing maintenance of open space and other amenities, secured as a result of planning gain, has become the responsibility of the social landlord, creating additional costs which can only be recovered through service charges to residents.

As a result, there has been an increase in the proportion of newbuild properties which have service charges (particularly among houses). The cost of service charges has also increased, although schemes with service charges in excess of £20 per week remain a small minority of all newbuild lettings.

There are also increasing pressures for new areas of expenditure, particularly in response to the environmental agenda, which are likely to produce new services. The current funding regime creates a pressure for these costs to be met from further service charges.

Over the past seven years, a number of design guides and other studies, including those produced by East Thames,¹ and the London Housing Federation² have laid the basis for improving the quality of life for residents in high density and 'superdensity' schemes.

However, continuing concerns about the increasing costs of service charges, and how these impact on both the costs of housing management and affordability for residents, have led to the commissioning of this study.

The four main objectives of the project were:

- To understand the factors determining the level of service charges
- To investigate the impact of service charges on residents' budgets
- To assess the costs to government through pressure on grant levels and through Housing Benefit
- To investigate ways of minimising service charges through alternative funding mechanisms

¹ *Delivering Successful Higher-Density Housing: a toolkit*, East Thames, 2007, and *East Thames Design Guide: putting people first*, East Thames, 2008

² *Capital Gains: making high density housing work in London*, London Housing Federation, 2002

2. The background to service charges

INTRODUCTION

The last ten years have seen a rapid increase in densities in new housebuilding in London.

These higher densities have led to changes in the built form of housing. Terraces of houses have become blocks of flats. Blocks of flats require common entrance halls, lifts, corridors and escape stairs. Private gardens instead become communal open spaces. Carparking has moved off plot, and off street, to underground carparking. Rubbish is no longer stored in household bins, but in communal Eurobins, with larger items in bulk refuse stores.

All these changes in physical form have brought with them new requirements for common services. Blocks of flats have particular security requirements: common entrances need controlled entry, often accompanied by CCTV, and in extreme cases the provision of a concierge service. Lifts and circulation areas need lighting and cleaning. Carparking areas need security, lighting, cleaning and managing. Communal open spaces need grounds maintenance services: gardening, grass cutting, shrub pruning and litter picking. Eurobins need regular changing and cleaning.

These common services need to be paid for, and the standard practice is for social landlords to recover the costs of these services through service charges to tenants and leaseholders.

As a result, nearly 95% of newbuild flats in London have service charges. (More surprisingly, perhaps, so do nearly two thirds of newbuild houses.)

The cost of providing these services is significant. Nearly 60% of newly built flats have a service charge of over £10 per week, and a quarter have a service charge of over £15 per week.

Rents in social housing are set in accordance with a national formula, which gives a majority weight to regional variations in earnings, and a minority weighting to relative property values. Normally, a flat will have a lower property value than a house of similar size in the same location, and hence the formula will produce a lower rent for the flat. The addition of service charges, however, can easily mean that the total cost of renting a flat can be higher than the cost of renting a house despite the preference of most tenants for a house rather than a flat.

The history of social housing is a stark reminder of the dangers of allowing these common services to deteriorate or to be cut. The fate of higher density blocks in council housing that were built in the 1960s and 1970s is a reminder of the need for proper management of the common parts of high density housing.

2.1 THE DRIVERS OF SERVICE CHARGES

In recent years, planning policy has emphasised a more intensive use of housing land, and the re-use of brownfield sites. This in part reflects government policy to increase the supply of housing and to make better use of scarce land availability. These policies have resulted in sharp increases in housing densities, and in a shift from houses to flats.

As a result, housing associations in London have built, or have acquired from developers, housing stock built to exceptionally high densities relative to the standards of the recent past.

Providing adequate common services in these schemes, and developing a stable financial framework for the long term, are both crucial if housing associations are to avoid the problems that were experienced by local authorities in the 1970s and 1980s, when inadequately serviced high density, or high rise, blocks experienced a spiral of decline.

Increasing densities have led to changes in the built form of housing, necessitating common staircases, lifts, communal refuse bins, bulk waste stores, and controlled entry to blocks through door entry phones and CCTV.

All of these need regular maintenance, and consume utilities, including electricity for lighting and lifts, emergency telephones in lifts and water for cleaning. Increasing densities can also require the provision of staff intensive services such as cleaning, caretaking, and in extreme cases, the provision of concierge services.

In addition to these features, which are common to nearly all high density schemes, current housing policies in London, which seek a minimum proportion of family accommodation on all schemes, are likely to lead to additional pressures and costs. High density schemes with children not only require the provision of open space and play equipment, which in turn need maintenance, but are likely to be subject to much heavier wear and tear than schemes without children.

As densities increase, the intensity of services required is also likely to increase, especially the labour intensive services requiring a staff input, and as a result, the costs of service charges per dwelling will rise.

2.2 THE EXTENT OF SERVICE CHARGES

As the provision of adequate common services has become necessary, there has also been a significant impact on service charges to tenants and leaseholders.

Unsurprisingly, the percentage of flats with a service charge is very high: nearly 95% of all newbuild flats have service charges.

% of lettings of new build flats by weekly service charge

Year	Amount of service charge per week				
	of all flats, % with a service charge of:				
	NONE	< £10	> £10	> £15	> £20
2007/08	5.7	36.0	58.3	26.0	8.9
2006/07	4.2	41.8	54.0	19.4	7.5
2005/06	7.6	52.3	40.1	19.4	9.4

Source: CORE

The table shows that the percentage of newbuild flats with a service charge rose slightly between 2005/06 and 2007/08. However, there was a marked shift upward in the level of service charges over this period.

Over the three years, the percentage of newly completed flats with a service charge of below £10 per week fell sharply, from just over half to just over a third. By 2007/08, well over half of all flats had a service charge in excess of £10 per week, and over a quarter of all flats had a charge of over £15 per week.

More surprising is that nearly two thirds (62.4%) of newbuild houses also have service charges.

% of lettings of new build houses by weekly service charge

Year	Amount of service charge per week			
	of all homes, % with a service charge of:			
	NONE	1p - £4. ⁹⁹	£5 - £10	> £10
2007/08	37.6	43.0	19.4	3.8
2006/07	41.8	37.0	21.2	5.4
2005/06	36.7	52.5	10.8	4.7

Source: CORE

The table shows that the percentage of newly completed houses with a service charge rose slightly between 2005/06 and 2007/08, but that the percentage with a service charge of between £5 and £10 per week almost doubled, from just over one in ten in 2005/06 to just under one in five by 2007/08.

2.3 THE IMPACT ON RESIDENTS

Rents in the social housing sector are set by means of a national formula, which calculates the basic rent for a property, excluding any service charges.

Service charges, which are charged in addition to the formula rent, can easily distort the underlying pattern of rents. Nationally, it is rare for a house to attract a service charge (although now common in London), whereas service charges are almost universal in blocks of flats. The addition of service charges to the weekly rent can easily increase the total weekly charge for a flat to more than that of a house of a similar size. Since flats are generally viewed by tenants as less desirable than houses, the existence of service charges can create a further disincentive for tenants to choose, or accept, offers of flats.

In general, in London, the level of housing association rents means that only tenants in full time work will be paying the full rent, and only about one quarter of tenants are in full time work. Tenants in part time work, or dependent upon benefits, will generally be protected by Housing Benefit from paying any increase in service charges.

Nevertheless, nearly 60% of all newbuild flats in London have a service charge in excess of £10 per week, and nearly 10% have a service charge of more than £20 per week, cash which tenants in full time work must find from their remaining incomes after tax and other deductions.

Many of the housing associations interviewed felt that service charges should be capped at a maximum of £10 per week, although neither the TSA nor the National Housing Federation has adopted any specific policy in this area.

2.4 AVOIDING THE MISTAKES OF THE PAST

Blocks of flats, and the need for common services, are nothing new in social housing.

During the twentieth century, local authorities were the main builders of social housing in forms that required common services for their upkeep. Estates of medium and high rise blocks were developed, although at densities which would be now be regarded as only medium by the standards of London in the early twenty first century.

Many of these blocks were originally designed with a small office for a caretaker or other member of staff, a tenants' room, and often a laundrette. The use of service charges by local authorities to pay for common services was rare, and the costs were usually 'pooled' across the whole stock, and paid for by all tenants.

However, during the 1960s and 1970s, cuts in expenditure saw the reduction or elimination of many of these services. Housing officers were centralised, caretakers became mobile, cleaning and grounds maintenance rotas were cut. Estates began a spiral of decline, with broken entrance doors, graffiti in the hallways, lifts that smelt of urine, and a sense of collapse and hopelessness.

From the 1980s to today, increasingly costly attempts have been made to reverse this decline. These include the decentralisation of housing offices, the reinstatement of adequate cleaning and caretaking services, increasing investment in security, particularly door entry systems and more recently CCTV monitoring, and in the most difficult to control blocks, the introduction of concierge services.

These improvements have been resource intensive, both in capital investment and in ongoing revenue expenditure. In this context, the government is encouraging local authorities to 'depool' their expenditure on common services, and to institute service charges to tenants in addition to the formula rent. Financial incentives to do so are offered to local authorities through the housing subsidy system, and many local authorities are now introducing a separate service charge regime.

Unlike local authorities, housing associations no longer receive any revenue subsidies, and decisions on service charge policy are the responsibility of each housing association, operating within the overall regulatory context.

3. The methodology of the project

INTRODUCTION

This study began by reviewing the existing literature on service charges and on the design and management of high density housing.

Previous studies have consistently emphasised a number of characteristics which they judged to be necessary if high density housing was to provide a satisfactory environment, while attempting to minimise the cost of service charges to residents.

These include:

- The need to judge affordability by the total weekly charge to tenants, including both rent and service charges
- The need for early assessment of future management costs during the design of schemes
- The desirability of reducing occupancy levels, and in particular child densities, in order to reduce the demand for intensive management services
- The desirability of providing family accommodation, particularly for larger families, in houses rather than flats
- An acceptance in high density schemes that a degree of tenure separation resulting in different levels of service might be an inevitable means of reducing the cost of service charges to social housing tenants

A number of studies concluded that a review of policy, by government and sector regulators, was needed in order to provide a consistency in approach.

Interviews were held with a variety of stakeholders, including housing associations, local authorities, architectural practices with experience of designing high density social housing, and housing and urban policy makers. Workshops were also held with a wide range of invited participants, and members of the project Steering Group gave valuable input and comments.

Data on the make up of service charges were supplied by housing associations (and one local authority) for nine schemes, and these are analysed in more detail in Section 4.

Visits were made to each of these schemes, and five are illustrated as case studies. The five schemes were each different in character, and included housing association

developments, developer led schemes with affordable housing provided through Section 106 planning agreements, and a local authority tower block dating from the 1960s.

This section also examines the relationship between high density urban housing and climate change. The provision of common elements such as lifts and circulation space generate increased energy demands compared to traditional houses, while the heat island effect of dense urban development can lead to increased demand for cooling, where this cannot be achieved through natural cross ventilation.

3.1 PREVIOUS STUDIES OF HIGH DENSITY HOUSING AND SERVICE CHARGES

Although there has only been one study specifically focussing on the implications for service charges of high density development,³ subsequent design guides have focussed on the need to consider the practical implications for effective management and maintenance in high density schemes, and the desirability of avoiding, or at least minimising, the need for service charges.

In their study of high density mixed tenure schemes, the consultancy firm HACAS found that:

- The need to limit service charge costs for residents created a tendency for social tenants to receive lower levels of service than residents of market housing, and that a degree of tenure separation was the norm.
- Even where some services had been 'designed out', service charges could still amount to 20-25% of gross rents, and that gross rents (including service charges) could account for more than 30% of net income for households at or below the lowest decile of earnings.
- Where tenants had a choice of lettings, this may affect the socio-economic mix on high density and high cost estates.
- Local authority imposed caps on service charges, through the planning system, were exacerbating the tendency towards tenure separation and lower service provision for social tenants.
- Case study evidence showed that the residents of schemes were bearing the ongoing maintenance costs of public realm provision.

3 What Price Sustainability? Keeping service charges affordable in high density mixed tenure development, HACAS, 2004

HACAS made a number of recommendations, including:

- The affordability of social rented housing should be judged on the total charge to tenants, including service charges, and not on 'formula' rents alone.
- The need for government to research the scale of the problem nationally, and to review:
 - the value for money implications of keeping social rented housing affordable in high cost developments;
 - the need for some limitation on service charges to social tenants;
 - the means by which this might be funded.
- The need for capacity building by both private and social housing providers in order to develop the ability to deliver improved housing management in high density and mixed tenure developments.

In developing its high density toolkit,⁴ East Thames built on the findings of the HACAS study to develop a checklist to enable landlords and designers to assess the extent to which their proposals address critical issues in scheme design and management.

The London Housing Federation study⁵ of existing high density schemes concluded that four factors were of key importance in determining the success or failure of a development.

These were:

- Accessible locations with good transport links
- Comparatively low occupancy levels and child densities
- Effective management
- Housing design

In particular, the LHF study recommended that homes exclusively for families should not be developed in parts of a scheme where density exceeds 250 dwellings per hectare, that occupancy levels should not exceed 75% of the bedspace capacity of a scheme, that child density should not exceed 25% of total residents, and that in addition lettings should also take into account the balance of household types and tenancy histories.

The LHF emphasised that 'a range of housing needs can be met and provided for successfully in high density schemes, provided that current housing lettings policies are reformed'.

The Housing Corporation, in setting minimum standards for social rented housing,⁶ required housing associations not only to comply with its Core Standards, but for high density schemes also to comply with the standards set out by London Housing Federation guidance⁷ and, for schemes with over 20 dwellings built at more than 70 dwellings per hectare, to use the web based self-assessment evaluation in the East Thames High Density Toolkit.

Continuing increases in housing densities during the mid 2000s led four of the leading architectural consultancies for social housing in London to collaborate in producing guidance⁸ on building at 'superdensities', defined as densities in excess of 150 dwellings, or about 500 habitable rooms, per hectare.

The guidance emphasised that 'the house is the most successful and proven type of home for families' and that 'wherever possible houses should be incorporated, even into superdensity schemes'.

Superdensity also emphasised the critical importance of adequate management in high density schemes, but recognised that 'rent and service charges can be very high in superdense developments because of the cost of managing and maintaining complex buildings', that 'service charges in particular can be very high', and that 'the cost of both rents and service charges must be considered together and kept within accepted affordability limits for low cost accommodation'.

The guidance followed the range of suggestions proposed in the HACAS report on the mechanisms by which service charges might be kept affordable:

- Accepting different levels of service between tenures
- The capitalisation of service charges through lower land costs or sale prices
- Additional public sector grant to capitalise the cost of service charges
- The adoption of more 'public realm' by local authorities

⁴ *Delivering Successful Higher-Density Housing: a toolkit*, East Thames, 2007

⁵ *Capital Gains: making high density housing work in London*, London Housing Federation, 2002

⁶ *Design and Quality Standards*, Housing Corporation, 2007

⁷ *Higher Density Housing for Families: a design and specification guide*, London Housing Federation, 2004

⁸ *Recommendations for living at Superdensity*, 2007

The most recent design guidance, by East Thames⁹ and by the Mayor of London,¹⁰ both emphasise the need for ‘responsive management, the maintenance of high quality communal spaces and a range of supporting facilities’, with the Mayor’s draft Design Guide requiring schemes with public funding to have a management plan specifying how the landlord will manage the development, including:

- An allocation plan for first lettings to social tenants, which should ‘specify targets on issues such as child densities, household types, under-letting, whether households are economically active and tenancy history’.
- Arrangements for informing and consulting with residents
- The effective management of security and parking
- A maintenance plan, with performance targets and details of the funding mechanism and costs of major works
- A schedule of amenities and their costs and charges
- A schedule of ground rents, rents and service charges: ‘these must be demonstrably affordable to the anticipated residents’

3.2 STAKEHOLDER INTERVIEWS AND DATA ANALYSIS

Interviews were held with a number of housing associations, which also supplied details of service charges on recent high density schemes. These included East Thames, London & Quadrant, Catalyst, Octavia and Notting Hill. Site visits were made to eight housing association schemes for which service charge data were available.

Two local authorities with large numbers of leasehold properties, Westminster and Haringey, were interviewed, and the costs of service charges collected. Site visits were made to a high density, medium rise scheme in Westminster (Lillington Street) and to a high rise scheme in Haringey (Stellar House).

Three leading firms of architects active in the social housing field were interviewed: Levitt Bernstein, PRP Architects and PTE Architects, and site visits were made to a number of recently completed schemes.

Interviews with policymakers were held with the Greater London Authority and with Design for London. In addition, CABE and the National Housing Federation and the Housing Corporation were represented on the Project Steering Group.

Two workshops, each with between thirty and forty invited participants, were held in the early stages of the project, and involved a wide range of landlords, designers, developers and policy makers.

The analytical element of the project comprised five elements:

- Analysis of data on service charges supplied by social landlords
- Modelling of alternative financial options for the capitalisation of service charges, using the Housing Corporation Economic Appraisal Toolkit.
- Modelling of the relationships between density, mix and built form across a range of possible values.
- Analysis of housing association lettings in London, by bedsize, and average rents and service charges
- Analysis of the relationship between earnings and Tax Credits, rents, and entitlement to Housing Benefit across five different household types and typical ranges of earnings and rents.

Two interim presentations were made at the workshops, and draft reports were discussed with the Project Steering Group and developed in the light of comments and suggestions by the Group.

⁹ East Thames Design Guide: putting people first, East Thames, 2008

¹⁰ London Housing Design Guide: draft for consultation, Mayor of London, 2009

3.3 CASE STUDIES

The service charges for nine schemes (eight recent developments by housing associations, plus a 1960s local authority tower block) were analysed in detail, and visits were made to five of the schemes. The schemes were all different in character, and each scheme illustrates the wide range of issues that are generated by high density developments.

Service charges example 1

Amelia Street (Printworks) SE1
(London & Quadrant)



- 164 homes: 50% sale; 25% intermediate rent; 25% social rent (proportions not yet finalised)
- 3 lifts
- Waste: black sacks into Eurobins
- Carparking: 36 spaces in total, allocation between tenures to be finalised
- Estate services: contract cleaners (2 visits per week) + concierge 37.5 hours per week

Service charges:

£15 pw for 1 bed;
£20 pw for 2 bed;
£24 pw for 3 bed
(estimated - long delay in transfer of freehold)

COMMENT: The scheme was developed by one housing association before being transferred to another. As a result, many important issues, such as the ultimate tenure split, the allocation of carparking, and the level of service charges had not been finalised.

The scheme had reduced grounds maintenance costs by designing virtually all hard landscaping: the only green is provided by trees on the street frontage, and shrubs in containers in the interior court.

Service charges example 2

Hyde House, Singapore Road, Ealing, W13
(Catalyst Housing Group)



- 51 homes: 23 shared ownership; 28 social rent; adjoining private blocks
- 2 lifts
- Waste: black sacks into Eurobins
- Carparking: none (tenants can join car club with 6 spaces in car park on site)
- Estate services: Caretaker 17.5 hours per week - shared with nearby block, caretaker does all cleaning

Service charges: £29.46 pw

(flat rate across all bedsizes)

Note: original management company sacked by leaseholders in private blocks - maintenance and reserve funds no longer collected

COMMENT: This scheme resulted from a S106 planning agreement, and illustrates some of the potential difficulties of mixed tenure schemes where the housing association element is in a minority.

The original management company, appointed by the developer, had been sacked by the private leaseholders in the adjoining block, as the majority of owners on the development. As a result, maintenance and reserve funds were no longer being collected for the block as a whole, with obvious long term consequences.

Service charges example 3

Abbotts Wharf, Stainsby Road, E14
(East Thames Group)



- 201 homes: 101 sale; 56 shared ownership; 44 social rent
- Carparking: underground carparking for 86 cars, access controlled by fob
- Estate services: 24 hour concierge service plus CCTV
- Waste: black sacks to underground bins

Service charges:

£15.32 pw 1 bed;
£16.42 pw 2 bed;
£ 17.23 pw 3 bed

COMMENT: Abbotts Wharf is an example of good design standards in a high density scheme, although again most external open space is hard landscaped.

The block has applied technology to provide a high level of security through the use of fob controlled entry to the undercroft carpark and CCTV to provide night time cover for the concierge. As a result, the service charges are nearly half those of the local authority block in Example 4, which has a much higher level of staff input.

Service charges example 4

Stellar House, High Road, Tottenham, N17
(London Borough of Haringey)



- 102 homes: 10 Right to Buy leasehold, 92 social rent
- 2 lifts
- Waste: black bags to Paladin bins
- Carparking: unallocated parking on adjoining estate
- Estate services: concierge from 0800 to midnight five days per week, on Saturdays from 0800 to 1400, and on Sundays from 1000 to 1600 (92 hours pw) + caretaking and cleaning 21.5 hours pw

Service charges:

for 1 bed £26.97 pw (tenants)
and £42.08 (leaseholders)

COMMENT: Stellar House is a classic example of the 'mixed development' characteristic of local authority developments of the 1960s, with the one bedroom flats accommodated in a 19 storey tower block, and family accommodation in a mixture of two and three storey terraces arranged around small courtyards at the rear.

The block is notable for the intensive concierge service, with 92 hours cover each week, spread over the seven days, 52 weeks a year. In addition, a further 21.5 hours of cleaning and caretaking time are allocated to the block each week.

Service charges example 5

Siddons Lane, Marylebone, NW1

(Octavia Housing)



- 40 homes: 10 sale; 2 Key Worker rent; 28 social rent
- 1 lift
- Waste: black bags to Eurobins in secure store
- Carparking: 2 spaces (1 disabled, 1 in stacker)
- Estate services: cleaning 11 hours pw

Service charges:

£10.91 pw 1 bed

(estimated: freehold not yet transferred)

COMMENT: Siddons Lane is a small, but extremely dense, development in Marylebone. The small scale of the scheme, and the limited staffing input required for cleaning, clearly contributes to the low level of service charges.

3.4 EMERGING PROBLEMS: THE POTENTIAL IMPACT OF HIGH DENSITY HOUSING ON CLIMATE CHANGE

High density housing also potentially impacts on increasing carbon dioxide emissions.

This is in two respects:

- The general impact of additional services such as lifts, internal corridors and other areas of communal space where lighting and other electrical equipment is required leads to higher CO₂ emissions in comparison with houses or lower rise walk up flats.
- The heat island effect of urban development which is more pronounced in higher density developments. This may lead people to cool their housing artificially using air conditioning which impacts on CO₂ emissions, particularly where the housing developed has no cross ventilation as is often the case on flatted developments with flats on both sides of an internal corridor.

These issues are explored below along with more general issues relating to the impact of climate change.

Climate change and the need to reduce carbon dioxide emissions pose challenges for housing associations as landlords, and for tenants and leaseholders as occupiers.

The potential effects of climate change on the built environment have been summarised by the Town and Country Planning Association under four headings¹¹:

• Managing higher temperatures

An increase in the number of hot days in summer is likely to lead to an increasing use of domestic air conditioning, unless mitigating steps are taken. These include taking care in design to ensure that energy efficiency measures, such as increasing solar gain in winter, do not lead to overheating in summer; enabling cross-ventilation in flats (which would prevent central corridor designs); and an increased use of planting to reduce solar absorption.

• Managing flood risks

At the building level, this can include reducing impermeable surfaces and increasing the area of planting in order to slow water runoff and reduce the pressure on the drainage system; fitting one way valves in drains and inflatable bungs in domestic fittings to prevent backflow; and the installation of flood resilient materials and measures such as temporary flood barriers for entrance doors.

• Managing water resources and quality

Since water treatment processes are a significant producer of greenhouse gases, measures to conserve water, such as the fitting of water efficient fixtures and fittings in homes, and the use of rainwater runoff and 'grey' water for irrigation, will reduce overall treated water consumption.

• Managing ground conditions

Wetter winters and hotter summers are likely to increase the extent of ground swelling and shrinking: measures to mitigate this have synergies with managing flood risks and water quality, and would include increased planting to control rainwater run-off, together with appropriate design of drainage systems and foundations.

A second phenomenon which affects the micro-climate within London is known as the Urban Heat Island effect¹². This phenomenon was first identified in London as long ago as the 1820s by the meteorologist Luke Howard, who discovered that nighttime temperatures in London were some 2°C warmer than in the surrounding countryside.

By the 1960s, the UHI effect had grown to around 4-6°C, and by the heatwaves of 2003 and 2006, the effect was as large as 9°C in the centre of London.

The UHI is caused by the absorption during the day of solar radiation by buildings and hard surfaces such as streets, and then its subsequent radiation back into the air as it cools during the night, with the effect being most pronounced between 11 pm and 3 am.

Dark surfaces such as tarmac streets and dark roof coverings absorb the most heat, with the temperature of a dark roof rising to 50-60°C on hot sunny days.

Proposals to mitigate the UHI effect include:

- installing lighter surfaces on roofs and in street surfaces to increase the reflectivity of the surface and decrease heat absorption;
- the planting of 'green roofs', which are estimated to reduce the surface temperature of the roof by 20-40°C compared to a flat, dark roof;
- the planting of more trees and vegetation, which can reduce peak air temperatures by up to 5-20°C through the shading effect of trees, and by up to 1-5°C through the evaporation of water from vegetation generally.
- increasing the effective 'sky view' by avoiding 'canyon' like streets will also help to increase the rate of radiation of heat at night.

While the costs of measures to combat climate change, and the Urban Heat Island effect, will have to be met from capital investment, many of the mitigation measures proposed may also have an impact upon the costs of running schemes and therefore upon service charges.

Measures to combat flooding, such as the fitting of flood skirts to doors and the sealing of pipes with inflatable seals, may require staff intervention, particularly in tenanted stock. Increases in planted cover, whether on the ground or in green roofs and walls, will require ongoing maintenance.

¹² A summary is provided in: *London's Urban Heat Island, a summary for decision makers*, Mayor of London, 2006

4. Findings

INTRODUCTION

While ‘density’ can be measured in a number of different objective ways, subjective reactions and preferences of residents are also important. At medium to high densities, up to around 70-80 dwellings per hectare, accommodation can be provided in a variety of built forms. While traditional street patterns of terraced housing may appear ‘dense’, they remain the preferred form of housing for most people.

At higher densities, and especially at ‘superdensities’ in excess of 150 dwellings per hectare, complex building forms with lifts, common parts, communal open space and decked carparking are virtually inevitable, as are the services required to keep them habitable, and the service charges that result.

However, there is a general lack of consistent policy guidance on service charges across social housing, and this has led to a wide range of practices by different social landlords. For example, there is no consistency in the way in which landlords apportion service charges between dwellings of different sizes. Some have wide differentials between smaller and larger dwellings, others have narrow differentials, while some simply make a flat rate charge. Similarly, there are wide differences in the estimated life of building elements, which feed into depreciation charges or sinking funds. Sometimes, there were wide differences in practice between different schemes developed by the same landlord.

Analysing service charge data from nine schemes showed that service charges associated with the basic ‘technical’ services, such as entryphone, refuse, lifts and utilities, amounted to around £5.50 per week.

However, the labour intensive services of grounds maintenance, cleaning, caretaking and concierge resulted in further service charges averaging over £15 per week. These services were nearly two thirds of the total service charge to residents.

This suggests that trying to reduce service charges by skimping on the specification of building elements is a false economy, since it can only affect around a third of the average service charge. It is more important to concentrate on measures which would reduce the need for labour intensive services. This is most likely to be possible where schemes are small, or where large schemes are broken down into separate, discrete groups of dwellings.

In practice, 80% of new tenants in housing associations in London are in receipt of Housing Benefit, and are therefore protected from the impact of a service charge. Only a quarter of new tenants have a household member in full time work, and three-quarters of these earn less than £400 per week. However, the fact that so few tenants pay any service charges from their own pockets inevitably reduces the incentive for landlords to minimise service charges in the first place.

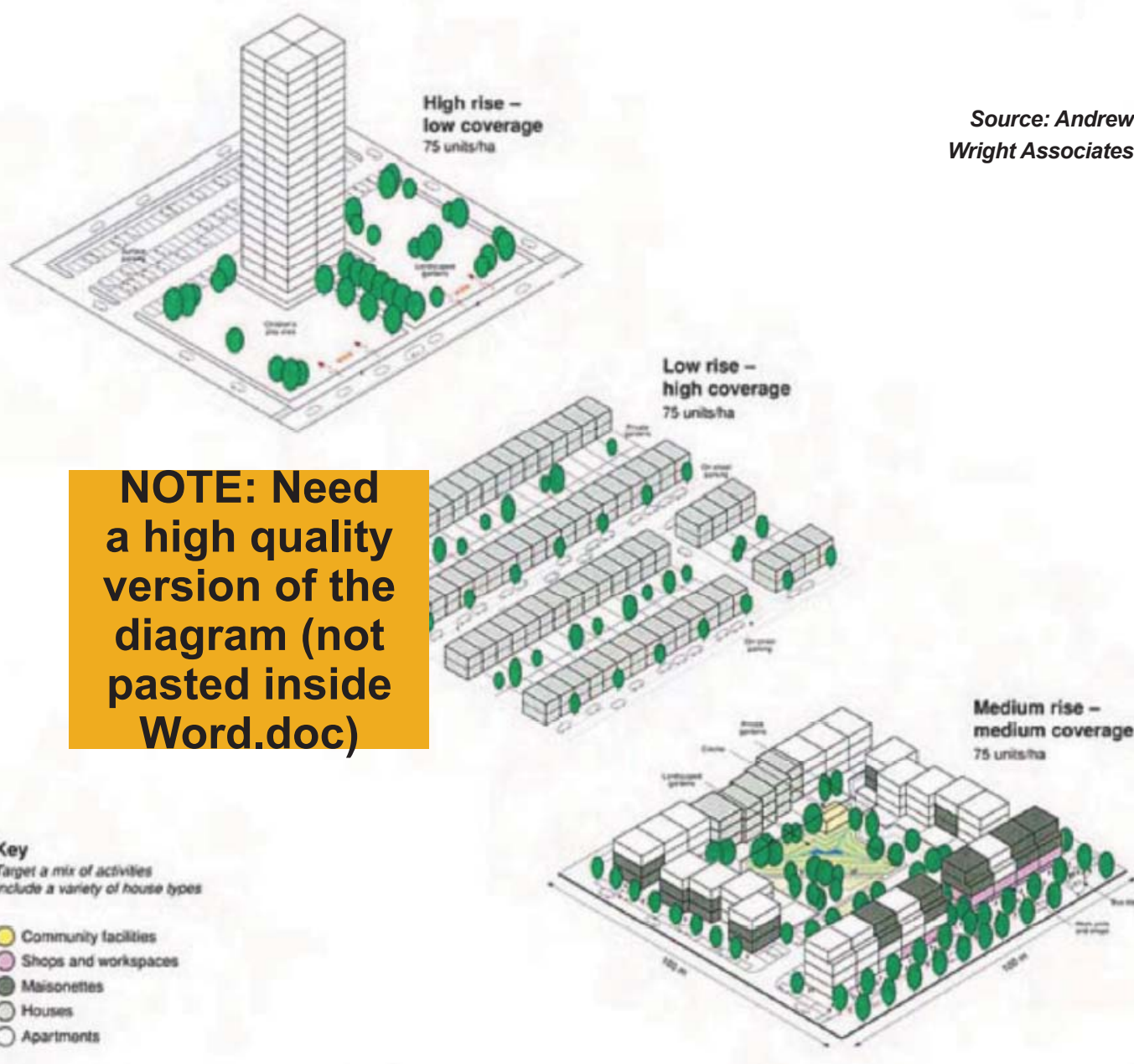
4.1 WHAT IS HIGH DENSITY?

While density can be measured in a variety of ways, an important element in density is subjective. Different building forms, in different locations, can produce quite different subjective responses, even when the ‘measured’ density is identical.

For example, a site developed with a single tower block in the centre of the site, standing in its own ‘parkland’ might nevertheless be regarded as high density housing by its residents, whereas the same amount of accommodation, on the same sized site, provided in two bedroom terraced houses with street access and small private gardens (perhaps the typical 19th century byelaw terrace layout) will be generally regarded as much more acceptable by its occupants.

The location of a site, and the character of the surrounding area, can have similar effects. A high density block of flats looking south west over an adjacent park will have a very different feeling of density to an identical block looking north east over the delivery yard of the adjacent Tesco superstore.

The same site can be developed, at the same density, in a variety of potential built forms. The diagram below shows one set of possibilities: a one hectare has been developed with 75 dwellings, but in three very different ways.



Source: Andrew Wright Associates

NOTE: Need a high quality version of the diagram (not pasted inside Word.doc)

Measuring density

There are a number of different measures of density in use. No one measure captures all the measurable aspects of density. Each measures rather different things, and is useful for a different purpose.

The principal measures are:

- The number of dwellings, or units, per hectare (d/ha or u/ha): useful for measuring the land required to meet overall housing targets, a reasonable indicator of needs such as refuse disposal, possibly a rough indicator of the number of cars on site, but too crude to measure key differences in the bulk of building form or the number of people who might live on a site.
- The number of habitable rooms per hectare (hr/ha): a 'halfway' measure, giving a better indication than dwellings per hectare of the potential occupancy of a site, but not an accurate measure of the number of people who might live on a site.
- Bedspaces per hectare (b/ha): a good indicator of the maximum number of people who might live on a site, but a poor indicator of the bulk of building form.
- The plot ratio: given by the number of dwellings times their overall floor area (including any common areas) divided by the site area; useful for measuring the bulk of the building form on each site, but giving no indication of the number of people who might live on a site.

Housing density in London

The London Plan provides a density matrix which ‘sets a strategic framework for appropriate densities at different locations’, and UDP reviews and planning applications are expected to be in conformity with the matrix.

Density location and parking matrix (habitable rooms and dwellings per hectare)

		Car parking provision	High 2-1.5 spaces per unit	Moderate 1.5-1 space per unit	Low < 1 space per unit
Accessibility Index		Predominant housing type	Detatched & linked houses	Terraced houses & flats	Mostly flats
Location	Setting				
Sites within 10mins walking distance of a town centre	6-4	Central			650-1100 hr/ha 240-435 u/ha Ave. 2.7 hr/u
		Urban		200-450 hr/ha 55-175 u/ha Ave. 3.1 hr/u	450-700 hr/ha 165-275 u/ha Ave. 3.0 hr/u
		Suburban		200-300 hr/ha 50-110 u/ha Ave. 3.7 hr/u	250-350 hr/ha 80-120 u/ha Ave. 3.0 hr/u
Sites along transport corridors & sites close to a town centre	3-2	Urban		200-300 hr/ha 50-110 u/ha Ave. 3.7 hr/u	300-450 hr/ha 100-150 u/ha Ave. 3.0 hr/u
		Suburban	150-200 hr/ha 30-65 u/ha Ave. 4.4 hr/u	200-250 hr/ha 58-80 u/ha Ave. 3.8 hr/u	
Currently remote sites	2-1	Suburban	150-200 hr/ha 30-50 u/ha Ave. 4.6 hr/u		

Source: *London Plan, Table 4B.1*

The London Plan also defines the appropriate site setting for each of the three broad types of development:

- **Central** – very dense development, large building footprints and buildings of four to six storeys and above, such as larger town centres all over London and much of central London.
- **Urban** – dense development, with a mix of different uses and buildings of three to four storeys, such as town centres, along main arterial routes and substantial parts of inner London.
- **Suburban** – lower density development, predominantly residential, of two to three stories, as in some parts of inner London and much of outer London.”

High density and superdensity

High density housing in London can be provided in built forms similar to the scale of the larger Georgian terraces, with three to five storey buildings around shared open space. Acceptable developments of this

type can be designed within a range of densities generally between 300 and 400 habitable rooms per hectare.¹³

However, developments at these densities will almost certainly require a significant proportion of homes to be in the form of flats or maisonettes, even though it may be possible to avoid the need for lifts.

As densities increase, it obviously becomes increasingly difficult to provide family accommodation in the form of houses, or maisonettes, with gardens. Only in schemes with a small proportion of family homes in the ‘mix’ of dwelling types will it be possible to provide family homes on the ground, and, as densities increase, the smaller homes will have to be provided in higher and higher blocks, in order to leave enough of the site

available to provide houses with gardens.

There is no single definition of ‘high density’, but the London Housing Federation¹⁴ defines high density as schemes in which family homes are provided at densities over 80 dwellings per hectare, while East Thames¹⁵ regards all schemes built at densities over 70 dwellings per hectare as ‘high density’.

Architects with experience of the problems of designing at higher densities have labelled densities above 150 dwellings per hectare, or 500 habitable rooms per hectare, as ‘superdensity’¹⁶.

¹³ See, for example, Chapter 3 *Where Higher Density Housing Works*, in: *Compact Sustainable Communities*, CPRE, 2006

¹⁴ *Higher Density Housing for Families: a design and specification guide*, LHF, 2004

¹⁵ *Delivering Successful Higher Density Housing: a toolkit*, East Thames, 2006

¹⁶ *Recommendations for Living at Superdensity*, 2007

4.2 THE SERVICES NEEDED AT DIFFERENT DENSITIES AND BUILT FORMS

Two storey development can only be maintained at relatively low densities, and as the number of storeys that are necessary increases, the provision of a lift becomes essential. The current convention is that lifts should be provided above the fourth level (i.e. for the fourth floor and above, using the English storey numbering convention).

This level of provision may not be practicable or acceptable if larger family flats are situated on the second and third floors: one flight of stairs may be practicable with small children and shopping, but two or even three flights are likely to be unacceptable.

An intermediate solution is the use of maisonettes, with a two storey maisonette at ground level, with a further two storey maisonette on top, on the third and fourth floors, thus limiting the climb to the upper maisonette to two floors, but achieving a four floor block. (A variant of this, with a one bedroom flat on the ground floor and a two storey family maisonette above was used during the 1950s and 1960s, but proved unpopular: the ground floor flat tended to be let to elderly residents, who objected to the noise of the family upstairs, who in turn had no direct access to a garden.)

Increasing storey heights in blocks of flats will increase the extent of stairs, corridors and other common parts. While the cleaning of stairs serving perhaps a maximum of six flats might be regarded as the responsibility of the users, any more complex arrangement is likely to require regular cleaning by paid staff.

The range of services required for which service charges might be levied

- Lifts require regular maintenance, insurance (and insurance inspections), the provision of an emergency telephone, electricity, breakdown call-out repair, and regular cleaning.
- As the number of storeys increases, a pumped water supply becomes necessary in London, and if common storage tanks are used, regular health inspections for water quality are required.
- Entrance lobbies, staircases, corridors and lifts all require cleaning, whether by specialist cleaners or by a general caretaker.

- Repairs are required to common parts, which are likely to be areas of exceptionally high wear and tear.
- Utilities will be used: water for cleaning, and electricity for lighting, entryphone and CCTV equipment, and for lifts.
- Carparking in high density schemes almost inevitably has to be provided either underground or under a deck, and lighting, controlled entry and security surveillance are essential (although in a significant proportion of cases, designs have assumed that social tenants will not be car owners).
- Secure entry to flatted blocks, requiring a door entryphone system and possibly CCTV surveillance, bring further costs, not only of electricity but frequent repair, both of the equipment, and in reprogramming keyfobs or viewing tapes or hard discs following incidents.
- Refuse arrangements will at least require communal bins, which in turn require caretaking attention in rotating full bins and dealing with casual rubbish dumping. Bulk waste can pose particular problems in disposal.
- Grounds maintenance, even if only litter picking, is required for open space, however hard the landscaping may be.
- In large blocks, or estates with blocks that can be linked, the provision of a concierge service may be necessary to give additional security to that provided by a door entryphone system: if such a service is provided seven days a week, 365 days a year, then the labour costs can be exceptionally high.
- Organising these services, commissioning and paying for them, requires administration, health and safety inspections, and routine testing of facilities such as water tanks.

Increasing the proportion of larger dwellings requires increased services

All the above services will be required in a development consisting entirely of one bedroom flats, depending upon the number of storeys necessary.

At any given density, as the proportion of family units in a development increases, so will the number of people living on the scheme. A scheme at 200 dwellings to the hectare, with 30% of the units designed for six and eight person families, will have as many people living on the scheme as a development with 90% one bedroom and 10% two bedroom flats at 400 dwellings per hectare, or twice the density of habitable rooms per hectare.

As the proportion of family units in any development increases, not only will additional services need to be provided, particularly in the form of a range of outdoor activity opportunities for different age groups, but the intensity of use of all common parts and external open space will rise, requiring additional repairs, cleaning and possibly supervision.

Increasing densities may require different car parking services

In either case, increasing densities will result in increased carparking (if carparking is provided), and probably an increase in the proportion of the site covered by access roads or hard surfaces for emergency vehicle access.

If adequate open space is to be maintained, at some point any carparking provision will have to be provided underground, or at least beneath any communal open space. Not only will this result in significantly increased capital costs, but also in increased running costs. Covered carparking is notoriously insecure, and will probably require a complete security fence with a roller shutter or similar door equipped with a controlled entry system. Adequate lighting must be provided, and CCTV surveillance may be necessary. These facilities not only have running costs of electricity consumption, but are prone to frequent breakdown necessitating rapid response repairs. The carparking area will require cleaning, and will therefore require a secure water supply and may also require caretaker patrolling. The allocation and management of spaces are an additional demand on housing management time.

4.3 THE COSTS OF THE SERVICES PROVIDED

The project has analysed the range of services provided, and their costs to tenants and leaseholders, across nine developments. Eight of these are recent developments by housing associations, but a ninth local authority owned scheme, with an intensive concierge service, has also been included.

The services provided, and their costs, are shown in the table below, while the detailed analysis can be found in the Appendix. Not all schemes provide all services, and not all schemes which provided services necessarily charged for them.

All nine schemes provided, and charged for, the supply of utilities (mainly communal area lighting and water for cleaning) and for some element of cleaning and caretaking.

Eight schemes charged for the provision of an entryphone, for refuse services, and for the costs of administration (the local authority only charges administrative costs directly to leaseholders, absorbing tenant related administration into general housing management costs).

All nine schemes had lifts, but only five schemes charged for the costs, while all five schemes with concierge provision also made a charge.

Although all schemes had some element of shared open space, only three schemes made an explicit charge; in the others, the costs of grounds maintenance is absorbed in general caretaking charges.

Only one housing association made a charge for repairs to common parts, which are normally regarded as covered by the basic property rent.

Comparing the costs of providing services between different social landlords is fraught with difficulty. Costs will not be directly comparable between one landlord and another because staff may be employed on different rates of pay and working for different numbers of hours on each scheme, or may have time attributed primarily to one function rather than split between several, while different accounting practices for attributing overhead costs complicate comparisons still further.

Nevertheless, the degree of variation in the costs charged to tenants is striking.

Weekly service charges: lowest, average and highest charges

No. of schemes making a charge

Service charge per unit	Lowest	Average	Highest	No. of schemes making a charge
Entryphone	£0.12	£0.52	£1.29	8
Refuse	£0.07	£0.76	£1.48	8
Lifts	£0.80	£1.69	£3.71	5
Utilities	£1.18	£2.55	£8.60*	9
Repairs		£2.00		1
Subtotal	£2.17	£7.52	£15.08	
Grounds maintenance	£0.12	£1.34	£2.31	3
Caretaking & cleaning	£1.50	£4.09	£6.93	9
Concierge	£5.53	£10.44	£19.37**	5
Subtotal	£7.15	£15.87	£28.61	
Administration	£1.03	£2.20	£4.10	8
Total	£10.35	£25.59	£47.79	
	69%	62%	60%	
Grounds maintenance, caretaking, cleaning & concierge as % of total				

Note: The lowest and highest charges are for each service - one landlord may simultaneously have the lowest charge for one service, but the highest for another. The lowest total results from adding up the lowest available charge for each service, and the highest total from adding up the highest possible charges. In practice, the lowest total charge actually made by a landlord was £10.91, and the highest was £24.98.

* Abnormal electricity consumption: amount in dispute

** Actual cost (charged to leaseholders): tenants charged Borough average of £14.56

The main conclusion that can be drawn from the table is that the provision of the basic 'technical' services (entryphone, refuse, lifts and utilities) give rise to service charges averaging around £5.50 per week.

However, the table also shows that the most significant costs are those resulting from the labour intensive services (grounds maintenance, cleaning, caretaking and concierge), and that these can amount to between 60% and 70% of the total service charge.

This suggests that in thinking about how service charges can be minimised, it is less important to reduce the cost of 'technical' services, for example by minimising the provision of lifts, or skimping on the specification for controlled entry, than it is to think about measures which might reduce the need for, or the frequency of, the labour intensive services of grounds maintenance, cleaning, caretaking and concierge.

Low levels of staffing input are most likely to occur where schemes are small, or where larger schemes are broken into discrete units. In these cases, tenants are more likely to know each other (and therefore provide a greater sense of security), the facilities are less likely to be subject to heavy wear and tear or abuse (such as urinating in lifts), and in many cases tenants themselves may voluntarily take on cleaning and gardening tasks.

4.4 HOW SERVICE CHARGES ARE CALCULATED AND ADMINISTERED

Calculating and apportioning service charges

Within the social housing sector as a whole, there are significant differences in the policy framework for service charges between the local authority and housing association sectors.

In the local authority sector, for example, government guidance¹⁷ states that:

Ministers do not think it appropriate to levy service charges on services such as lifts that are essential to high rise flats any more than it would be appropriate to charge tenants of certain system-built houses extra amounts to reflect the high costs of maintaining their homes. These are costs that are inevitable for the properties concerned: neither tenant nor landlord has any discretion over them.

No such guidance exists in the housing association sector. Although legislation on leaseholds and case law in the private sector has developed over the years, there is only a patchy framework which establishes which services can be the subject of charges, and how charges are to be estimated.

Some landlords adopt charging policies which appear to make almost no differentiation between tenants and leaseholders. Other landlords clearly distinguish items which they regard as covered by the formula rent, and for which separate service charges are only made to leaseholders.

In some cases, the items judged to be included in the rent, and those which were the subject of service charges, appeared to be inconsistent. For example, one landlord regarded the costs of cleaning as included in the rent, but made a service charge to tenants for the cost of the water used for cleaning.

There is clearly no accepted norm for the apportionment of costs between different units. Some landlords appear to charge a flat rate per unit, irrespective of its type or size, some apportion costs by m² of floor area, others by the bedsize of the unit, and others by the occupancy (the number of bedspaces or persons). Some landlords adopt a combined approach, with part of the costs apportioned on a fixed rate per unit, with other costs apportioned by one of the variable measures such as floorspace or bedsize.

One landlord had developed a spreadsheet which generated service charges using four different methods of apportionment, so that the relative costs that resulted could be compared.

Interestingly, no landlord appeared to relate the service charge to the formula rent, which is a ready made (and government/regulator approved) means of differentiating charges between properties.

The table below summarises the results of these variations between landlords in service provision and charging practices.

Service charges per week for tenants and leaseholders / shared owners

	1 bedroom	2 bedroom	3 bedroom
Tenant			
Landlord 1	£15.00	£20.00	£24.00
Landlord 2	£29.46	£29.46	£29.46
Landlord 3	£15.32	£16.42	£17.23
Landlord 4	£26.97	N/A	N/A
Landlord 5	£12.49	£16.66	£18.74
Shared owner or leaseholder			
Landlord 1	£38.00	£47.00	£56.00
Landlord 2	£29.46	£29.46	£29.46
Landlord 3	£24.35	£28.06	£30.79
Landlord 4	£42.08	N/A	N/A
Landlord 5	£19.60	N/A	N/A

The table shows the variations in service charges which result from these differences in practice by landlords. Landlord 1 has a steep gradient between different bedsizes of dwellings; landlord 2 charges a flat rate per unit; while landlord 3 has much smaller differentials between dwellings of differing bedsizes.

Interestingly, landlord 4 is a local authority. The service charges shown are for a single tower block, and include a concierge service operating from 0800 to midnight five days per week, on Saturdays from 0800 to 1400, and on Sundays from 1000 to 1600. The actual weekly cost of the service to that block is £19.37, included in the charge to leaseholders. Tenants are charged the average cost of all concierge schemes in the Borough, which is £14.56 per week. Even with this lower average charge, the weekly service charge of £26.97 to tenants is 46% of the 'guideline' rent of a flat in the block, at £58.14.

Depreciation and sinking funds

Depreciation charges also varied widely, not only in the range of building elements included, but also in the periods over which these were depreciated, as shown in the Table below:

No. of years depreciation assessed by different landlords

	Landlord 1			Landlord 2	Landlord 3
<i>Scheme:</i>	1	2	3		
TV aerial	15	10	15	15	10
Passenger lifts	25	10		25	20
Electronic gate	10				
Entry phones	10	15	15		15
Water pump	10	30	20		10
Communal floor covering	15	10	10		10
Underground refuse system	15				
Eurobins				10	
Powered door operation		15		15	
Fire detection system		20		10	
CCTV				10	10

The table shows that very different rates of depreciation are predicted for apparently similar building elements: lifts range from 10 years to 25 years, while water pumps range from 10 years to 30 years. Both of these differences are estimates by the same landlord: these

appear to reflect a lack of internal co-ordination, rather than major differences in the quality of specification.

It is not clear on what basis these differences are being estimated, but depreciation rates for some building elements of 25 or 30 years would clearly overlap with the expected life of other common building elements, such as windows. The reasons for selecting certain building elements with a predicted relatively long life, but not other building elements with a similar life expectancy, are not clear.

Equally, there are interesting omissions from the list of building elements with relatively short lives which it might be appropriate to depreciate over a fixed period and recharge to residents as a sinking fund. The most obvious example is common entry doors to blocks, where local authority experience over many years suggests that frequent premature breakage and replacement (usually to a much more robust specification) is common.

In addition to the above list, one landlord appears to charge depreciation, amounting to £3.80 per week, to tenants, which would appear to be contrary to the generally accepted practice.

4.5 AFFORDABILITY

How rents are set by housing associations

When the government introduced the current system of setting rents in the social housing sector, by means of a nationally applicable formula, it judged that the overall level of rents was affordable to tenants.

Under the current system, rents are set by a formula which gives a 70% weighting to lower quartile earnings in each area of England (giving a basic flat rate element across all rents in London), and a 30% weighting to the relative open market value of each property (which produces the variation between rents across London). The variation between rents which is produced by differences in open market values is then widened by giving lower percentage weightings to bedsits and one bedroom homes, and higher percentage weightings to homes with three bedrooms or more.

Since the introduction of the 'formula' rent system, the government, and the former Housing Corporation as the regulator for housing associations, have increased rents each year by RPI plus a real terms increase of 0.5%.

Because wages and salaries rise on average by about 2% in real terms above RPI, rents will therefore have fallen gradually in relation to earnings. And since wages and salaries make up a high proportion of the costs of managing and maintaining property, restricting rent increases to only 0.5% in real terms imposes an efficiency squeeze on housing associations.

Service charges will tend to rise as a proportion of rents

Service charges, however, are not included in the calculation of 'formula' rents. They are charged to tenants in addition to the property rent. Service charges are not subject to the same restrictions as annual increases for rents, but are based on recovering the actual cost of the services provided.

As long as formula rents rise by less than prices and wage costs, service charges will inexorably increase at a faster rate than the 'formula' rent, and therefore will grow over time as a proportion of the total weekly charge to tenants.

Service charges may distort the pattern of rents between flats and houses

Because the national rent setting formula only gives a 30% weighting to differences in values between properties, the difference in rents between flats and houses is quite small, despite the relative undesirability of flats for family living.

As a result, the additional cost of service charges in flats can easily raise the total weekly cost to tenants above the cost of a house.

In its advice to local authorities, the government recognises that service charges can cause these distortions:

‘Local authorities are expected to use their discretion on charging for services to avoid situations in which anomalies are created, e.g. it costs tenants much more to live in high rise flats than it would to live in street properties that they would find more attractive.’

But at the same time, the government is encouraging local authorities to introduce service charges, and providing financial incentives for them to do so through the housing subsidy system.

Service charges result from the particular characteristics of a development and its need for services, and are not related to the market value of the properties themselves.

Consequently, a relatively high service charge might be necessary in a development with low market values (and therefore lower ‘formula’ rents), while another development might have high ‘formula’ rents, but little or no need for service charges.

As a result, the total weekly charge to tenants in the first development might actually be higher than the charge to tenants in the second development.

This can frequently occur in developments with both houses and flats. Typically, the houses will have higher market values than the flats, reflecting their greater desirability, and will therefore have higher ‘formula’ rents, but the addition of service charges to the lower ‘formula’ rents of the flats can easily result in a higher total weekly charge to the tenants of the flats.

The difference in rents between flats and houses on the same scheme will depend upon the location of the scheme, and the relative open market values of flats and houses in that location.

For example, in East Thames developments, in Canning Town (E16) the difference in rent between a flat and a house is only £3 to £4 per week, but in Romford (RM4), the difference is nearly £14 per week.

In the first example, in a development in Canning Town, even the most minimal charges for services, of entryphone, lift, utilities, refuse and grounds maintenance would bring the weekly charge for a flat above that of a house. In the second example, in a development in Romford, if a service charge was necessary to provide cleaning and caretaking services, then this would make a flat more expensive than a house. In either case, if a concierge service proved necessary in addition to other service charges, this would make a flat some £10 to £12 per week more expensive than a house on the same development.

Rents, service charges and affordability

Since the government’s policy of restructuring rents to align with the national formula assumed that the average level of rents in England was broadly ‘affordable’ and did not include service charges, the addition of service charges to the formula rent must test the boundaries of affordability for tenants in social housing.

The ‘affordability’ of rents and service charges is a matter of direct concern to those tenants who pay the whole of their rent from their incomes, without having to rely on assistance from Housing Benefit.

In London, the Housing Benefit ‘trap’ affects tenants in full time work

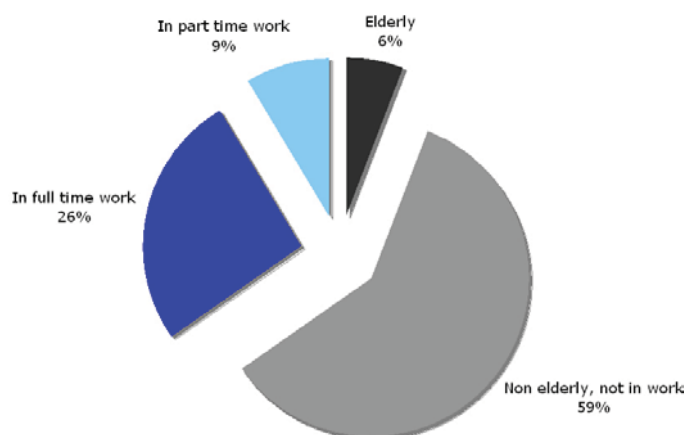
The problems of affordability which may be created by adding service charges to formula rents are primarily experienced by households with at least one member in full time work, and therefore effectively earning over £200 per week gross (35 hours at the Minimum Wage of £5.73 per hour was £200.55 per week in September 2009).

In practice, all tenants who are either wholly reliant on benefits, or who are in part-time employment, will be entitled to Housing Benefit at the rent levels current in London. For tenants not in work, or in part-time work, there may be disincentive effects in coming off Housing Benefit, but these are problems of the tapered withdrawal of benefit built into the Housing Benefit system: they are not problems which can be addressed through social housing rent setting.

The proportion of tenants in full time work is small

The number of tenant households with at least one member in full time work is relatively small, as shown in the figure below:

**RSL lettings in London in 2006/07:
Percentage of tenants in full time work**

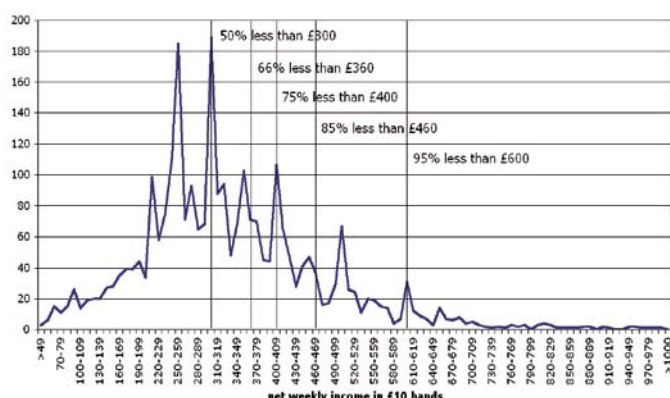


In 2006/07, there were nearly 11,000 lettings in London in General Needs housing. Of these, only 2,833 households had at least one member in full time work, or just over 25%, while a further 986 had only a part-time working member, or just under 10%.

Earnings are low among households in full time work

The incomes of households with at least one member in full time work are heavily skewed towards low earnings, although there is also a long tail of relatively higher earners, as shown in the Figure below:

RSL lettings in London: Net weekly household income of households with at least one member in FT work (CORE 2006/07)



The figure shows that of the 25% of tenants with households with someone in full time work, 75% have a total net weekly income of less than £400. Therefore, only 6% of all tenants have a gross weekly income from earnings, before deductions, of over £400.

Earnings, affordability and Housing Benefit

The Housing Benefit system works as a 'sliding scale', so that as earnings rise, entitlement to Housing Benefit decreases, and so that as rents rise, entitlement to Housing Benefit increases, but at a lower rate.

The result is that there is no single level of rent and service charges which is 'affordable': there is no straightforward 'cut off' point at which any combination of rents and service charges can be said to be 'unaffordable'.

At current median rents (and by definition, half of all tenants will be paying more than the median rent), only the bottom quarter of earning households in one and two bedroom properties, and the bottom half of earning households in three bedroom properties, will be protected by Housing Benefit from any service charges in addition to the basic rent.

Rents in London, and the rent 'cap'

In introducing 'formula' rents, the government was conscious that rents in the most expensive parts of central London might rise to unaffordable levels, and a set of 'rent caps' was introduced in order to restrict the highest 'formula' rents.

The rent caps might be regarded as setting an upper limit for social housing rents, beyond which they would be 'unaffordable'. These rent 'caps' however only apply to formula rents, and do not include service charges, which could be charged in addition to a 'capped' rent.

The extent of the gap between average rents and the rent cap in 2007/08 is shown in the Table:

**2007/08 lettings of newbuild flats in London:
average rents and rent caps**

	No. of lettings	No. at cap	Median weekly rent	Rent cap	Difference
1 Bed	979	58	£77.26	£102.33	£25.07
2 Bed	1707	106	£88.70	£108.33	£19.63
3 Bed	478	95	£104.63	£114.36	£9.73
4 Bed	97	39	£120.37	£120.37	£0.00
5 Bed	7	1	£115.51	£126.39	£10.88
6 Bed	1	0	£126.59	£132.41	£5.82

Note: the median is the midpoint of rents – 50% of rents are below the median, and 50% are above.

The Table shows that as the number of bedrooms increases, rents become closer to the rent cap, and the proportion of properties with rents actually at the cap also rises.

On high density sites, three bedroom and larger properties are only likely to be built in the form of flats. Since these are inherently likely to require service charges, it is clear that many of these homes will have total weekly charges well in excess of the rent cap.

**Service charges and public expenditure on
Housing Benefit**

Three quarters of all housing association lettings in London are to households who are either out of work or earning less than £200 per week, and who will therefore have their rent paid by Housing Benefit. In addition, partial Housing Benefit will be received by lower paid earners with lower rents, and higher paid earners with higher rents.

The public purse, through Housing Benefit, is paying around 80p of every £1 of rents charged to tenants in new developments, and will equally pay 80p of every £1 of service charges.

A £1 per week service charge, collected every week for 25 years, has a total value in today's money of £872 (discounting the stream of income at the Treasury recommended rate of 3.5% to give its Net Present Value).

If 80% of a £1 per week service charge is met from Housing Benefit, then it would be worth investing £700 ($£872 \times 0.8 = £698$) if this would eliminate the need to make the service charge in the first place. And similarly, it would be worth spending £7,000 at the outset if this would eliminate the need to make a £10 per week service charge.

However, very few of the normal service charges that are levied could be eliminated by higher initial capital investment. A better specification for a lift, for example, will not eliminate the need for insurance, maintenance, electricity or the emergency telephone. The most costly elements of services charges are the labour intensive services of cleaning, caretaking and concierge: none of which can necessarily be replaced by more investment at the outset.

Alternative approaches to funding services

The project examined a range of possible alternative ways in which service charges could theoretically be funded. These ranged from a return to 'pooling' the costs of service charges across all tenants (including those tenants who do not receive the services), to the creation of an income stream from investments.

A capital sum large enough to pay for the ongoing revenue cost of service charges could come from asset sales, or from an increase in Social Housing Grant, or from developer contributions through 'Section 106' agreements.

An increase in the rate of SHG for schemes with common services could be utilised to provide an element of investment income sufficient to meet all, or part, of the future costs of service charges. However, current government policy towards service charges is rather to provide financial incentives for local authorities with retained housing stocks, through the housing subsidy system, to 'depool' service charges and to charge the cost of services only to those tenants who receive the services.

The second option would be to use surpluses from the sale of other assets, or accumulated from income, to provide the capital sum for investment. Under present circumstances, surpluses (if any) are fully utilised in existing development programmes, and would need to be increased if additional resources were to be made available for investment purposes.

The third option would be to utilise part of the S106 planning obligation to provide a commuted lump sum which could then be invested to pay for the cost of common services.

What might a developer's contribution cost?

Essentially, a lump sum could be made available from the developer's Section 106 obligations, but at the expense of accepting fewer social housing units on the scheme.

Developer contributions through S106 agreements are currently focussed on achieving the maximum number of social housing units that is compatible with the commercial viability of the development. If part of the developer's contribution were to be a commuted lump sum for investment to cover the costs of service charges, this would necessarily result in a trade-off against a lower number of social housing units provided through the development.

The 'trade off' between the number of units of social housing that could be provided if service charges are paid by tenants, and the number that could be provided if part of the S106 element of the scheme were commuted into a lump sum, can be estimated by using one of the economic appraisal tools for scheme development. In this project, the one developed by the former Housing Corporation¹⁸ was used.

Estimating the 'trade-off' required by using the Economic Appraisal Tool, shows that to effect a 'trade off' between the proportion of social housing and the proportion of market housing sufficient to produce a commuted lump sum large enough to pay for different levels of service charges over a 25 year period would require a reduction in the proportion of social housing of:

- 13% in order to pay for a £10 per week service charge
- 18% in order to pay for a £15 per week service charge
- 23% in order to pay for a £20 per week service charge

Reductions of this scale are currently incompatible with the policy aim of increasing social housing output.

While reductions of this scale are substantial, they would only produce a lump sum equivalent to the Present Value of the income from service charges. To provide a lump sum for investment in perpetuity, or to provide protection against inflation, or to provide for the rising real costs of services, would each require yet further reductions in the number of social housing units provided by any developer.

4.6 SERVICE CHARGES: ENVIRONMENTAL AND SUSTAINABILITY IMPACTS

While many of the actions necessary to mitigate the effects of climate change will impact primarily on the initial capital investment in developments, there are implications for the design of schemes which will also impact on the longer term running costs, and potentially on service charges.

A requirement for all dwellings to have cross ventilation would effectively rule out central corridor designs: developments of flats would either require open deck access with windows or ventilation panels opening onto the deck, or to be arranged in small groups of flats around lift cores. In both cases, the number of flats served by each lift would probably decrease, requiring increased numbers of lifts.

While lifts require servicing and cleaning, the evidence shows that the costs per week are relatively small. Whether these costs are charged as a service charge, or are met from the basic rent, will depend upon the policy of the landlord.

More generally, increases in planting, not only in soft landscaping but in green walls and roofs, in part to help mitigate the heat island effect, will generate additional grounds maintenance, which is a relatively labour intensive service, and which will therefore increase the costs to be recovered through service charges. The trend in recent years has been to increase the proportion of hard landscaping, thereby minimising maintenance costs. Increasing the amount of soft landscaping on developments would reverse this trend.

¹⁸ *Economic Appraisal Tool User Manual (v.13, October 2007)*, Housing Corporation, 2007

5. Conclusions and Recommendations

5.1 ARE SUPERDENSITIES APPROPRIATE FOR SOCIAL HOUSING?

The evidence suggests that superdense schemes will inevitably result in high levels of service charges, particularly when the labour intensive service of grounds maintenance, cleaning, caretaking and concierge are required. Only small schemes (perhaps less than 25-30 homes) are likely to be able to avoid the need for these labour intensive and costly services.

Even if a funding mechanism can be found to bring the costs of service charges within the bounds of affordability, superdense schemes remain unsuitable for families with children, unless a proportion of the accommodation on the site can be provided in the form of houses or maisonettes with private open space.

The conclusions reached by the London Housing Federation in 2002¹⁹ are still valid. Capital Gains recommendations (among others) were that:

- Schemes should be:
 - Located in accessible locations with appropriate facilities.
 - Assessed in terms of bedspaces (people) per hectare in addition to dwellings per hectare.
- Design should take into account child densities, occupation levels and use.
- Homes exclusively for families should not be developed in parts of a scheme where density exceeds 250 dwellings per hectare.

It is recommended that where high density schemes are considered appropriate within the London Plan, a draft management plan should be submitted as an integral part of the planning application. The management plan should identify the public realm, common parts, and services required for the future management of the scheme, and should set out the management responsibilities and arrangements envisaged.

5.2 DESIGNING TO REDUCE SERVICE CHARGES

It is recommended that:

- All schemes should seek to maximise the proportion of family dwellings (2 or more bedrooms) which are provided as houses or as flats or maisonettes with direct garden access or private open space.
- Schemes which include larger dwellings (3 or more bedrooms) should not be designed at densities at which the larger family dwellings cannot be provided as houses or maisonettes with gardens, except within the core inner city.

It is recommended that all schemes which are designed at densities which will require the provision of common services (and therefore will require service charges) should pay particular attention to designing attractive but robust and economical solutions for common services, in particular:

- Security and control of entry to carparking and circulation
- Internal finishes and lighting to circulation spaces such as entrances, staircases and lifts, and landings or corridors
- The provision of amenity space, hard and soft landscaping and play facilities
- Facilities for waste and refuse disposal

It is recommended that where common services cannot be 'designed out' of schemes, then designers should consider minimising their impact by careful design (for example, by maximising the use of each lift core), while recognising that the objective of minimising service charges needs to be balanced with the other objectives of the design brief.

It is recommended that where 'public realm' is provided in schemes (for example in regeneration projects), the public realm should be adopted, and maintained, by the local authority and should not become a service charge to residents.

5.3 FAIRNESS IN RENTS BETWEEN FLATS AND HOUSES

The formula rent system is designed to produce rents in the social housing sector that the government considers to be 'affordable' by tenants. Service charges are not included in the formula, and are added to the formula rent to produce a gross weekly charge, which in some cases can be very significantly higher than the formula rent.

Although the term 'service' charge is used, the services provided are effectively compulsory: tenants cannot choose whether or not to have a particular service and pay for it. Service charges are in practice simply a division of the total charges for the provision and running of housing schemes.

The use of service charges can produce anomalies, in raising the total weekly charge for a flat above that for a house of similar size and location.

It is recommended that in the context of future reviews of the formula rent system, consideration should be given to the total weekly charge for flats, relative to those for houses, and that the costs of service charges should be considered within the capital funding regime.

5.4 GOOD PRACTICE RECOMMENDATIONS

It is recommended that a fundamental review of the rationale for service charges, their administration, and their relationship with formula rents, should be undertaken by the TSA, HCA and CLG, in conjunction with the NHF.

Such a review should consider:

- The rationale for service charges in relation to the formula rent regime
- The need for transparency and consultation with tenants and leaseholders in setting service charges and their rationale
- The definition of which building elements, or housing management and maintenance services, should be the subject of service charges, and which should be included within the formula rent
- Whether there should be limitations on the extent of service charges in developer led schemes with S106 agreements
- Whether best practice guidance is required on the methods for apportioning service charges between users
- Whether service charges should be limited, or 'capped', and if so, how the balance of costs is to be funded
- Whether consistency in policy and practice between housing associations and local authorities, in this area, is desirable or practicable

It is recommended that the NHF should undertake a review and updating of its guidance to housing associations on the apportionment and administration of service charges, taking into account the recommendations of other professional bodies such as the RICS.

It is recommended that all housing associations should have a formal process, proportionate to the size and complexity of the scheme, for the briefing, scheme design and acceptance (or 'sign-off') of developments.

It is recommended that a formal 'sign off' process should include the full range of interests in the completed development, including:

- Development
- Housing management
- Repairs and maintenance
- Finance and service charge collection
- Sales and leasehold management

It is recommended that all schemes should have a draft lettings and management plan, prepared at the pre-contract stage and reviewed periodically as the scheme develops. The use of nomination rights should be discussed with the local authority at an early stage.

It is recommended that the management plan should include from the outset an estimate of the likely common services required on each scheme, and an estimate of the likely service charges that will result. Again, any estimate will need formal periodic review throughout the development process until handover.

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