

# Service Charges: the customer experience



## A report by the Tenant Scrutiny Panel

### Introduction

The Tenant Scrutiny Panel (TSP) and York Housing Association (YHA) jointly selected the topic of Service Charges. It was chosen because in the 3-yearly STATUS satisfaction survey the issue stood out as attracting the lowest satisfaction rating for key services (62%) and the biggest drop since the last survey was conducted (10%).

Karbon Homes/YHA have development plans that include approximately 127 Shared Ownership (SO) homes in the next 3 years; both YHA and the TSP agree that the Association needs to get this service right, in preparation for its increasing importance to the Association and its customers.

For the second time, the TSP used a 'Task & Finish' approach to this study. This followed the successful piloting of this method for our last report. Key features of the approach include limiting conclusions to around 10 SMART recommendations, focused on IMPACT for residents. It is also intended to be conducted over a time-limited period. The original timescale for this study was 4 months, but the decision to include a focus group and the interruption caused by the Covid-19 crisis has extended this to 6 months.

# What we looked at – the scope of the exercise

The Panel agreed with the Association that we would look at these questions:

- Is it clear what residents are paying?
- Is it clear what residents are paying for?
- What standard of service can people expect?
- Are the services they receive, and the level of service, what residents want?
- Is communication with residents clear and user-friendly?
- What and how can residents influence service charges?

## How we did it

Between October 2019 and March 2020, the TSP was involved in:

- 2 x Familiarisation meetings with YHA staff
- 3 x Planning sessions, either alone (with the Scrutiny independent mentor) and/or with staff
- 1 focus group – This involved 4 SOs and 1 tenant and was facilitated by the Panel members and our independent mentor. YHA organised the invitations and contact with participants, while we organised the event itself, which was held on a Saturday morning at the end of February at York Quaker Meeting House. The full report on this focus group was produced in March and forwarded to the Association.

It is a requirement of the Scrutiny process that it is always evidence-based. In this case we collected and examined:

- Service charge accounts sent to payers
- Covering letters sent to payers
- YHA's Service Charge Policy
- Results of previous resident consultation (2018)
- Fixed and variable service charge explanation document
- How service charges are set/reviewed/parameters and caps applied
- Specifications for works paid for by service charges
- Draft Shareholders Handbook and potential Local Offer
- Location of shared ownership properties across YHA schemes
- The views of a number of service charge payers – leaseholders and tenants – at a oneoff focus group.

# What we found

As we developed our report, it became evident that the questions posed in the scope of the inquiry and the answers, fitted into four categories:

**Communication**

**Value for Money**

**Transparency**

**Empowerment**

Throughout this report we illustrate our points with direct comments from participants of the focus group we conducted as part of our evidence-gathering.

## *Communication*

As is so often the case in our projects, this emerged as the most important aspect of the service and the one requiring the most improvement.

The annual account and cover letter received by SOs comes without context. Some context and explanation would help them understand what they are being sent.

We understand that YHA has a legal duty to present accounts and must use particular wording. But it appears that the design of accounts and cover letters fulfill YHA's legal obligations but go no further to help service charge payers understand the annual charge that is levied for the coming year and the figures this is based on for the previous period. The accounts payers receive are difficult to understand and have no accompanying narrative that puts it into laymen's language or makes it specific to where they live. The language is too hazy for ordinary people to understand; it's more like management or auditor-speak.

Having looked at the notification letter and account template used by Karbon, we think there is merit in YHA comparing their material as, while similar, Karbon's are a bit more user-friendly in format. Putting the general material and legally-required text in a separate leaflet would enable customers to focus on what is most important – what they are paying for and how much.

Even within a standard letter it should be possible to include a short set of headlines and interpretation for each scheme. An example could be "We are increasing the amount charged for estate lighting because last year the costs increased by X%."

When people don't understand what they are told they don't trust it. This is a theme that became clear during the focus group (see the Transparency section below).

*"I worked out that estate lighting went up 47% last year;.....it feels like, when there is a reduction, they just put something else up."*

*"Communication is the whole thing; if I told my customers costs were going up, but not why, I wouldn't get away with it."*

Beyond service charges, the focus group discussion illustrated a lack of understanding around the most basic structure of the rent/ownership model and where responsibilities for repairs lie between SOs and YHA. SOs were confused as to what was covered by their rent and their service charge.

## *Value for money*

How residents feel about the value for money (VFM) of the services they receive is inevitably affected by whether they understand the communication they have had about paying for them. It is impossible for residents to determine whether they are getting VFM if they don't know what they are paying or getting for their money.

Participants in the focus group displayed a lack of trust in YHA to keep their service charges down. There was a belief that, as the full *actual* costs of services are passed on to payers, there is no incentive on YHA to look for cost savings. So they doubted that they were getting good services at the best possible prices.

Gardening and grass-cutting is a service that is frequently criticised by customers and this was reflected in discussion at our focus group. Participants told of instances of watching gardening operatives sitting in their vans, doing the minimum required and not disposing of grass cuttings responsibly. Believing this service provides VFM was impossible for participants who didn't understand the actual costs, fluctuations in them or what they were meant to get for their money.

Focus group participants identified large variations in costs from one year to the next, which they felt was unreasonable and they couldn't see why standard service costs at times changed radically. Residents need to have the specifications of the services they are paying for, and clear explanations of the associated costs.

*“No one ever checks the cleaning. We have a bin store; no one sweeps it out or cleans it, but we’re charged for that. What are we paying for? No one ever checks to see what’s being done.”*

*“VFM includes satisfaction with the level of service and (knowing) that it gets checked.”*

## *Transparency*

YHA’s Service Charge Policy states that:

*“The calculation of the Service Charges will be fair and transparent……”.*

While this may be the aspiration, we believe it isn’t being applied in practice. Because the communication on service charges isn’t clear, it runs the risk that its accuracy isn’t trusted. By extension, for some residents, this allows to grow a distrust of YHA as an effective business.

*“Because no-one knows what it (SC) is for we get suspicious about where it’s going and wonder what it is for……”*

*“We don’t know what we are paying for; are we covering the costs of tenants? Do we pay more SC than them?”*

## *Empowerment*

YHA conducts an annual consultation with customers in advance of SC levels being set. This needs to be done in a timely, scheme-appropriate and structured way and there should always be feedback provided to any customer taking part.

Participants at the focus group showed a willingness to take on responsibility for both monitoring and managing services themselves. This took a variety of forms, including interest in the introduction of scheme ‘champions’ who could monitor services and serve as a point of contact for residents and YHA. One participant described how cleaners had put up a signing sheet at one point, but only signed on one visit and then it was removed:

*“If I knew exactly when they are coming and what they are doing, it would be transparent and we could monitor it.”*

One SO who takes a close interest in the fluctuations of the service charge where he lives described his attempts to work with YHA and to organise a rota of his neighbours to take on cleaning themselves. Despite securing written agreement from other residents, he received no response to his proposal from YHA.

*“I tried it (getting involved) but it didn’t work. I wanted to save them and us money and effort but it makes me angry and upset. No one comes back to you; I even had consent forms (from neighbours) but got nothing back.”*

SOs in another scheme talked about how they could save money by cutting the small area of grass themselves. While they guessed that this would save money, they were more interested in how sharing the task and being able to re-invest the money saved, could help strengthen their community.

*“If we could save money, we could put it towards a couple of benches – we’ve all got lawnmowers so it wouldn’t be difficult to work out a rota.”*

## Conclusion

1. All our reports have a common theme – COMMUNICATION. In this case improved communication needs to focus around:

- Clarity
- Transparency
- Honesty
- Accuracy

We believe relatively straight-forward improvements to the communications sent out to SC payers will have knock-on effects in the levels of satisfaction customers express both in this service and potentially those they pay their SC for.

2. While satisfaction levels for most services paid for from SCs runs at acceptable levels, there is long-running dissatisfaction with gardening services and specifically grass-cutting. This needs addressing by the Association. While customers are unhappy with the quality of a service, they won’t see it as VFM, regardless of whether YHA can demonstrate that costs are justified and reasonable.

3. We know YHA wants residents to get involved with the services they receive. When they express an interest in doing so, it is vital that they receive a response, whether the Association feels able to take up their ideas, or not.

The Association should also be prepared to think outside the box and try something new. Why not pilot working with SOs on a small scheme to enable them to do their own grasscutting? And beyond this, empower them to reduce the level of the SC or collectively decide whether to put savings made into improvements to their environment?

# Recommendations

| Area of scope          | No. | Recommendation   |
|------------------------|-----|--|
| <b>Communication</b>   | 1.  | Improve the presentation of accounts and/or accompanying notes to make it reader-friendly, to aid understanding  |
|                        | 2.  | Improve the cover letter that goes out with accounts – make it scheme-specific, in understandable, accessible language   |
| <b>Value for Money</b> | 3.  | Give customers the specifications for the services they are paying for, to aid understanding, transparency and their ability to monitor them   |
|                        | 4.  | Look again at the quality of the gardening service – it is continually criticised by your customers  |
|                        | 5.  | Improve the frequency and quality of the monitoring of contracts and contractors by YHA staff  |
| <b>Transparency</b>    | 6.  | Improve information to residents (leaseholders in particular) as to who to go to within YHA if they have comments on the services they are paying for  |
| <b>Empowerment</b>     | 7.  | Where residents are offering solutions and are prepared to be proactive and get involved, <b>always</b> respond, even if it's in the negative  |
|                        | 8.  | Ensure customers are meaningfully involved in the annual review of service charges, in sufficient time for their comments to have a real influence on actions the Association takes, and that they receive feedback  |
|                        | 9.  | Pro-actively publicise the opportunities for residents to do things for themselves and their community, exploring the possibilities in partnership with those who respond. Recognise that exploring ideas like this helps build a community; it's not just about saving money. |

|  |   |
|--|---|
|  | <p>10. Promote the role of scheme 'champions' more and ensure they receive feedback on what is done with their input. Keep the Scrutiny Panel up-to-date with which schemes have champions.</p> |
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## Next steps

1. Focus Group attendees expressed a desire to see the finalised report, so we would ask that this be sent to them, along with the agreed Action Plan, with a covering letter from the Panel.
2. We would like to see the recommendations of this report inform the intended Step-by-Step Guide to Shared Ownership/Leaseholder Handbook and Local Offer
3. We would also like to see the final agreed report appear on the YHA website straightaway, which has previously been agreed, but not enacted.

## Acknowledgements and thanks

The Panel would like to acknowledge the co-operation of, and thank, the following for their help with this project:

- Rachael Simmons and the Customer Services Hub for their considerable help in setting up the Focus Group
- Nic Dennison for spending time with us on the study scoping and sourcing of evidence
- The residents who gave of their time and opinions at the Focus Group
- Rachel Vernelle, our independent mentor, for her support in conducting this study

## Appendix One

### **Example of YHA service charge accounts and covering letter**

**Summary of Service Charges Actual Income & Expenditure**  
**1 April 2018 to 31 March 2019**

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| <b>Unit Numbers and Mix</b>                                     |   |   |                                   |  |
|---|---|---|-----------------------------------|--|
| Total homes on estate   |   | 85  |                                   |  |
| Flats in block  |   | 6   |                                   |  |
| <b>Description</b>  | <b>Total Service Charges April 2018 to March 2019</b> | <b>Actual Cost April 2018 to March 2019</b> | <b>Under / Over Spend 2018/19</b> |  |
| <b>Direct Estate Costs for 85 residents</b>                     |   |   |                                   |  |
| Grounds Maintenance   | £2,575.00   | £1,618.30                                   | £1,392.40                         |  |
| Estate Lighting   | 1457.00   | 333.03                                      | £669.48                           |  |
| Management Charge @ 20% on Estate Costs                         | 806.40  | 390.27                                      | £412.38                           |  |
| <b>Total under/over spend for estate for year to March 2019</b> | <b>£4,838.40</b>                                      | <b>£2,341.60</b>                            | <b>£2,474.26</b>                  |  |
| <b>Direct Communal Costs for 6 residents in block</b>           |   |   |                                   |  |
| Electricity and lighting of communal areas                      | £248.00   | £216.73                                     | £31.27                            |  |
| Cleaning of communal areas and windows                          | £783.00   | £466.68                                     | £316.32                           |  |
| Fire protection and emergency lighting                          | £831.00   | £461.04                                     | £369.96                           |  |
| Door Entry System repairs and maintenance                       | £104.00   | £0.00                                       | £104.00                           |  |
| Communal TV Aerial repairs and maintenance                      | £52.00  | £0.00                                       | £52.00                            |  |
| Communal Bin Store  | £102.00   | £27.13                                      | £74.87                            |  |
| Day to day repairs  | £500.00   | £0.00                                       | £500.00                           |  |
| Management Charge @ 20% of Communal Costs                       | £524.00   | £234.32                                     | £289.68                           |  |
| <b>Total under/over spend for block year to March 2019</b>      | <b>£3,144.00</b>                                      | <b>£1,405.90</b>                            | <b>£1,738.10</b>                  |  |
| Buildings Insurance   | £58.68  | £59.70                                      | <b>-£1.02</b>                     |  |
| <b>Communal area sinking funds</b>                              |   |   |                                   |  |
| Sinking fund - internal/external decoration                     | £100.00   |   |                                   |  |
| Sinking fund - replacement carpets                              | £350.00   |   |                                   |  |
| Sinking fund - estate unadopted road                            | £500.00   |   |                                   |  |
| Sinking fund - fixed assets 26 flats                            | £8,743.00   |   |                                   |  |

Sinking funds for the replacement of component parts of the building/estate will not incur annual expenditure, but build up funds to replace these items as their useful life comes to an end.

**2020/21 Service Charge Adjustments per resident per month:**

|   |               |
|---|---------------|
| Total amount to be <b>added/</b> deducted from the 2020/21 Estate Service Charge<br>£2,474.26 divided by 85 residents divided by 12 months      | <b>£2.43</b>  |
| Total amount to be <b>added/</b> deducted per unit to the 2020/21 Block Service Charge<br>£1,738.10 divided by 6 residents divided by 12 months | <b>£24.14</b> |
| Total amount to be <b>added/</b> deducted from the 2020/21 Buildings Insurance Charge<br><b>-£1.02</b> divided by divided by 12 months          | <b>-£0.09</b> |

**Please note that although there has been an **over/**under spend, no action is required. This over / under spend will be taken into account when we calculate your service charges and buildings insurance for the period April 2020 - March 2021**

20 September 2019

XXXX

XXXX

Dear

**ANNUAL SERVICE CHARGE ACTUAL INCOME AND EXPENDITURE SUMMARY 1**  
**APRIL 2018 TO 31 MARCH 2019**

Please find enclosed the Annual Service Charge Actual Income and Expenditure Summary for the financial year to 31 March 2018. Where the lease of your property commenced after 1 April 2018 the figures have been calculated from the date that the lease commenced. This document is for your information and you do not need to take any action at the current time.

You will see that there have been some areas where the service charges you have paid do not match the expenditure incurred in the provision of those services. This situation may have arisen for some of the following reasons:

- The calculation of the original service charge had to be based on estimates of the anticipated costs.
- At the time you moved into the property, the estate may have been under development.
- Where the buildings are new many of the repairs are still the responsibility of the builder and no expenditure was incurred by the Association.

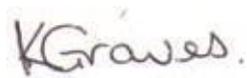
Your estimated service charges for the year April 2020 to March 2021 will be calculated and notified to you before the end of February 2020. The estimated service charge for 2020/21

period will then be increased or reduced by the relevant 'overspend' or 'underspend' amounts for 2018/19, as shown on the summary.

The calculation of any over or under spend for the current year, April 2019 to March 2020, will be calculated and notified to you in September 2020. The adjustment for that period will take effect in the calculation of your service charge for 2021/22.

Please do not hesitate to contact me if you require any further explanation or have any queries.

Yours sincerely

A handwritten signature in black ink that reads "KGraves." The signature is written in a cursive style with a period at the end.

Kath Graves

**RENTS AND HOME OWNERSHIP OFFICER**