

	<h2>Housing Committee</h2> <h3>2 February 2015</h3>
<p style="text-align: center;">Title</p>	<p style="text-align: center;">Assistance to Council Leaseholders in Receipt of Major Works Bills</p>
<p style="text-align: center;">Report of</p>	<p>Commissioning Director, Growth and Development</p>
<p style="text-align: center;">Wards</p>	<p>All</p>
<p style="text-align: center;">Status</p>	<p>Public</p>
<p style="text-align: center;">Enclosures</p>	<p>None</p>
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Summary

A comprehensive range of payment options was introduced in 2009 to assist leaseholders in Council blocks in receipt of service charge bills in addition to the existing Statutory Right To a Loan provision. Options included discretionary loans being offered to all leaseholders and a prompt payment discount of 2.5% against major works invoices paid within 28 days of billing. Since 2012 the programme of works, including electrical rising mains, fire safety and cold water storage system works, estate improvements and cyclical works have meant that many leaseholders are receiving one or more major works service charge invoices in the region of £3,000 to £35,000 within a relatively short period of time. Approval is now being sought to consolidate charges; amend the repayment arrangements and the terms of the discretionary loans to include longer periods of interest free instalments for both resident and some non-resident leaseholders. This will ensure that Barnet Homes can offer choice and flexibility to Council leaseholders in the payment of major works bills.

Recommendations

That the Committee approve an amendment to the repayment arrangements for service charges and to the terms of discretionary loans being offered by the council to resident and some non-resident leaseholders across the borough as detailed in paragraphs 1.6 and 1.7.

1. WHY THIS REPORT IS NEEDED

- 1.1 Under the terms of their lease, Council leaseholders have to pay a proportion of Barnet Council's costs in maintaining the building and estate. This covers the structure of the building (this includes windows and doors to individual dwellings where there is not a Deed of Variation in place demising this responsibility to the leaseholder), the outside and all the shared (communal) areas. Council leaseholders contribute towards the cost of services and day-to-day repairs by paying a yearly service charge and have to pay separate ad hoc bills for any major works carried out. Major works are often large-scale and expensive projects designed to maintain properties and the estate to a good standard.
- 1.2 The mandatory Right to a Loan scheme enables Council leaseholders to apply to the Council in the first 10 years of their lease for a loan to help them pay service charge bills. In reality, the mandatory scheme has hardly been used because for this scheme, local authorities are required to charge the Council's consolidated interest repayment rate which has generally been much higher than rates offered by high street lenders.
- 1.3 In a standard private sector leaseholder- freeholder arrangement the leaseholder will normally have to pay service charges upfront when a bill is raised or sometimes in quarterly instalments. There is no interest free loan or extended period for a leaseholder to pay in instalments on large major works bills. Leaseholders are expected to budget for the additional charges when they purchase the dwelling.
- 1.4 However, the Council through Barnet Homes offers greater choice and flexibility to leaseholders through additional incentives to resident Council leaseholders to assist them in paying major works bills. The options include discretionary loans being offered to all leaseholders. A prompt payment incentive was also introduced allowing leaseholders a discount of 2.5% against major works invoices paid within 28 days of billing. In the 5 years since extended-term payment arrangements were made available to leaseholders, 1481 leaseholders have received 2 or more high value major works bills.
- 1.5 The current repayment options are highlighted in the table below.

Level of charges	Payment options
Charges under £3,000	12 months interest free by monthly direct debit.
Charges between £3,001 and £5,000	24 months interest free credit
Charges between £5,001 and £7,500	24 month interest free plus a further 12 months with interest at local interest rate (variable not fixed) <i>Offered as Discretionary loan</i>
Charges between £7,501 and £15,000	24 months interest free plus a further 36 months with interest at local interest rate

	(variable not fixed) <i>Offered as Discretionary loan</i>
Charges over £15, 001	24 months interest free plus a further 96 months with interest at local interest rate (variable not fixed) <i>Offered as Discretionary loan</i>
A Statutory Right to a Loan of up-to £35,000 is available during the first 10 years of a Right to Buy Lease for between 36 to 120 months with interest charged a local variable rate	

1.6 It is recommended that the following assistance is given to resident leaseholders:

Level of charges	Payment options
Consolidating charges (i.e. where several projects are billed within a relatively short period of time)*	This is already being allowed informally where the circumstances demand.
Charges under £3,000	12 months interest free by monthly direct debit – with the option to extend to 24 months in extreme circumstances.
Charges between £3,001 and £5,000	24 months interest free credit – with the option to extend to 36 months in extreme circumstances.
Charges between £5,001 and £7,500	48 months interest free) <i>Offered as Discretionary loan</i>
Charges between £7,501 and £15,000	60 months interest free <i>Offered as Discretionary loan</i>
Charges over £15, 001	48 months interest free plus a further 72 months with interest at local interest rate (variable not fixed) <i>Offered as Discretionary loan</i>
A Statutory Right to a Loan of up-to £35,000 is available during the first 10 years of a Right to Buy Lease for between 36 to 120 months with interest charged a local variable rate	

1.7 It is recommended that individual non-resident leaseholders who can demonstrate severe financial hardship may benefit from:

Level of charges	Payment options
Charges between £3,000 and £5,000	24 months interest free credit
Charges between £5,001 and £7,500	24 months interest free plus a further 12 months with interest at local interest rate (variable not fixed) <i>Offered as Discretionary loan</i>
Charges between £7,501 and £15,000	24 months interest free plus a further 24 months with interest at local interest rate (variable not fixed) <i>Offered as Discretionary loan</i>
Charges over £15,001	24 months interest free plus a further 36 months with interest at local interest rate (variable not fixed) <i>Offered as Discretionary loan</i>
A Statutory Right to a Loan of up-to £35,000 is available during the first 10 years of a Right to Buy Lease for between 36 to 120 months with interest charged a local variable rate	

2 REASONS FOR RECOMMENDATIONS

- 2.1 As a responsible freeholder the Council through Barnet Homes wishes to offer greater choice so that council leaseholders have the flexibility to pay large bills in more affordable instalments as well as the option to pay up front and receive a 2.5% discount.
- 2.2 The payment options currently available to the leaseholders in Council blocks have not been reviewed since 2009 when they were introduced to assist with the payment of invoices connected to the Decent Homes programme. Since 2012 it has been necessary to carry out a programme of health and safety works and cyclical works across the Council's housing stock.
- 2.3 Therefore leaseholders have continued to receive one or more invoices in the region of £3,000 to £35,000. The recommendations aim to alleviate the financial burdens of these leaseholder charges, improve customer relations, reduce the need for service charge debt recovery action using legal redress and the occurrence of bad debts.

3 ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The alternative option for the recommendation is to take no action and leave the payment options in their current form. Such inaction would not alleviate the financial burden placed on the leaseholders and would undoubtedly lead to an increase in non-payment and bad debts. Furthermore, the Council and Barnet Homes would lose the opportunity to increase leaseholder customer satisfaction.

4 POST DECISION IMPLEMENTATION

- 4.1 Barnet Homes will use management information to assess the effectiveness and appropriate application of the payment options so that:
- i. there is a review the financial impact of the policy on the organisation on an on-going basis
 - ii. there is assurance that the policy is consistently and appropriately applied
 - iii. the impact of the policy on customer opinion and satisfaction is monitored.
 - iv. there is the provision of information that allows benchmarking with other registered social landlords

5 IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 The extension of major works repayment options to leaseholders form a part of the Corporate Plan 2013 to 2016 priority “To maintain the right environment for a strong and diverse local economy”. The strategic objective under this priority is to sustain Barnet by “promoting growth, development and success across the borough”. This will be done through assisting with the sustainability and affordability of home ownership.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 The extension of payment options will have minimal impact on the Housing Revenue Account as all costs will be repaid but over a longer period of time. Once the loans reach the interest bearing period the local authority interest rate is applied offsetting the cost to the Council.

5.2.2 In summary, the proposed payment option will impact purely on the Council’s cash-flow with a loss of potential income that could be earned on the cash funds if they were not utilised as working capital. As a reduced amount of cash will be collected annually, it will increase the Council’s arrears figure at a point in time and has a higher risk of becoming a bad debt as it is paid over a longer period of time. A higher risk of bad debt means that there is an increased likelihood that the debt will not be paid and will be written off by the Council. This risk increases if bad debt is paid over a longer period of time.

5.2.3 The main impact will be for leaseholders with major works charges of over £5,001 (charges that are lower than this will continue to receive interest-free credit). This is a small proportion of the total bills. Therefore the loss in the cash-flow and any opportunity cost of using the cash to build more homes will be minimal.

5.3 Legal and Constitutional References

5.3.1 The local authority has discretion in relation to the level of works charges it seeks under the lease and this is also supported by the general power of competence in Section 1 of the Localism Act 2011.

5.3.2 The works referred to within the report will be handled by Barnet Homes and are part of a wider 10-year OJEC procured qualifying long term agreement for maintenance works.

5.3.3 The Council’s Constitution (Responsibly For Functions, Annex A) gives specific responsibility to the Housing Committee to work with Barnet Homes, RSLs and social housing providers to ensure the optimum provision of housing and associated facilities for those who require social housing. Constitution, Responsibility for Functions, Section 4.6 – Functions delegated

5.4 Risk Management

- 5.4.1 Although leaseholders are obliged to contribute towards the overall cost of capital works on their blocks and make payments according to the time scales specified within their lease, there is a risk that bad debts will be incurred increasing service charge recovery action and also the risk of reduced leaseholder satisfaction.
- 5.4.2 The risk will be mitigated by extending payments options available to council leaseholders.
- 5.4.3 If essential works are not carried out on these properties there may be health and safety risks, such as:
- To life and limb i.e. from fire or Legionella
 - Serious damage to the structure of the property, for example serious roof defects
 - To the security of the property
 - To the wellbeing of residents, for example serious lift defects or failures
 - Total power outage that would necessitate a lengthy decant (as happened at Upper Fosters in 2012).

5.5 Equalities and Diversity

- 5.5.1 Demographic analysis has shown that council leaseholders from all ethnic groups are similarly represented in arrears analysis where outstanding balances are above £1,000. There is a small increase in the proportion of leaseholders from ethnic minority groups as the outstanding balances increase above £2,500.

5.6 Consultation and Engagement

- 5.6.1 Barnet Homes have reviewed the offer in the light of requests from leaseholders and ward councillors and also taking into consideration the repayment options offered by other London based councils/ ALMOs.

6 BACKGROUND PAPERS

- 6.1 Delegated Powers Report number 820 dated 20 July 2009 approved Discretionary service charge loans and prompt payment discount to Council leaseholders in respect of major works service charges.
- 6.2 Cabinet Resources Committee: Cabinet member for Community Services dated 2 November 2009 approved Major works service charges for Council leaseholders.