

Service charge transparency requirements: ongoing costs of the new building safety regime

Briefing for housing associations

March 2023

Introduction

The Building Safety Act 2022 establishes a legal duty for landlords to ensure the safety of higher-risk buildings they own or manage, with higher-risk buildings defined as those 18m or over in height.

Unlike remediation work, the costs associated with these building safety duties may be passed onto residents through service charges. Examples of these measures include assessing fire risks, taking reasonable steps to manage building safety risks, and applying for building assessment certificates.

This [consultation seeks views on the transparency mechanisms](#) associated with the billing of these service charges. It is hoped that an appropriate approach to transparency will allow residents and leaseholders to understand exactly what they are being charged for and ascertain whether these charges are reasonable.

The Department for Levelling Up, Communities and Housing (DLUHC) is seeking feedback on:

- The proportionality of the transparency requirements.
- The administrative and operational changes required.
- The timings required to implement any changes to service charge mechanisms.

The NHF will be submitting a sector response to this consultation. To help shape our response and share your views, please [get in touch with Marie Chadwick](#), Policy Leader by **17 March 2023**.

Summary of proposals

Transparency requirements

DLUHC is proposing that building safety charges should be identified within the service charge demand received by leaseholders. They suggest doing this through a separate line which explicitly notes the costs associated with building safety in residents' service charge demands.

Alongside this, DLUHC proposes that in their annual service charge statement, leaseholders should be able to access an itemised breakdown for the total spend per building which is going towards building safety costs. The total spend per building would be a breakdown of the specific measures and activities which have been paid for through service charges.

Administrative and operational implications

There is a recognition that these changes may come with administrative and operational demands for landlords, for example alterations to IT systems. DLUHC is seeking views on the financial implications of these changes, as well as the ease with which they can be made.

Timings

The charging mechanism for building safety measures and the transparency requirements are likely to be commenced separately. This means that, initially, costs associated with building safety could be charged to leaseholders without the need for landlords to proactively provide information about total expense. It is government's intention that the transparency requirements come into place as soon as possible after the charging mechanism is introduced. Government are seeking views on the impact of this on landlords.

Government is currently exploring proposals to reform service charges in a wider sense, so that residents are better informed and protected. There is a possibility that, if these changes and the transparency reforms are introduced at separate times, there may be additional costs as landlords are likely to have to change their systems twice. DLUHC is proposing two options:

- Option one – the transparency requirements for the ongoing costs of the new building safety regime come into effect as quickly as possible after the regime is up and running, meaning that a staggered implementation may be required if the government pursues the wider service charge reforms.
- Option two – the transparency requirements for the ongoing costs of the new building safety regime are delivered to a slower timeline as part of any wholesale reform to drive up transparency of service charge costs, offering potential efficiencies in implementation.

NHF View

We welcome the transparency that these reforms will offer to leaseholders, but have concerns about the costs involved, for both housing associations and residents.

We believe that option two, whereby the transparency requirements are delivered to a slower timeline will ensure our members can invest in the processes and procedures properly. This would also give the government and members an opportunity to further explore how to limit any additional cost burden for leaseholders as a result of implementing the changes. However, we recognise that leaseholders might take a different view and want to see improvements in transparency sooner

rather than later. The NHF will seek to engage leaseholder groups to ensure our reasoning is understood.

As well as this, the NHF will be making the case to government that they must recognise the wider context for our members at a time of a rent cap and high rates of inflation, and especially given the requirements for the new model of shared ownership will come online over the next year, which will also require time and resource among service charge teams.

We are keen to hear from members about the potential additional cost of providing the measures outlined in the consultation for their businesses and also for leaseholders.