

Report of Senior Finance Manager

Report to Director of Environment and Housing

Date: January 2015

Subject: Leasehold Management Fee Review 2015/16

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

This report seeks the Director of Environment and Housing approval to increase the Management Fee which is charged to leaseholders of flats which have been purchased under the Right to Buy.

Recommendations

The Director of Environment and Housing is requested to approve an increase in the fixed element of the Management Fee from £88 pa to £93pa and leave the percentage of the variable element of the Management Fee at 19%.

1. Purpose of the Report

The Council's Financial Procedures regarding fees and charges, require that Directorates at least annually review charges made for services provided. This report seeks the Director of Environment and Housing approval to increase the Management Fee which is charged to leaseholders of flats.

2 Main Issues

- 2.1 The Council has a portfolio of 1,841 flats sold on a leasehold basis as at the 27th January 2015. These properties have been initially purchased by tenants under the Right to Buy.
- 2.2 The type of blocks in which the various flats are situated varies, being cottage style, blocks of 4, 3 storey walk up blocks, maisonettes and multi-storey flats. Each leaseholder continues to receive services from the Council under the terms of their lease and these include, caretaking and cleaning, repair and maintenance and buildings insurance etc. The level of services provided is largely determined by the

property type, with multi-storey flats generally receiving the greater number of services.

- 2.3** Whilst the Council retains responsibility for the provision of the services, repair, maintenance and improvement of the block, under the terms of the leases leaseholders are required to pay a reasonable share of the costs of these services.
- 2.4** The Service Charge demand is made quarterly to leaseholders and includes a sum for the management costs incurred by the Council and Housing Leeds. The Management Fee charged is to meet the costs incurred in managing the services provided to blocks of flats, dealing with enquiries and complaints, arranging and managing contracts for the various services, maintaining records of the properties, issuing debtor accounts, legal issues (e.g. issue of statutory notices, legislation interpretation etc.) and debt recovery.
- 2.5** The current approved Management Fee Charge is £88.00 fixed fee per annum and 19% charged on the majority of services provided (excludes building insurance and district heating).
- 2.6** The fixed fee is a charge to recover the fixed costs, which includes the staffing and overhead costs incurred in the administration of the Council's database, issuing the annual Service Charges, issuing debtor accounts, issuing Statutory Notices and any potential legal costs in the interpretation of legislation and staff within Housing Leeds being available to deal with enquiries or other issues. These costs are incurred in the provision of the services to all leaseholders irrespective of the number of different services which they receive. At present the Management Fee does not recover the costs incurred by the Council in managing the leasehold portfolio of properties.
- 2.7** The variable fee is to represent the staffing and overhead costs incurred by the Council/Housing Leeds in establishing and managing contracts for the services provided to the various blocks of flats, managing the services provided direct by Housing Leeds and dealing with the day to management issues.
- 2.8** It was determined that a fixed and variable Management fee would be more equitable. The leaseholders receiving the greater level of services would therefore pay a higher Management Fee, whilst those leaseholders with few, or no services would be charged a minimum of the fixed fee to reflect the fixed costs incurred as described at 2.6 above.
- 2.9** It is proposed that the fixed element of the Management Fee will be increased to from £88.00 to £93.00 with effect from 1st April 2015. This represents an increase of £5.00 pa (less than 10 pence per week). This will result in estimated income of £174k to the Council in 2015/16.
- 2.10** It is proposed leave the variable charge at 19%. This charge is raised on the elements which make up this service charge such e.g. cleaning, caretaker costs, repairs. This element of the Management Fee is estimated to generate approximately £50k although this will be variable dependent upon the level of services provided.

- 2.11** It is estimated that the proposed changes will result in an estimated increase of the Management Fee compared to the previous years of 3.89% on average, based upon a sample of different types of flats. This will generate income of £225k in 2015/16. The aim of the increase is to achieve breakeven point in respect of Management Costs which is anticipated to be achieved in 2017/18. Currently 94.7% of management costs are being recovered.

3. Corporate Considerations

3.1 Consultation and Engagement

- 3.1.1** There has been no consultation undertaken in respect of the Management Fee review. This annual review is a financial function required to be undertaken to aim to recover costs expended and therefore no consultation is considered necessary.

3.2 Equality and Diversity / Cohesion and Integration

- 3.2.1** An EIA has been completed and there have been no equality issues identified. Where a leaseholder is unable to meet their Service Charge demands the Council will try to assist by allowing rescheduling of payments in respect of arrears, or signpost leaseholders to appropriate organisations who may be able to provide financial advice or assistance.

3.3 Council Policies and City Priorities

The revision of the Management Fee will assist in the achieving City Priorities of spending money wisely, treating people fairly.

3.4 Resources and Value for money

- 3.4.1** The Management Fee is reviewed annually in compliance with the Council's Financial Procedures Rules, with the aim to fully recover management costs in the provision of services to leaseholders.

3.5 Legal Implications, Access to Information and Call In

- 3.5.1** There are considered to be no legal implications in implementing this proposal.
- 3.5.2** The decision is a delegated decision under the Officer Delegated Decisions and is one which is not considered to be subject to call-in.

3.6 Risk Management

- 3.6.1** To not undertake a review of the Service Charge Management Fee would mean that a breakeven point in respect of the costs incurred and rechargeable to the leaseholders will not be achieved. The Housing Revenue Account (HRA) would effectively meet a proportion of these costs.

4. Conclusion

- 4.1** The proposed increase in the fixed element of the Management Fee from £88 to £93 is a £5 per annum increase which is less than 10p pence per week. This will generate income which will bring the service closer to a break even position and reduce the subsidy from tenants. Breakeven in respect of management cost is anticipated to be achieved in 2017/18
- 4.2** The variable element is to remain the same at 19%, ensuring that the variable management costs are fully recovered based upon the estimates.

5. Recommendation

- 5.1** The Director of Environment and Housing is requested to approve
- a)** An increase in the fixed element of the leasehold management fee from £88 pa to £93pa.
 - b)** To leave the variable management fee at 19%.
 - c)** These revised charges to be introduced from 1st April 2015

6 Background documents¹

None

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.