

Report Title: Enhancements to leaseholder payment options	
Report authorised by Niall Bolger Director of Urban Environment	
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Wards(s) affected: All	Report for: Key
<p>1.0 Purpose of the report (That is, the decision required)</p> <p>1.1 This report contains recommendations regarding leaseholders' payment options for major works.</p> <p>1.2 It proposes some enhancements to the payment options which the Council Cabinet agreed on the 15 July 2008, and it also provides estimates of the likely cost of introducing the new policies.</p>	
<p>2.0 Introduction by Cabinet Member (Cllr John Bevan)</p> <p>2.1 The Council continues to enhance services provided to all residents, and this proposal will ensure leaseholders have more flexible payment options to settle their accounts for housing investments that will improve their properties.</p>	
<p>3.0 State link(s) with Council Plan Priorities and actions and /or other Strategies:</p> <p><u>Council Priorities.</u> The proposals in this report relate to 3, 4 and 5 of the Council's priorities (see 3.4, 3.5 and 3.6 below). It should be noted that the proposals are designed so that they will only assist leaseholders who live in their properties and who have no other major investments. Through the provision of more flexible payment options, the proposals have two main expected outcomes:</p> <p>3.1 To minimise as far as possible the financial hardship caused by large bills for major works</p> <p>3.2 To reduce the likelihood of leaseholders losing their homes on account of financial hardship.</p> <p>By giving them longer to pay, the proposals will also help to make the service</p>	

charges more affordable to people on lower incomes but who are not eligible for help through the benefits system. The proposals will also mean that recovery action through the courts will be less necessary, since they will make it easier for people to pay by instalments. Hence the proposals will help to:

- 3.4 improve wellbeing (Priority 3),
- 3.5 promote independent living (Priority 4) and
- 3.6 assist in the delivery of excellent customer focused, cost effective services (Priority 5).

3.7 Council Strategies

The aims of the proposals contained in this report also have clear links with the Council's Strategies, in particular:

- 3.8 Community Strategy. The expected outcomes of these proposals will directly support two important aims of the Council's overarching strategy – *economic vitality and prosperity shared by all* and also that of being *people and customer focused*.
- 3.9 Wellbeing Strategic Framework. The proposals will tend to promote an important goal of this strategy, that of *economic well-being*. Further parts of this strategic goal are to enable people to *secure accommodation which meets their needs* and *prevent homelessness wherever possible*. The proposals will support these objectives as well.
- 3.10 Homelessness Strategy. An important aim of this strategy is to *increase the supply of affordable homes; provide choice and encourage independence*. The proposals contained in this report will be supportive of this by making the payment options more flexible which will make leasehold properties more affordable.
- 3.11 Value for money.

The proposals contained in this report will be very cost effective in that they will have a direct effect on several hundred leaseholders every year, who would otherwise be financially much worse off. The cost of catering for even the occasional family made homeless is of course substantial when consideration is given to all the interventions which are then required.

4.0 Recommendations

Cabinet is asked to agree the following enhancements to the payment options, in order to:

- 4.1 increase the maximum loan period regarding invoices for works from 3 years to 6 years;
- 4.2 introduce further periods for leaseholders to pay their bills with interest (in addition

to the interest free period).

- 4.3 Both 4.1 and 4.2 will only be open to leaseholders whose property is their home and their only property. This will differentiate between resident leaseholders and leaseholders who sub-let by not offering payment options to sub-let landlords. In the case of both options 4.1 and 4.2 the period to pay the invoice will only apply to invoices over £5,000 and will depend on the invoice amount – please see section 7.1.2 and 7.1.3 below for more details.

5.0 Present policy

- 5.1 **Time of billing** – up until August 2008 bills for major works were issued after the end of the financial year in which the work took place. This meant the major works bills were dispatched with the annual service charge final accounts for each year (the ‘actuals’) in September. The bills are now issued in advance when the contractor is about to start work on site. They are therefore raised using the estimated costs, and the final accounts showing any adjustment required are then issued after the work has been completed.

- 5.2 **Payment options** - In response to requests from the Leasehold Panel and Haringey Leaseholders’ Association, the Council decided to improve the payment options for leaseholders in 2008. This was part of a ‘package’ of more flexible payment options for leaseholders.

The main options introduced in 2008 are as follows:

- 5.2.1 5.5% discount for payment in full
5.2.2 up to 36 months interest free loan
5.2.3 loan with interest from the Council (at a concessionary rate of interest), if a bank loan is not obtainable
5.2.4 interest-only loan if the leaseholder is eligible to claim the interest from the DWP.
5.2.5 More details and the other options are provided in paragraph 5.10

6.0 Background

- 6.1 **Government policy.** The government has encouraged housing authorities to improve their payment options to leaseholders. A statement of government policy is contained in the ministerial statement made on the 29 March 2007. In it Ms Yvette Cooper said that local authorities should offer the full range of available payment options to help leaseholders pay their bills, and share best practice to ensure that this happens everywhere. She also said that some new legislative proposals would be introduced to make it easier for housing authorities to offer financial assistance to leaseholders facing financial hardship (see paragraphs 6.3 and 6.4).

- 6.2 Furthermore the Audit Commission's criteria (Key Lines of Enquiry) for leasehold management recommend that Local Authorities offer flexible payment options and only undertake court action as a last resort. The proposal to extend the interest free payment period will also be in line with good practice considerations – please see paragraph 8.2 below.
- 6.3 **New legislative measures.** In accordance with proposals contained in Ms Cooper's statement to the House, the government has passed new legislation to help leaseholders unable to pay large bills. These enable housing authorities to take an equity stake in the leaseholder's property in place of the repayment of the loan.
- 6.4 However the administration involved would be complex and hence incur substantial costs which would have to be charged to the leaseholder requiring assistance. Very few boroughs have decided to introduce equity share arrangements under the government policy as it stands, though amendments are proposed later this year.
- 6.5 **Current payment options:**
Billing in advance was introduced in conjunction with the Council's current more flexible payment options. This improved the cash flow to the Council by bringing forward the start date for the receipt of payments by up to 18 months. The present policy with respect to the payment options for leaseholders is as follows:
- 6.5.1 **Discount of 5%** - for payment of the invoice in full in advance.
- 6.5.2 **Monthly instalments:** an interest free period to pay is allowed of up to 3 years depending on the size of the invoice (the minimum monthly instalment must be £50, paid by direct debit).
- 6.5.3 **Discretionary loan** – for leaseholders who are unable to obtain a bank loan (at a concessionary rate of interest of 2% above base rate).
- 6.5.4 **Interest-only loan** – for (resident) leaseholders in receipt of benefits.
- 6.5.5 **Deferred interest loan (voluntary charge on the property).** Applicants are means tested. It is for vulnerable (resident) leaseholders only.
- 6.5.6 **Mandatory loan** – any leaseholder with a lease of less than 10 years has a statutory right to obtain a loan from the Council (the rate of interest is equal to the Council's standard rate, currently 7.5%)
- 6.5.7 **Hardship capping** – the Council's policy is to exercise its discretionary power to limit service charges (for works) to £10,000 over a 5 year period, if the leaseholder is unable to pay any amount over this (there is a means test).
- 6.5.8 **Houseproud loan** – this scheme (run by the Home Improvement Trust) is for leaseholders over 60 or with a disabled family member living with them. It facilitates a bank loan with a guarantee of no repossession.

7.0 Proposed new payment options.

7.1 Appendix 1 shows the position with regard to the current payment options. It shows the take-up in each invoice band and the estimated cost of the current policy to date. The two new proposed payment options are described below. They will only be open to leaseholders whose leasehold property is their only property, which they live in.

7.1.1 The proposed new payment options are to increase the maximum loan period regarding invoices for works from 3 years to 6 years and to introduce further periods for leaseholders to pay their bills with interest (in addition to the interest free period). They are detailed in 7.1.2 and 7.1.3 below.

7.1.2 Option 1 interest free payment options. Leaseholders will be allowed to pay works invoices in the following bands by interest free monthly instalments as shown in the table:

Invoice band	No. of interest free monthly instalments to be allowed
Up to £2,000	12
£2,000 to £5,000	36
£5,000 to £10,000	48
£10,000 to £15,000	60
£15,000 to £20,000	72
Above £20,000	72

7.1.3 Option 2 – extended payment options with interest. If a leaseholder wants a longer period than the interest free period, then they can choose to do so by paying interest on the additional instalments allowed (up to 24 months)

Invoice band	No. of interest free monthly instalments to be allowed	Additional monthly instalment period with interest	Total instalment period
Up to £2,000	12	n/a	12
£2,000 to £5,000	36	n/a	36
£5,000 to £10,000	48	12	60
£10,000 to £15,000	60	24	84
£15,000 to £20,000	72	24	96
Above £20,000	72	24	96

8.1 Reasons for the revised options.

8.1.1 Unlike people who own freehold properties who are able to spread any major expenditure over a period to suit their budget and financial commitments, leaseholders are not in a position where they can budget very much in advance for the major expenditures incurred by the landlord in relation to their building. Moreover, the Council is expected to spend very large sums under the Decent Homes Programme in a 5 year period. This means that a lot of leaseholders are faced with major bills (as shown in Appendix 1) which they have to pay within quite a short period.

8.1.2 Based on the first two years of billing so far, more than 60% of the bills are above £5,000. Under the current payment options a leaseholder paying by monthly instalments will have to pay more than £600 per month if their invoice is more than £20k. The proposed scheme of payment options will be much more flexible, so a leaseholder with a large bill will have a greater incentive to make a monthly payment arrangement - even for large bills this will be under £200 per month in most cases.

8.1.3 Although most leaseholders are in employment, due to the current economic conditions they often do not have very much monthly net income at their disposal to meet large bills (on account of mortgages and other loan commitments). Thus they often find it difficult to obtain second mortgages or personal bank loans. By allowing them to pay over a longer period it will also help them by spreading their housing costs. This will assist in avoiding litigation, which is quite costly and time consuming and it is often difficult to recover all the relevant costs.

8.1.4 On some estates, routine capital works are being proposed in addition to decent homes works and this will add to the bills leaseholders will have to meet. The options giving longer to pay will make it easier for them to enter into a single payment plan by incorporating all the major works bills issued in the same financial year (since the monthly instalments will then be lower).

8.2 **Good practice.** The implementation of the proposals will place Haringey foremost amongst other boroughs in this regard, though it can be expected that over time the majority will adopt similar policies. Good practice matters are discussed further in 8.2.1 to 8.2.4

8.2.1 Payment options offered from other boroughs. Islington has an interest free payment period of up to 5 years. Westminster and Ealing have the option to pay over 5 years with low rates of interest payable for the additional periods of 3 and 2 years respectively. In light of decent homes bills, most members of the ALMO benchmarking club are actively reviewing their policies in order to make them more attractive for leaseholders to enter into similar agreements.

8.2.3 Although our proposals are to extend the payment periods, it must be noted that

only some boroughs (including Haringey) bill leaseholders in advance – that is soon after the section 20 notice has been issued. However the majority of boroughs bill at the end of the financial year. Hence their leaseholders receive an extended interest free period before they have to pay their bills.

- 8.2.4 Minimising the number of service charge bills challenged by leaseholders and referred to court. These challenges are about issues such as cost, quality and the accuracy of the specification. The Courts often decide on payment arrangements for much longer periods than would normally be allowed. The debt is frozen from the date of the judgement, which means that no further interest can be charged on the outstanding debt. The Court may decide on monthly instalments which it feels are in accordance with the leaseholder's disposable income. In the past the Court has often set these instalments at quite a low amount, sometimes giving more than 10 years to pay without any additional interest.
- 8.3 Resident involvement – leaseholders have requested changes similar to those contained in our proposals so they will be favourably received. These proposals will therefore improve the satisfaction levels amongst leaseholders of the Council.

9.0 Financial implications

9.1 Evaluation.

9.1.1 The calculations relating to the cost of the current policies and the proposals contained in this report are presented in the four appendices to this report:

- a. Appendix 1 - Billing already carried out – cost of the current interest free payment options
- b. Appendix 2 – Instalments based on the proposed options – how much a leaseholder will have to pay
- c. Appendix 3 – Forecast costs of the two proposed options, given projected billing
- d. Appendix 4 - Additional Cost in respect of the enhanced payment option policy for years 3 - 5 of the Decent Homes Programme.

The projected cost of the new payment options is shown in Appendix 3. It is assumed that where leaseholders opt for additional payment periods with interest, this will have a neutral effect on the overall cost to the Council.

The projected costs of the current and proposed policies are shown in Appendix 4. It is estimated that under the current options the net cashflow impact will be £176k whereas under the proposed policy the net cashflow impact will be £345k. Therefore the additional cost to the Council of the proposed new policy options over the next three years will be in the region of £169k.

10.0 Chief Financial Officer Comments

- 10.1 The income discussed within this report all relates to the Housing Revenue Account (HRA). Although there will be cash flow implications for the HRA due to the recommendations of this report, in the form of income being received at a later date than previously assumed and consequent loss of interest income, this needs to be set against the potential financial benefits in terms of reduced risk of leaseholders defaulting on payments. These benefits are not directly quantifiable.

11.0 Head of Legal Services Comments

- 11.1 The Head of Legal Services has no objections to the interest free payments options or to the extended payment options with interest. The proposals can be implemented without conflicting with the requirements of the standard lease or existing statutory obligations.

12.0 Equalities and Community Cohesion

- 12.1 As in the case of the original proposal, improving the quality of the services that leaseholders receive will contribute to meeting the diverse needs of the community. However the proposals contained in this report will significantly enhance these effects since they have been designed to make the payment options to leaseholders more flexible. This will make leasehold properties more affordable to people on lower incomes and also help retired people as well as those in employment. Although people with disabilities are often entitled to assistance through the benefits system, in some instances it will help people in this category also. It is not expected that the proposals will have any direct implications with regard to gender or race equality or that of sexuality.

13.0 Consultation

- 13.1 The changes were formally requested at the annual general meeting of the Haringey Leaseholders' Association on the 19 November 2009. They have also been raised at subsequent meetings of the Leasehold Panel.

14.0 Service Financial Comments

- 14.1 Income received from leaseholders is accounted for within the Housing Revenue Account.

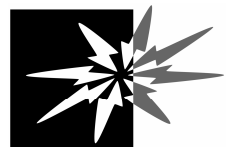
The introduction of extended payments options will mean that some income will be received later than under the existing arrangements in which leaseholder have up to 36 months to pay. Based upon the experience of billing that has taken place over the last two years the estimated annual cost in lost interest earning to the Council is £46,000. This is analysed over the various invoice bands suggested in

option 1 (in paragraph 7.1.2 above).

	Average Invoice in Band	No. of Invoices Annually	Present Value of Existing Payment Arrangements	Present Value of Proposed Payment Arrangements	Additional Cash Flow Cost p.a.	Longest Instalment months under Option 1
	£	No.	£000	£000	£000	
Up to £2000	986	37	-37	-37	0	12
Up to £5000	3,269	35	-105	-105	0	36
Up to £10000	8,086	54	-407	-397	10	48
Up to £15000	12,395	16	-185	-176	9	60
Up to £20000 and above	18,458	23	-396	-369	27	72
TOTAL ANNUAL COST		165	-1,130	-1,084	46	

The main element of the additional cost is associated with invoices over £10,000 with invoices below this level receiving similar payment terms.

The further extension of extended payment periods in Option 2 (see paragraph 7.1.3) would have no additional financial implications to Option 1 (see paragraph 7.1.2) as interest would be charged to leaseholders if they sought payment terms beyond those set out in Option 1.



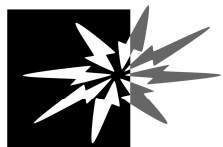
Haringey Council

APPENDIX 1

Billing already carried out – cost of the current interest free payment options

First two years of DH billing			Take-up in respect of interest free payment options to date					Cost implications of the present policy for the first 3 years of the programme		
Invoice Band	No of Invoices	Amount invoiced	Avg Inv	No of Invoices	Amount	% Take-up	Current policy - No of months allowed	Adv Billing- Interest gained (@ 5% Interest*)	Cost to the council (@ 5% interest*)	Net loss to the Council
<£2,000	190	£131,021	£986	74	£72,944	56%	12	£3,647	£0.00	-£3,647
£2,000 to £5,000	124	£423,814	£3,259	69	£224,872	53%	36	£11,244	£22,852.77	£11,609
£5,000 to £10,000	195	£1,533,385	£8,086	108	£873,274	57%	36	£43,664	£88,747.08	£45,083
£10,000 to £15,000	181	£2,174,878	£12,395	32	£396,624	18%	36	£19,831	£40,307.19	£20,476
£15,000 to £20,000	145	£2,593,168	£17,611	39	£686,822	26%	36	£34,341	£69,798.76	£35,458
>£20,000	44	£956,952	£23,177	7	£162,241	17%	36	£8,112	£16,487.85	£8,376
Total	879	£7,813,218		329	£2,416,777	31%		£120,838.85	£238,193.65	£117,355

Note: * The percentage rate has been applied to calculate the net cashflow impact.



APPENDIX 2

Instalments based on the proposed options – how much a leaseholder will have to pay

First two years of Decent Homes billing			Proposed Interest free option			Proposed extended period option (with payment of interest)					
Invoice Band	No of Invoices	Amount	Avg Inv	No of Instalments to be allowed	Monthly Insts	No of Instalments (Interest free) to be allowed	Monthly Insts – Int free	Extended period with Interest	Monthly Inst with Interest@ 5% *	Total Repayment	Total Interest
<£2,000	190	£131,021	£690	12	£57	12	£57	N/A			0
£2,000 to £5,000	124	£423,814	£3,418	36	£95	36	£95	N/A			0
£5,000 to £10,000	195	£1,533,385	£7,864	48	£164	48	£131	12	141	£7,980	£116
£10,000 to £15,000	181	£2,174,878	£12,016	60	£200	60	£143	24	159	£12,396	£380
£15,000 to £20,000	145	£2,593,168	£17,884	72	£248	72	£186	24	207	£18,360	£476
>£20,000	44	£956,952	£21,749	72	£302	72	£201	36	232	£22,824	£1,075
Total	879	£7,813,218									

Note: * The percentage rate has been applied to calculate the net cashflow impact.

APPENDIX 3

Forecast costs of the two proposed options, given projected billing

Projected invoiced amount for years 3 - 5			Projected take-up			Years 3 – 5: Projected costs of the new options			
Invoice Band	No of Invoices	Projected invoice amounts	No of Invoices	Amount	% Take up	Proposed policy - No of months allowed	Adv Billing-Interest gained (@ 5% Interest*)	Cost to the council (@ 5% interest*)	Net loss
<£2,000	285	£196,531	159	£109,416	56%	12	£5,471	£0.00	-£5,471
£2,000 to £5,000	186	£635,721	99	£337,308	53%	36	£16,865	£34,279	£17,414
£5,000 to £10,000	293	£2,300,078	167	£1,309,911	57%	48	£65,496	£167,731	£102,235
£10,000 to £15,000	272	£3,262,317	50	£594,937	18%	60	£29,747	£92,140	£62,393
£15,000 to £20,000	218	£3,889,752	58	£1,030,233	26%	72	£51,512	£187,610	£136,099
>£20,000	66	£1,435,428	11	£243,362	17%	72	£12,168	£44,317	£32,149
Total	1319	£11,719,827	542	£3,625,165	31%		£181,258.27	£526,078	£344,819.31

Note: * The percentage rate has been applied to calculate the net cashflow impact.

APPENDIX 4

Additional Cost in respect of the enhanced payment option policy for years 3 - 5 of the Decent Homes Programme

Net Loss to the Council								
Enhanced options - Projected Take up	Proposed Policy				Current Policy (3 years Interest free)			Additional Cost to the Council (a) - (b)
	Current policy - No. of years allowed	Adv Billing-Interest gained (@ 5% Interest*)	Cost to the council (@5% interest*)	Net Cost (a)	Adv Billing-Interest gained (@ 5% Interest*)	Cost to the Council (@5% interest*)	Net Cost (b)	
£109,416	12	£5,471	£0	-£5,471	£5,471	£0	-£5,471	£0
£337,308	36	£16,865	£34,279	£17,414	£16,865	£34,279	£17,414	£0
£1,309,911	48	£65,496	£167,731	£102,235	£65,496	£133,121	£67,625	£34,610
£594,937	60	£29,747	£92,140	£62,393	£29,747	£60,461	£30,714	£31,679
£1,030,233	72	£51,512	£187,610	£136,099	£51,512	£104,698	£53,186	£82,912
£243,362	72	£12,168	£44,317	£32,149	£12,168	£24,732	£12,564	£19,586
		£181,258	£526,078	£344,819	£181,258	£357,290	£176,032	£168,787

Note: * The percentage rate has been applied to calculate the net cashflow impact.