



To: Kevin Price: Executive Councillor for Housing
Report by: Robert Hollingsworth, Head of City Homes.
Relevant scrutiny committee: Housing Scrutiny Committee 1/7/2014
Wards affected: All Wards

Leasehold Services Update Key Decision

1. Executive summary

1.1 The last major review of Leasehold Services took place in 2007 when there were 1,041 leaseholders who had either purchased under the Right to Buy, or were successive purchasers from the original RTB leaseholder. At that time, 25% of leaseholders did not live in their property but sublet them. The number of leaseholders has now increased to 1,107 (just over 13% of the overall council stock). Of these, 44% now sublet the property and are Landlords themselves.

1.2 As well as Leasehold Services, the Leasehold team also manage the Right to Buy and Shared Ownership. There has been a significant increase in the workload of the team, both in terms of leaseholders and the increase in Right to Buy activity. New building developments, with plans for an increase in shared ownership and complicated management arrangements involving freehold properties, will also impact on the team.

1.3 Staffing of the team has remained consistent since 2007 with 2.5 full time equivalent staff, despite the increases in RTB, Shared Ownership and leasehold activity. Similar authorities with comparable stock numbers have an average team size of 3.5. A review of staffing is to be undertaken during 2014/2015 to ensure appropriate numbers of staff to meet the increasing demands on the service.

2. Recommendations

The Executive Councillor is recommended:

2.1 To instruct officers to review the level of staff resources in

the Leasehold Team.

- 2.2 To instruct officers to set up a working group to progress the action plan as outlined in appendix 2.
- 2.3 To instruct officers to report back on progress of the working group in 2015.
- 2.4 To instruct officers to review the Building Insurance covered in 7.1 of appendix 1.

3. Background

- 3.1 Right to Buy:** With the increase in the discount to which RTB applicants are eligible to £75,000 from 1st April 2012, Right to Buy applications have increased three-fold over the past year, and the numbers of completions have increased from 11 in 2011/2012 to 60 in 2013/2014.
- 3.2 Management Charge:** The Management charge comprises the costs and associated overheads in the provision of staff to manage the Leasehold Service to leaseholders. From April 2008, the Council have charged leaseholders the actual cost of administering the leasehold service. In 2008, the Management Charge was calculated at £142.40. The cost of the service per leaseholder in 2012/2013 was £143.02 (*see Appendix 2*).
- 3.3 Service charges:** Since 2007, there has only been one challenge at a Leasehold Valuation Tribunal in respect of the “reasonableness and payability” of our service charges. The LVT decision was that the charges are reasonable and payable, particularly in comparison to the private sector – where average management costs would be £200 – 250 per unit. The tribunal felt that leaseholders benefited from in-house resources being provided at ‘cost’ rather than having a profit element attached to them.
- 3.4 Repairs and Maintenance:** The responsibility for repairs to the structure and exterior communal areas of the block are set out in each Lease, and require the Council as Landlord to keep the property in good repair and condition. The Estates and Facilities Section perform this function for Cambridge City Council. Following a restructure the Estates and Facilities team have transferred to the Customer and Community Services Department and the Director is recruiting a new Head of Service.

This arrangement should improve the communication between the two teams.

- 3.5 Day to day repairs:** Leaseholders have been raising issues regarding the day to day communal repairs of the blocks through the Leaseholder Consultation Forum, which include the reporting, notification of completion and invoicing of communal day to day repairs. It is proposed that a working group be set up to include leaseholders, tenants and officers to review Communal Repairs. An action plan is proposed in Appendix 3.
- 3.6 Section 20 Major Works:** The Commonhold and Leasehold Reform Act 2002 requires that a leaseholder must be consulted before the landlord carries out works above a certain amount (£250.00) or enters into a long term agreement for the provision of services. The Asset Management Plan currently does not provide a rolling 5-year programme of work that can be communicated to current or future leaseholders, and leaseholders only find out about the work once a Section 20 Notice is served. Whilst the Council wants the maximum flexibility in the programme of work, to allow changes to any investment priorities, – this does mean that programmes of work cannot be communicated to leaseholders. It is proposed to publish a 5 -year rolling Capital Programme that can be effectively communicated to leaseholders for works that will commence April 2015/2016.
- 3.7 Resident Involvement:** The Leaseholder Consultation Forum is currently held three times per year, at different locations around the City. In the Annual Report to Tenants and Leaseholders in Open Door Summer 2013, leaseholder satisfaction was reported at a low 30% satisfied with the value for money of service charges, without any explanation of how this figure was arrived at. The STAR survey in 2014/2015 will try to capture why satisfaction is so low, and results will be fed-back through the Leaseholder Consultation Forum.

4. Implications

(a) Financial Implications

There are no direct financial implications of this report. Any financial implications resulting from the review of staffing will be considered as part of the HRA Mid-Year Financial Review process for 2014/15 or HRA Budget Setting Report for 2015/16.

(b) **Staffing Implications**

There are no direct staffing implications identified as a consequence of this report. However the staffing resources will be reviewed.

(c) **Equality and Poverty Implications**

There are no direct equality or poverty implications of this report. However, outcomes of the working group may lead to changes in charges to residents, including leaseholders, and this will be subject to an Equality and Poverty implication assessment.

(d) **Environmental Implications**

There are no direct environmental implications of this report.

(e) **Consultation and Communication Implications**

The annual STAR survey of tenants and leaseholders will be carried out in the summer of 2014.

(f) **Community safety**

There are no community safety implications.

5. Background papers

There are no background papers to this report.

6. Appendices

Appendix 1 – Leasehold Service Update

Appendix 2 – Management Charge Calculation 2012 / 2013

Appendix 3 – Action Plan

7. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

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Appendix 1

LEASEHOLD SERVICE UPDATE

1.0 Background

1.1 The last major review of Leasehold Services took place in 2007 when there were 1,041 leaseholders who had either purchased under the Right to Buy, or were successive purchasers from the original RTB leaseholder. At that time, 25% of leaseholders did not live in their property but sublet them.

1.2 The number of leaseholder has now increased to 1,107 leaseholders (just over 13% of the overall council stock). Of these, 44% now sublet the property and are Landlords themselves.

1.3 As well as Leasehold Services, the team also manage Right to Buy and Shared Ownership.

1.4 There has been a significant increase in the workload of the team, both in terms of leaseholders and the increase in Right to Buy activity. New building developments, with plans for an increase in shared ownership and complicated management arrangements involving freehold properties, will also impact on the team.

1.4 Staffing of the team has remained consistent since 2007 with 2.5 full time equivalent staff, despite the increases in RTB, Shared Ownership and leasehold activity. Similar authorities with comparable stock numbers have an average team size of 3.5. A review of staffing is to be undertaken during 2014/2015 to ensure appropriate numbers of staff to meet the increasing demands on the service.

2.0 Right to Buy

2.1 With the increase in the discount paid to RTB applicants of £75,000 from 1st April 2012, Right to Buy applications have increased three-fold over the past year, and the numbers of completions are as follows:

Year	Number sold	No of which were Flats
2011-2012	11	5
2012-2013	41	18
2013-2014	60	29

2.2 The Department for Communities and Local Government announced on 3 January 2014 further steps to ensure eligible tenants are able to realise their home ownership aspirations, which include:

- Plans to reduce the number of years a tenant has to have a secure tenancy from 5 to 3 years;
- Plans to increase the maximum percentage discount for houses from 60% to 70%;
- Plans to increase the maximum cash caps in line with the Consumer Price Index rise in inflation;
- Introduction of Right to Buy Agents, to help buyers complete their home purchase with a £100m fund to improve access to mortgage finance.

3.0 Management Charge

3.1 The Management charge comprises the costs and associated overheads in the provision of staff to manage the Leasehold Service to leaseholders. It includes the full cost of the leasehold team and a proportion of other staff supporting the Leasehold service as well as associated overheads, such as IT and office running costs. Management of the services to the blocks and on estates is managed through the Housing Officers at City Homes North and City Homes South.

3.2 From April 2008, the Council have charged leaseholders the actual cost of administering the leasehold service. In 2008, the Management Charge was calculated at £142.40. The cost of the service per leaseholder in 2012/2013 was £143.02 (*see Appendix 2*). The very low increase in costs has been achieved by managing the quality of the service, but at the same time delivering efficiencies.

3.3 Since 2007, there has only been one challenge at a Leasehold Valuation Tribunal in respect of the reasonableness and payability of service charges. The LVT decision was that the charges are reasonable and payable, particularly in comparison to the private sector – where average management costs would be £200 – 250 per unit. The tribunal felt that leaseholders benefited from in-house resources being provided at ‘cost’ rather than having a profit element attached to them.

4.0 Service charges

4.1 The annual service charge debit is now more than £400,000 per annum – with an average annual service charge of £360 per leaseholder. This remains very competitive, as an average service

charge in the private sector would be of £1, 000 per annum or more. The collection rate remains high, at over 97% successfully collected. The Council have never had to forfeit a Lease for non-payment of service charges. Repossessions by mortgage companies of leasehold properties have averaged two per year for the last four years.

4.2 Leaseholders contribute to services to the block in which the flat is situate, and these can vary from one block to another and one estate to another. Generally, they will include:

Caretaking Services	The caretakers are directly employed by Cambridge City Council, and cover a total of 956 properties. The cleaning element is currently subject to the Building Cleaning Procurement.
Communal cleaning	Communal cleaning is currently undertaken by our Direct Works team. In May 2013 the Council wrote to leaseholders regarding the tender of the Building Cleaning contract, and its procurement.
Window cleaning	Window cleaning is currently undertaken by our outside contractors Advanced Cleaning Services. In future, this service will be provided as part of the Building Cleaning Procurement.
Lift services	We have lifts in our larger blocks at Hanover and Princess Courts, and Kingsway.
Grounds Maintenance	Grounds maintenance is currently undertaken by our Direct Works Team.
Communal electricity	This is the cost of providing electricity for communal lighting to the blocks. The Council have, with our suppliers, installed Smart Meters to all of our communal areas, which ensures prices are based on actual rather than estimated costs.
Door entry services	The cost of maintaining and repairing door entry systems across 30 estates. Residents will shortly be consulted on new door entry systems to Kingsway, where residents have expressed a wish for a more secure entrance to the blocks.
Repairs and Maintenance	Leaseholders pay an estimated charge of £70.00 per year, which is then adjusted in September the following year to the actual cost of day to day repairs to the block.

5.0 Repairs and Maintenance

5.1 The responsibility for repairs to the structure and exterior communal areas of the block are set out in each Lease, and require the Council as Landlord to keep the property in good repair and condition. The Estates and Facilities Section perform this function for Cambridge City Council.

5.2 Leaseholders are required to pay a reasonable proportion of repairs costs to the block in which their flat is situated. In a block of 4

flats, a leaseholder would pay a quarter contribution to the costs. This is important, as if a block was entirely occupied by leaseholders, the full costs of maintenance and repair in any year would be fully rechargeable.

Day to day Repairs

5.3 The Repairs Improvement Plan of day to day repairs has so far been limited to improvements in the day to day service to tenants.

5.4 Leaseholders have been raising issues regarding the day to day communal repairs of the blocks through the Leaseholder Consultation Forum, which include the reporting, notification of completion and invoicing of communal day to day repairs. For example, a repair reported in June 2013 would not be seen by the leaseholder as a charge until the Actual Statements in September 2014, some 18 months later.

5.5 It is proposed that a working group be set up to include leaseholders, tenants and officers to review Communal Repairs. An action plan is proposed in Appendix 3. The Working Group to report back to Housing Management Board in 2015 on the progress of these issues.

Section 20 Major Works

5.6 The Commonhold and Leasehold Reform Act 2002 requires that a leaseholder must be consulted before the landlord carries out works above a certain amount (£250.00) or enters into a long term agreement for the provision of services.

5.7 Following the delivery of the Decent Homes programme, which mainly concentrated on the inside of tenants homes (kitchens, bathrooms, electrics and re-roofing), and the implementation of housing self-financing 2012 there is now a greater emphasis on investment on the outside of homes and in communal areas.

5.8 Work to the communal areas of blocks is rechargeable to leaseholders under the Repairs and Maintenance, Schedule 3, of the Lease. There has been a significant increase in the service of Section 20 Notices to leaseholders, from a value of £100,000 in 2011/2012 to over £400, 000 in 2013/2014. At a time of financial pressure on individual households, Leaseholders are being asked to find significant funds for work which the Council have prioritised as essential for investment in our stock, including Fire Risk Assessment works and Housing Health & Safety Rating System works.

5.9 The Asset Management Plan currently does not provide a rolling 5-year programme of work that can be communicated to current or future leaseholders, and leaseholders only find out about the work once a Section 20 Notice is served. Whilst the Council wants the maximum flexibility in the programme of work, to allow changes to any investment priorities – this does mean that programmes of work cannot be communicated to leaseholders. It is proposed to publish a 5 – year rolling Capital programme that can be effectively communicated to leaseholders for works that will commence April 2015/2016.

5.10 In delivering these Capital Programmes, the Council should consider value for money for both the Council and the leaseholders.

5.11 The Department of Communities and Local Government have recently consulted on protecting leaseholders from un-reasonable charges; and have proposed a cap of £10,000 on leasehold works within any 5 year-period. Whilst Cambridge is self-financing and is not subject to any repairs grant that would cap works, it is suggested that thought needs to be given to scheduling work so as not to excessively burden any one leaseholder.

6.0 Resident Involvement

6.1 The Leaseholder Consultation Forum is currently held three times per year, at different locations around the City. More recently, additional meetings have been held to give leaseholders the opportunity to discuss proposals for Major Works in their area, and this early engagement with leaseholders on works should be proactively carried out by Estates and Facilities as part of their project management role.

6.2 Leasehold review meetings have been instigated by City Homes to look proactively at cross-departmental issues affecting leaseholders.

6.3 In the Annual Report to Tenants and Leaseholders in Open Door Summer 2013, leaseholder satisfaction was reported at a low 30% satisfied with the value for money of service charges, without any explanation of how this figure was arrived at. The STAR survey in 2014/2015 will try to capture why satisfaction is so low, and results will be fed-back through the Leaseholder Consultation Forum.

7.0 Leaseholders Insurance

7.1 The City Council insure all our buildings under a block policy with Zurich Municipal, and charge the leaseholders an annual flat fee

(currently £43.97 per property) for Buildings Insurance. Our Buildings Insurance currently only covers Public Liability for the communal areas of the block. We are looking with our Insurers at a more tailor-made policy for leaseholders – that separates out the leasehold flats from the rented council houses and flats.

Appendix 2

Management Charge Calculation 2012 – 2013

The management charge is calculated by dividing the cost of the service by the number of leaseholders – last year the average number of leasehold properties was 1,085.

The estimated charge for 2012/2013 was notified as £145.30, and the actual cost of the service was £143.02.

	Full Cost £
Leasehold Team Staff Costs	52.12
Leasehold Team Office Resources	7.20
Leasehold Team Income Generated from Fees e.g. sales enquiries, sublet registration	-5.30
City Homes Management and Administrative Costs, including : housing management, contract monitoring (cleaning, grounds maintenance), repairs processing, surveying	8.68
Finance and IT Support and System Costs	5.05
Legal Advice and Support	9.77
Share of Corporate and Departmental Overheads and Business Running Costs, including : Premises, Utilities, Customer Service Centre, Cashiers, Human Resources, Audit, IT Infrastructure / Hardware	65.50
2012/13 Actual Management Charge	<hr/> £143.02 <hr/>

Appendix 3

Proposed Action Plan – Communal Repairs Working Group

Action	Completion date	Interim Head of Service / Lead Officer
1. Reporting of Communal Repairs The Repairs Improvement Plan of day to day repairs has so far been limited to improvements in the day to day service to tenants.	Dec - 2014	Robert Hollingsworth / Andrew Latchem
2. Notification to leaseholders of completion of works	Dec - 2014	Robert Hollingsworth / Andrew Latchem
3. Advising leaseholders of the individual costs of communal repairs	Dec - 2014	Robert Hollingsworth / Andrew Latchem
4. Production of a 5-year rolling Capital Works Programme to be communicated to leaseholders and tenants for 2015/2016	March - 2015	Alan Carter / Will Barfield
5. Ensuring all Projects meet best value for money to both the authority and the leaseholder.	March – 2014 <i>Implemented and ongoing</i>	Alan Carter / Will Barfield
6. Consider the scheduling of works so as not to excessively burden any one leaseholder with excessive charges in any 5 year period.	April – 2014 <i>Implemented and ongoing</i>	Alan Carter / Will Barfield
7. Proactively engage with leaseholders on Major Works, where a choice of options is available.	April – 2014 <i>Implemented and ongoing</i>	Alan Carter / Will Barfield