

Barnet Homes

Discounts for Leaseholders on Regeneration Estates for
Essential Major Works Policy

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Version Control

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Introduction

This policy aims to address the perceived unfairness of high major works charges for resident leaseholders who are not expected to realise the full economic benefit of the works due to plans to demolish the property as part of the regeneration programme.

The policy recognises that due to unavoidable slippage in the regeneration programme a range of essential health and safety related works cannot be deferred or avoided for properties that are now expected to remain standing for several years longer than was first envisaged under the regeneration programme.

It also recognises that some, more costly, cyclical type works are required to maintain a reasonable level of appearance on the estate.

The essential works referred to are included in the following list which is not exhaustive: -

Fire safety works

Electrical rising mains renewal

Emergency escape lighting installations or replacements

Substantial lift works (such as refurbishment or replacement of lifts)

Cold Water Storage System Works – Legionella Systems

Window replacement (where replacement is required because the windows are unlikely to remain in a serviceable state for the remainder of the buildings life.

Essential major works be broadly defined as follows:

When legislative changes necessitate the works, or where there is a significant risk due to deterioration of key elements for which replacement parts have become obsolete or where repair rather than replacement is not economically viable: -

- a) To life and limb i.e. from fire or Legionella
- b) Of serious damage to the structure of the property, for example serious roof defects
- c) To the security of the property
- d) To the wellbeing of residents, for example serious lift defects or failures

It should be further noted that Barnet Homes, or Barnet Council, have no legal, moral or financial responsibility to discount recharges to leaseholders of properties scheduled for demolition.

It should be noted that to mitigate the risk of costs being discounted inappropriately due to regeneration date slippages this policy is based on leaseholders being offered the option to either spread payments over an

extended length of time or paying the cost of the works then receiving a rebate once the demolition dates have been formalised and confirmed and compulsory purchase orders are served on properties or residents sell on a voluntary basis to the developer at the developer's request.

Objectives of the Policy

- (a) to provide a clear, consistent, reasonable and fair apportionment of costs for leaseholders on regeneration estates
- (b) to optimise revenue recovery for works to regeneration properties whilst at the same time acting in a reasonable, fair and customer focussed manner
- (c) to comply with legislation relating to the repairs and health and safety duties of Barnet Homes
- (d) to ensure that homes are dry and safe, and in an acceptable state of repair
- (e) to monitor discounts offered and applied to leaseholder service charge accounts on an ongoing basis to ensure double handling does not occur.

Qualifying Criteria

- (a) Qualifying works will consist of essential major works needing to be undertaken by Barnet Homes to meet its legislative health safety and repairs duty.
- (b) Discounts will only apply where individual contributions towards any one project exceed £1,000.
- (c) Discounts will not be applied for projects consulted on or delivered prior to the date of this policy, with the exception of the electrical rising main replacement works being undertaken at West Hendon (properties located at Warner Close, Tyrrell Way, Marriotts Close).
- (d) Leaseholders who purchased their property on the open market or through the right to buy scheme in the knowledge, or where it could be reasonably assumed that they were aware, that it forms part of a regeneration estate or scheme, will not qualify for the discount. Information provided as part of the pre-assignment enquiry when the property changes hands will be used as evidence in the event of a challenge.
- (e) The discount will not apply to housing associations, investment or property companies or investment owners.
- (f) Payment options 1 and 2 below only apply to resident leaseholders to whom criteria (d) is not applicable. For clarity this excludes non-resident leaseholders, housing associations investment or property companies.

Applying the Discount

Leaseholders will be consulted on their undiscounted contribution towards the works based on the total estimated block cost and the lease percentage. They will be billed for 90% of their full estimated contribution at the point works start on site. When the works are completed on site an adjustment credit or debit will be made to the service charge account based on the actual cost of the works.

The consultation documentation and associated communications will clearly explain that a discount will be applied to those that qualify (see Qualifying Terms above) in one of two ways as follows:

Option 1

The leaseholder will pay the whole amount invoice date to them within 28 days of the invoice date in order to receive a 2.5% prompt payment discount. Any over payment based on the formula described below will be rebated once the property is purchased through the Compulsory Purchase Order or sold voluntarily to the developer at their request.

Option 2

The leaseholder will agree a payment plan based on a monthly instalment towards the total cost of the works.

Total cost of the element divided by the number months perceived to be its anticipated lifespan* up to a maximum of 12 years (or 144 months).

The example illustrated below shows a total leaseholder contribution of £10,000 for an element with an anticipated lifespan of more than 12 years and therefore capped at 12 years. The invoice has been submitted in March 2014 (first payment due in April 2014) and the anticipated demolition date is November 2017.

$\text{£10,000 (total cost)} \div 144 \text{ months (or 12 years)} = \text{£69.44}$
 $\text{£69.44} \times 44 \text{ months (April 2014 to November 2017)} = \text{£3,055.56}$

Therefore the total contribution paid by the leaseholder would be £3,055.56. If the regeneration date should slip by 6 months the leaseholder would make six further monthly payments raising their total contribution to £3,472.22.

**Some elements will have a lesser anticipated lifespan and this will be reflected in the monthly payment calculation.*

In the event that a property is subjected to an early buy back or sold on the open market then no discount will be offered.

It will be made clear from the outset that claims from leaseholders who pay in full on receipt of the invoice will not receive interest on any money paid over and above the discounted value as at the demolition date.

Allowance will be made as part of the normal annual budget setting process to set aside monies for discount adjustments for all major works projects carried out to regeneration estates where individual leasehold contributions are expected to exceed £1,000.

The formula

It is proposed to offer a retrospective discount on essential major works to leaseholders on regeneration estates according to the following formula:

$$\frac{\text{Cost of works}}{\text{Total expected lifespan of element in years (to max 12 years*)}} \times \text{estimated period in years before demolition}$$

(Leaseholders Contribution to Total Cost of Works) ÷ (Total expected lifespan of element in years*) x (Estimated period in years before demolition) = Leaseholders contribution.

The following example assumes that the leaseholder has received electrical works with an anticipated life span of 25 years. The property is due for demolition in 5 years time:

$$£3,000 \div 12 \text{ years} = £250 \times 5 \text{ years} = £1,250$$

In this example the leaseholder would be charged £1,250 for the electrical works,

The anticipated period before demolition will be based on full, or part years left before demolition.

- * The discounts are to be based on the number of years of use a leaseholder will get out of the repair element before the block is demolished. The implementation of a formula with no defined end point could result in substantial reductions being applied to works resulting in the housing revenue account giving unjustified subsidies to leasehold properties.

Therefore, a life expectancy cap of 12 years has been applied. This is considered to be a reasonable number of years of use to expect a leaseholder to contribute fully to the costs of the works.

At the point of sale through a Compulsory Purchase Order or voluntarily to the developer at the developer's request the discount on the cost of the works shall be calculated based on the formula above.

In the case of option 1 the leaseholder will then either receive a credit payment for any money they have paid over and above the revised discounted price or otherwise be required to settle the difference between the amount paid to date and the revised discounted price.

Monitoring Performance

Barnet Homes will use Covalent management information to assess the effectiveness and appropriate application of the policy. The objectives of the management information system are as follows:

- (a) to review the financial impact of the policy on the organisation on an ongoing basis
- (b) to ensure that the policy is consistently and appropriately applied
- (c) to monitor the impact of the policy on customer opinion and satisfaction
- (d) to provide information that allows benchmarking with other registered social landlords.