

# **Report to the Housing Scrutiny Panel**

**Date of meeting: 30 January 2007**



**Subject: Recovery of Arrears from Leaseholders**

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**Committee Secretary:** Adrian Hendry, ext.4246

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## **Recommendation:**

**That the position in relation to leaseholder charges for 2004/5 and 2005/6, and the proposed introduction of a Corporate Sundry Income and Debt Policy be noted.**

## **Report**

### **Background**

1. The Chairman of the Housing Scrutiny Panel has asked that a report be prepared, which considers the position in respect of Leaseholder charges.
2. All secure Council tenants have the right to buy their properties under the Right To Buy Scheme. Where these are flatted premises, the Council sells a lease, but maintains the freehold interest. The lease sets out the terms and conditions upon which the Council may pass on the cost of repairs, improvements and other management charges to the leaseholders. The Commonhold and Leasehold Reform Act 2002 sets out, amongst other things, the legislative framework by which leaseholders are to be consulted and controls on administrative and service charges. Currently there are 912 leasehold properties where the Council owns the freehold.
3. In March each year, all leaseholders are advised of their estimated charges for the forthcoming year. Under the terms of the lease they are required to pay the estimated charges in advance on a monthly basis in instalments. Where planned major works on individual flat blocks are known by the Council, the costs are included in the estimated charges. However, whilst the programmes of work are known in March each year, the actual properties that are to be included in those programmes are not always known, therefore separate notices are issued to leaseholders in line with the legislation as and when the details are established.
4. After the end of the financial year, normally in September, the actual accounts are calculated and an invoice is issued to each leaseholder providing details of the actual costs of repairs and services during the year. In line with legislation, the Council is required to produce the final account by the end of October (within 18 months from the start of the financial accounting period i.e. April each year).
5. Once the actual account is issued, leaseholders are currently required to pay any outstanding balance in full within 28 days of the date of the invoice.
6. Whilst the terms of the lease are quite clear, leaseholders do not have the ability to plan for when major planned repairs or improvements are carried out, as this responsibility rests with the Council. This means that, from time to time, leaseholders are faced with a large bill, and then have to pay these charges from their savings, take out a loan or remortgage.

### **Sundry Income and Debt Policy**

7. To date, the Council has not had a formal Debt Policy. However, a Sundry Income and Debt Policy

has recently been formulated and is due to be considered at the forthcoming Finance and Performance Management Cabinet Committee on 29 January 2007. A copy of the draft Policy is at Appendix 1. The Policy sets out the following payment options for all sundry debtors of the Council including leaseholders:

<b>Value</b>	<b>Terms of Repayment (from date of invoice)</b>
Debts below £500	No more than 3 months
Debts below £1,500	No more than 6 months
Debts below £2,500	No more than 9 months
Debt above £2,500	No more than 12 months

8. Should the Policy be approved by the Finance and Performance Management Cabinet Committee in January 2007, then leaseholders with larger debts over £2,500 will have up to an additional 12 months to pay their charges from the date the actual account is raised. This will therefore allow up to 2½ years in total to clear their account (including the period to pay estimated accounts), as opposed to the current 19 months as it currently stands.

9. Using the bandings within the Debt Policy, Appendix 2 and 3 sets out the number of leaseholders in each band, the average debt for those leaseholders and the number of leaseholders that did not make any payments towards their debts until the actual account was issued.

10. In 2005/06 around 50% of the leaseholders were in credit when their actual account was calculated and issued in August/September 2006/07. This is mainly due to the fact they made regular monthly payments based on the estimated charges or that the actual charges have proved to be lower than estimated. However, there were 439 accounts in arrears totalling £164,227.07. On average, this amounts to £374.09 for each leaseholder in arrears. In the main, the reason these are in arrears is because the leaseholders have not kept up with their regular payments based on the estimated charges. In some instances it is due to the actual costs being higher than estimated.

11. To date (December 2006) this debt has decreased to £13,936.77, or 8.49% of the total debt.

12. The total amount due in 2005/06 was £654,310.61, averaging £738.50 per leaseholder (This includes all major maintenance works totalling £320,870.45) Appendix 4 compares the position between 2004/5 and 2005/6.