

## Report for resolution

<b>Report to</b>	Cabinet 13 July 2011
<b>Report of</b>	Head of neighbourhood housing services
<b>Subject</b>	Revision of leasehold management charge for housing properties

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Item  
**12**

### Purpose

The purpose of this report is, following consultation with leaseholder groups, is to present to members a proposal for revising the leasehold management fee.

### Recommendations

To agree the following proposals for revising the leasehold management fee:

- (1) To change the basis for the calculation of the leaseholder management fee from a fixed sum to a fee apportioned according to the total amount of costs for other services (excluding district heating and premises management);
- (2) To introduce the new charging regime from October 2011 (which means a half year increase in 2011/12 and a full year increase from 2012/13); and
- (3) The new variable apportioned management fee will not exceed £200 per annum for a three year period commencing October 2011.

### Financial Consequences

The financial consequences of this report are based on 09/10 figures (which are likely to be similar to 2010/11) and show that for a full year income from the management fee would increase from £103,080 to £286,614; an increase of £183,543. This will meet the costs of the items chargeable under the lease.

### Risk Assessment

If charges are not increased to cover the costs of services provided, the council may receive criticism from tenants, auditors, and inspectors, since the service costs will be being subsidised by tenants not in receipt of those services. However, this will be mitigated by the proposal to achieve full recovery.

If the new charging arrangements are implemented they will cover the costs of services and the council may receive criticism for the levels of costs and efficiency underlying the higher charges. The resulting higher charges may lead to increasing levels of arrears and bad debts. Risks will be mitigated by continuing consultation with leaseholders.

### Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority "Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good

quality housing and local amenities and where there are active local communities” and the service plan priority to maximise income.

**Cabinet Member:** Councillor MacDonald - Housing Services

**Ward:** All

**Contact Officers**

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**Background Documents**

None

## Background

1. Each year 2577 leaseholders receive an annual bill that has three main elements.
  - Cost for services received e.g. grounds maintenance/ lighting for communal areas / district heating / premises management
  - Recharges for their share of any repairs or major works carried out to their home, block or estate. Leaseholders should also contribute towards the cost of managing capital works. Currently these costs are met by the housing revenue account. The method of calculating this element of the capital works charge will be subject to a future consultation with leaseholder groups and it is intended to have a separate charging regime in place later this year
  - A management fee of £40 to cover the cost of administering the terms/responsibilities of the lease. How this management fee is calculated and eligible costs apportioned is the subject of this report.
2. The council currently charges a flat rate management fee of £40. This charge was originally £25 and increased to £40 in 1995/6. To cover existing eligible costs this charge would need to be around £111 per annum (based on outturn costs for 2009/10). Since the current charge does not cover the cost of the services provided the shortfall is met by the Housing Revenue Account. The need to review the charge was highlighted by the Audit Commission in 2009 and is part of the housing improvement plan income maximisation work.
3. The charge has been the subject of a formal challenge and a leasehold valuation tribunal ruling has clarified what elements of leasehold management can be recharged under the terms of the existing leases. Arising from this, extensive work has been carried out with the Norwich Leaseholders Association to calculate the fee (i.e. confirm which costs should / should not be included, the percentages to be used for indentifying the leasehold proportion of home ownership work and how the fee would be apportioned). There are five main areas of eligible costs for the management fee are:
  - Staff costs
  - Agency costs (services provided by external organisations such as IT and payroll)
  - Central service costs (recharges for services provided by human resources, customer contact team and communications. These are chargeable on a per employee basis to all services)
  - Specific services supplied to home ownership
    - i) Corporate and professional services
    - ii) Office accommodation
    - iii) Employee insurance – public liability
  - Transport/ postages / office consumables etc
4. There are different ways to apportion the eligible costs to determine the management fee. The basic assumption is that whatever option is selected, all the eligible costs will be recovered without the need for financial support from the housing revenue account. Attached as appendix A is a summary of the options considered by leaseholder representatives and leaseholder focus groups. These options consider a flat rate fee (appendix A option 1) or a fee based on the

apportionment of charges according to the total amount of costs for other services excluding district heating and premises management (appendix A option 2).

5. Also attached as appendix B is a comparison with the management fee charged by some other local housing authorities. This comparison indicates that the proposed scale of charges for leaseholders in Norwich are comparable to those charged elsewhere.

### **Consultation with leaseholders**

6. The Norwich Leaseholder Association (NLA) has had significant involvement in the work to establish what the management fee should cover. The council is very grateful for this assistance. The NLA understand the methodology, but would prefer the total costs to be less and, in this respect, officers will continue to work with the NLA to identify ways that existing and future costs can be reduced.
7. In addition to the work with the NLA, this issue was considered by two focus groups, consisting of eighteen leaseholders in 2010. The focus groups were asked for their preference re. a flat rate or a percentage based on the value of services received. In view of the fact that for some households the level of change could be significant, the focus groups were keen to see a ceiling imposed for the maximum level of charge (£200) that would not be exceeded for a three year period. This would be achieved by spreading the costs of individual management fees in excess of £200 amongst all other leaseholders. They also suggested a variation of the apportionment option although the different circumstances of individual leaseholders meant that there was no clear majority on either a percentage apportionment or a flat rate.

### **Conclusion**

8. Based on this consultation the conclusion is that the current flat rate fee should be replaced by an apportionment approach based on the total amount of cost the leaseholder currently pays for other services (excluding district heating and premises management costs). Furthermore it is proposed that in introducing the new arrangement from October 2011 it is also agreed that the maximum management fee an individual leaseholder will pay per annum will not exceed £200 for a three year period. Overall the new charging arrangement will recover around £180,000 of cost that is currently funded by the housing revenue account.

## APPENDIX A

### Apportionment options

	Current method of calculation	OPTION 1	OPTION 2
<b>09/10</b>	<b>09/10 flat rate method of apportionment using notional £40</b>	<b>Revised flat rate. Current method of apportionment using actual average amount £111.22</b>	<b>Revised charges with management fee based on % of total service charge excluding management fee district heating and premises management</b>

**362 R-type flats - Number of leaseholders e.g. North Park Avenue. Least services provided.**

<b>Total Payable (£)</b>	<b>78.8</b>	<b>150.02</b>	<b>80.86</b>
Includes management fee (£)	40	111.22	42.06
Service charge less management fee (£)	38.8	38.8	38.80
% management fee recharge	50.76%	74.14%	108.40%
% increase on current average service charge		90.38%	2.61%

**The large majority of flats (1855) e.g. Hobart Square., Lavengro Road**

<b>Total Payable</b>	<b>148.37</b>	<b>219.59</b>	<b>225.84</b>
Includes management fee (£)	40.00	111.22	117.47
Service charge less management fee (£)	108.37	108.37	108.37
% management fee recharge	26.96%	50.65%	108.40%
% increase on current average service charge		48.00%	52.22%

**31 flats in Tower blocks e.g. Normandie Tower Highest service charges including district heating and premises management.**

<b>Total Payable (£)</b>	<b>1250.69</b>	<b>1321.91</b>	<b>1484.40</b>
Includes district heating (£)	498.30	498.30	498.30
Includes premises management (£)	459.88	459.88	459.88
Includes management fee (£)	40.00	111.22	273.71
Service charge less management fee (£)	252.50	252.50	252.50
% management fee recharge	3.20%	8.41%	108.40%
% increase on current average service charge		5.69%	18.69%

**290 flats with district heating e.g. Midland Walk**

<b>Total Payable (£)</b>	<b>586.58</b>	<b>657.80</b>	<b>673.85</b>
Includes district heating (£)	429.17	429.17	429.17
Includes management fee (£)	40.00	111.22	127.27
Service charge less management fee (£)	117.41	117.41	117.41
% management fee recharge	6.82%	16.91%	108.40%
% increase on current average service charge		12.14%	14.88%

Average management fee (09/10) if £200 cap applied

<b>Charge band</b>	<b>No. of leaseholders</b>	<b>Proposed charge (£)</b>
R type - blocks with four flats e.g. Hellesdon Close . Minimal services	362	42.41
Standard flat in a block e.g. Paine Road	1,855	118.45

## Appendix B

### Examples of management fee from other local authorities.

Authority	09/10	10/11 (Estimated)
Croydon	£204.54	£245.82 Following review to recover all costs
Islington	£168.94 to £248.31 (depends on property type)	
Harlow	£197.47	
Havering	£225.83 flat rate plus a % for other services	
Uttlesford	£98.28-£125.09 (Lower figure for properties with no communal area)	

NB

- differing leases which specify exactly what can be recovered by way of management fee
- different organisations have different costs and levels of efficiency.